

General Purchasing Concepts and Practices

Handbook P-1

March 31, 1999
Transmittal Letter

A. Explanation. Handbook P-1, *General Purchasing Concepts and Practices*, is published and maintained by Purchasing Policies and Programs, Purchasing and Materials. It is a new directive containing concepts and practices applicable to Postal Service purchasing.

B. Other Directives. This handbook should be used in conjunction with the Postal Service *Purchasing Manual* and the three other handbooks in the Purchasing Practices Series: Handbook P-2, *Design and Construction Purchasing Practices*, Handbook P-3, *Supplies, Services and Equipment Purchasing Practices*, and Handbook P-4, *Mail Transportation Purchasing Practices*.

C. Distribution and Requisitioning

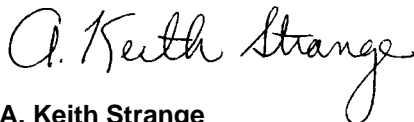
1. Initial Distribution. This handbook is automatically distributed to Postal Service purchasing organizations and to organizations involved in the purchasing process.

2. Requisitioning Copies. Other Postal Service organizations, and organizations requiring additional copies, may requisition this handbook from their servicing material distribution center (MDC).

D. Comments. Questions, comments, or suggestions regarding this handbook should be directed to:

PURCHASING POLICIES AND PROGRAMS
PURCHASING AND MATERIALS
UNITED STATES POSTAL SERVICE
475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-6201

E. Effective Date. This handbook is effective upon receipt.



A. Keith Strange
Vice President
Purchasing and Materials

Contents

1 Authority, Responsibility, and Policy	1-3
1.1 Introduction.....	1-3
1.1.1 The Purchasing Handbooks Series	1-3
1.1.2 Use of This Handbook	1-3
1.1.3 Contents and Organization of This Handbook.....	1-3
1.1.3.a <i>Contents</i>	1-3
1.1.3.b <i>Organization</i>	1-4
1.2 Publication and Changes.....	1-4
1.2.1 Issuance.....	1-4
1.2.2 Changes.....	1-4
1.3 Contracting Officer Authority	1-4
1.4 Conflicts of Interest.....	1-5
1.4.1 Personal Conflicts of Interest.....	1-5
1.4.2 Organizational Conflicts of Interest.....	1-5
1.5 Electronic Commerce/Paperless Acquisition.....	1-6
1.5.1 Using Electronic Commerce	1-6
1.5.2 Applications of Electronic Commerce	1-6
1.5.2.a <i>Commercial Sector Use</i>	1-6
1.5.2.b <i>Federal Government Use</i>	1-6
2 Purchase Planning	2-3
2.1 Preliminary Planning.....	2-3
2.1.1 Planning Sessions	2-4
2.1.2 Topics for Discussion.....	2-4
2.1.3 Contract File Contents	2-4
2.1.4 Planning for Ethical Conduct and Protecting Confidential Information	2-4
2.2 Purchase Teams	2-5
2.2.1 Commercial Sector Use of Purchase Teams	2-6
2.2.2 U.S. Government Use of Purchase Teams	2-6
2.3 Market Research	2-7
2.3.1 Market Research Processes.....	2-8
2.3.1.a <i>Market Surveillance</i>	2-8
2.3.1.b <i>Market Investigation</i>	2-8
2.3.2 Market Research Team	2-8

General Purchasing Concepts and Practices

2.3.3	Market Research at the Requirements Phase	2-9
2.3.4	Market Research at the Presolicitation Phase	2-10
2.3.5	Sources of Information.....	2-10
2.3.5.a	<i>Information Sources to Support Market Surveillance</i>	2-10
2.3.5.a.1	<i>Consumer Price Index</i>	2-10
2.3.5.a.2	<i>Producer Price Index</i>	2-11
2.3.5.a.3	<i>Information from Trade and Professional Associations</i>	2-11
2.3.5.b	<i>Information Sources for Use in the Requirements Phase</i>	2-11
2.3.5.b.1	<i>Purchase Histories</i>	2-11
2.3.5.b.2	<i>Government Buyers, Commodity Specialists, Technical Experts, and Other Market Researchers</i>	2-12
2.3.5.b.3	<i>Supplier Files</i>	2-12
2.3.5.b.4	<i>The Supplier Automated Database on the Internet and the Contractor Performance System</i>	2-12
2.3.5.b.5	<i>Thomas Register</i>	2-12
2.3.5.b.6	<i>i-Mart</i>	2-13
2.3.5.b.7	<i>Other Information Sources</i>	2-13
2.3.5.c	<i>Information Sources for Use in the Presolicitation Phase</i>	2-13
2.3.5.d	<i>Locating Minority and Woman-Owned Businesses</i>	2-14
2.3.6	Research Results.....	2-15
2.3.7	Market Conditions	2-15
2.3.8	Pricing Analysis.....	2-16
2.3.8.a	<i>Market Prices</i>	2-16
2.3.8.b	<i>Independent Postal Service Estimate</i>	2-16
2.3.8.c	<i>Historical Pricing Data</i>	2-16
2.3.8.d	<i>Published Pricing Data</i>	2-17
2.3.8.e	<i>Pricing Data from Buyers and Experts</i>	2-17
2.3.8.f	<i>Pricing Data from Suppliers</i>	2-17
2.3.8.g	<i>Pricing Data from Other Sources</i>	2-17
2.3.9	Documenting Research Results	2-17
2.4	Individual Purchase Plans	2-18
2.5	Supplier Selection Strategy	2-19
2.5.1	Performance Evaluation Factors	2-19
2.5.1.a	<i>Factors</i>	2-20
2.5.1.b	<i>Standards of Measure</i>	2-20
2.5.1.c	<i>Order of Importance</i>	2-21
2.5.1.c.1	<i>General Statement</i>	2-21
2.5.1.c.2	<i>Scoring Systems</i>	2-21

2.5.1.c.2.1	<i>Adjectival Scoring System</i>	2-21
2.5.1.c.2.2	<i>Numerical Scoring System</i>	2-22
2.5.1.c.2.3	<i>Application of the Scoring System</i>	2-22
2.5.2	Types of Performance Evaluation Factors.....	2-23
2.5.2.a	<i>Proposal-Specific Factors</i>	2-23
2.5.2.b	<i>Supplier-Specific Factors</i>	2-24
2.5.2.b.1	<i>Past Performance</i>	2-24
2.5.2.b.2	<i>Supplier Capability</i>	2-25
 Exhibits		
Exhibit 2.4.a	Individual Purchase Plan Outline	2-26
Exhibit 2.4.b	Individual Purchase Plan Checklist	2-30
3	Supplier Relations	3-3
3.1	Supplier Diversity.....	3-3
3.1.1	Supplier Diversity Programs in the U.S. Government.....	3-3
3.1.2	Diversity Programs in the Commercial Sector	3-4
3.1.3	Postal Service Diversity Policies	3-4
3.1.4	Supplier Diversity Program	3-5
3.1.5	Contracting Officer Responsibility.....	3-5
3.1.6	Subcontracting with Small, Minority, and Woman-Owned Businesses	3-6
3.2	Supplier Partnerships	3-6
3.2.1	Trust.....	3-7
3.2.2	Collaboration.....	3-7
3.2.3	Quality Requirements	3-7
3.2.4	Supplier Development.....	3-8
3.2.5	Feedback	3-8
3.2.6	Integrated Supplier Practice.....	3-8
3.3	Supply Chain Management	3-9
3.3.1	Schools of Thought.....	3-9
3.3.2	Supply Chain Management and Partnerships	3-10
3.3.3	Supply Chain Management and Technology	3-10
3.3.4	Future of Supply Chain Management	3-10
3.3.5	Model of Supply Chain Management.....	3-10
3.4	Prequalification	3-11
3.4.1	Publicizing for Prequalification	3-12
3.4.2	Evaluation Factors and the Prequalification Process.....	3-12
3.4.3	Certification Programs	3-13
3.5	Effective Publicizing of Postal Business Opportunities.....	3-13

3.5.1	Publicizing and Advertising	3-14
3.5.1.a	<i>Definitions</i>	3-14
3.5.1.b	<i>Use</i>	3-14
3.5.1.c	<i>Suggested Media</i>	3-14
3.5.1.c.1	<i>Print, Radio, and Television</i>	3-14
3.5.1.c.2	<i>Electronic Media</i>	3-15
3.5.1.d	<i>Purpose and Effectiveness</i>	3-16
4	Purchasing	4-3
4.1	Oral Presentations.....	4-3
4.1.1	Factors to Consider.....	4-3
4.1.2	Presentation Guidelines	4-3
4.1.2.a	<i>Topics</i>	4-3
4.1.2.b	<i>Simplicity</i>	4-4
4.1.2.c	<i>Evaluation Aids</i>	4-4
4.1.2.d	<i>Presentation Format</i>	4-4
4.1.2.e	<i>Participation</i>	4-4
4.1.2.f	<i>The Process</i>	4-5
4.1.2.g	<i>Nonincorporation of Oral Statements</i>	4-5
4.2	Performance Evaluation	4-5
4.2.1	General	4-5
4.2.2	Evaluating a Proposal's Price or Cost Aspects.....	4-6
4.2.3	Evaluating a Proposal's Technical Aspects	4-6
4.2.4	The Process.....	4-6
4.2.4.a	<i>General</i>	4-6
4.2.4.b	<i>Evaluation Package</i>	4-6
4.2.4.c	<i>Steps</i>	4-6
4.2.4.d	<i>Proposal Evaluation Documentation and Report</i>	4-8
4.3	Discussions	4-8
4.3.1	General	4-8
4.3.2	Award Without Discussions	4-9
4.3.3	Preparing for Discussions.....	4-9
4.3.4	Formats and Methods.....	4-9
4.3.4.a	<i>Formats</i>	4-9
4.3.4.b	<i>Guidelines on Various Formats</i>	4-10
4.3.5	Conducting Discussions.....	4-10
4.4	Best Value Determinations	4-11

4.4.1	Best Value Analysis	4-11
4.4.2	Best Value Tradeoffs	4-11
4.4.3	Explanation of Proposal Features.....	4-12
4.4.4	Comparing Proposal Features and Price.....	4-12
4.4.5	Justifying the Selection	4-12
4.5	Handling Past Performance Information	4-12
4.5.1	Gathering Information	4-12
4.5.1.a	<i>Postal Service Sources</i>	4-12
4.5.1.b	<i>Supplier Performance Records</i>	4-13
4.5.1.c	<i>Supplier Relations</i>	4-13
4.5.1.d	<i>References</i>	4-13
4.5.1.e	<i>Other Sources</i>	4-13
4.5.2	Analysis and Evaluation	4-13
4.5.2.a	<i>Analysis</i>	4-13
4.5.2.b	<i>Evaluation</i>	4-14
4.5.3	Disclosure	4-14
4.5.3.a	<i>General</i>	4-14
4.5.3.b	<i>Supplier Requests</i>	4-14
4.5.3.c	<i>Debriefings</i>	4-14
5	Contract Pricing	5-3
5.1	Price Analysis	5-3
5.1.1	Introduction to Price Analysis.....	5-3
5.1.2	Responsibilities for Ensuring a Fair and Reasonable Price	5-3
5.1.3	Price Analysis Techniques	5-4
5.1.4	A Process for Determining Use of Price Analysis	5-4
5.2	Life Cycle Costing.....	5-5
5.2.1	Life Cycle Costing Defined.....	5-5
5.2.2	Life Cycle Costing for Capital Equipment	5-5
5.2.3	A Simple Life Cycle Costing Method.....	5-6
	Exhibits	
Exhibit 5.1.4.a	Supply Management Strategy	5-7
Exhibit 5.1.4.b	Classifying Suppliers/Purchases for Cost/Price Analysis.....	5-8
Exhibit 5.1.4.c	Selecting Appropriate Cost/Price Analysis Techniques	5-9

6 Contract Administration	6-3
6.1 Alternative Dispute Resolution	6-3
6.1.1 Alternative Dispute Resolution Processes	6-3
6.1.2 Examples of Alternative Dispute Resolution Use.....	6-4
6.1.3 Postal Service Use of Alternative Dispute Resolution	6-4
Appendix — Important Web Sites	Appendix-1

1 Authority, Responsibility, and Policy

- 1.1 Introduction..... 1-3
 - 1.1.1 The Purchasing Handbooks Series 1-3
 - 1.1.2 Use of This Handbook 1-3
 - 1.1.3 Contents and Organization of This Handbook..... 1-3
 - 1.1.3.a *Contents* 1-3
 - 1.1.3.b *Organization* 1-4
- 1.2 Publication and Changes..... 1-4
 - 1.2.1 Issuance..... 1-4
 - 1.2.2 Changes..... 1-4
- 1.3 Contracting Officer Authority 1-4
- 1.4 Conflicts of Interest..... 1-5
 - 1.4.1 Personal Conflicts of Interest 1-5
 - 1.4.2 Organizational Conflicts of Interest 1-5
- 1.5 Electronic Commerce/Paperless Acquisition..... 1-6
 - 1.5.1 Using Electronic Commerce 1-6
 - 1.5.2 Applications of Electronic Commerce 1-6
 - 1.5.2.a *Commercial Sector Use* 1-6
 - 1.5.2.b *Federal Government Use* 1-6

1 Authority, Responsibility, and Policy

This chapter introduces the purchasing handbook series. It identifies the handbooks that make up the series and specifically describes the use, content, and organization of this handbook. The chapter also includes discussions concerning contracting officer authority, personal and organizational conflicts of interest, and electronic commerce.

1.1 Introduction

1.1.1 The Purchasing Handbooks Series

Handbook P-1, *General Purchasing Concepts and Practices*, is the first of a series of handbooks dedicated to providing purchasing professionals with conceptual approaches and procedural guidance when purchasing Postal Service requirements. This handbook focuses on general concepts. Handbooks P-2, *Design and Construction Purchasing Practices*; P-3, *Supplies, Services, and Equipment Purchasing Practices*; and P-4, *Mail Transportation Purchasing Practices*, provide commodity-specific guidance.

1.1.2 Use of This Handbook

This handbook should be used as an information resource. It is not a policy document, and unlike the Postal Service *Purchasing Manual* (PM), does not have the force and effect of law. This handbook should be used in combination with the PM, the commodity-specific handbooks described above, and other Purchasing and Materials' directives and documents.

1.1.3 Contents and Organization of This Handbook

1.1.3.a Contents

This handbook contains discussions of important purchasing concepts such as supplier selection strategies, prequalification, performance evaluation factors, and the like. These concepts are discussed in terms of private-sector use, their most forward-thinking application by Federal agencies, and in light of some of their most successful use by Postal Service purchasing organizations.

This handbook also contains important information on issues such as market research, conflicts of interest, and performance evaluation that apply across-the-board to any given Postal Service purchase. Users are strongly encouraged to apply these concepts freely to any given purchase. Users also are encouraged to share their experiences or thoughts with senior management so that they might be included in future revisions to this

handbook (see 1.2.2, Changes). In addition, many of the topics addressed in this handbook are discussed in the commodity-specific handbooks.

1.1.3.b **Organization**

This handbook is organized around the PM, and topics are generally included as they are addressed in the PM. The relationship is not one-to-one, however. For example, prequalification is discussed in section 3.4 of this handbook, but is covered in PM 3.5.2. Because not all of the topics covered in any given PM chapter require further coverage, the material contained in this handbook is arranged to match chapter and chapter progression only.

1.2 **Publication and Changes**

1.2.1 **Issuance**

The purchasing practices handbooks are issued and maintained by the vice president of Purchasing and Materials.

1.2.2 **Changes**

Anyone may propose changes to any of the purchasing practices handbooks. Proposed changes should be sent to:

MANAGER
PURCHASING POLICIES AND PROGRAMS
PURCHASING AND MATERIALS
UNITED STATES POSTAL SERVICE
475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-6201

1.3 **Contracting Officer Authority**

As discussed in PM 1.5.1, contracting officers must ensure that a proposed contractual action (including contract award, modification, and termination) is within the scope of the authority delegated to them before taking action. Contracting officers also must consider all required reviews and approvals — and obtain them — before taking a particular contractual action. In these situations, contracting officers must consider the potential liability associated with the action. For example, if a default termination is likely to lead to a settlement cost exceeding the contracting officer's authority, review and approval of the contractual action (in this case, the default termination) must be obtained in writing from a contracting officer delegated and authorized to do so.

1.4 Conflicts of Interest

1.4.1 **Personal Conflicts of Interest**

A personal conflict of interest occurs whenever a Postal Service employee personally and substantially participates in any Postal Service matter in which the employee has a financial interest. Typically, this would involve a member of the purchase team or evaluation team who owns stock or has other interests, such as an offer of employment, in any firm that may be considered for a contract award by the Postal Service. It could involve Postal Service employees who may be directly or indirectly concerned with source selection. It could also involve any employee concerned with source selection whose family member, partner, or organization has a financial interest in any potential Postal Service award recipients.

Any Postal Service employees or contract personnel who find themselves in an actual or apparent conflict of interest situation must disclose details of that situation to the contracting officer, who, in consultation with counsel, will seek a resolution. In some situations, the employee may be asked to withdraw from any further direct participation in a purchase.

The contracting officer should address the issue of conflict of interest during the initial purchase team meeting. Subsequently, the purchase team and the contracting officer should alert all members of the evaluation team (including contract personnel) to the need for early identification of their possible conflicts of interest. Purchase teams must also ensure that all suppliers providing professional services during the purchasing process are aware of the requirements of Clause 4-4, *Nondisclosure (Professional Services)* (see PM 4.6.3).

1.4.2 **Organizational Conflicts of Interest**

See PM 1.7.7.a and 4.6. An organizational conflict of interest usually occurs in contracts for management support services, consultant or other professional services, supplier participation in technical evaluations, or systems engineering or technical direction by a supplier that is not responsible for development or production.

Examples of methods for avoiding organizational conflicts of interest include:

- a. Restricting any supplier that develops specifications for nondevelopmental items to be acquired competitively from furnishing those items, either as a supplier or as a subcontractor.
- b. Ensuring that a supplier that provides systems engineering and technical direction, but is not responsible for development or production, will not be the supplier, a subcontractor, or a consultant in supplying the system or its components.
- c. When providing technical evaluations or advisory services, preventing suppliers from evaluating their own or competitors' products or advising the Postal Service regarding those products, unless controls are in place to guarantee objectivity and protect Postal Service interests.

- d. Establishing controls to protect information from unauthorized use and disclosure in cases where, in performing a Postal Service contract, a supplier obtains access to proprietary information of others.

When the purchase team identifies a potential organizational conflict of interest, it must take action to avoid or mitigate it. The team's plans should include methods for discussing individual situations with suppliers, and for including special provisions or clauses in the solicitation or contract. Any of these actions must be coordinated with assigned counsel.

1.5 Electronic Commerce/Paperless Acquisition

1.5.1 **Using Electronic Commerce**

Electronic commerce is the purchase of goods and services through electronic means. There is no paper exchanged during any phase of the process.

Electronic data interchange (EDI) has established itself as one of the most effective ways of conducting business for direct purchases; however, most companies have only begun to examine the possibilities of a paperless purchasing process for indirect purchases. Indirect purchases include items such as office supplies, maintenance, and temporary personnel services that represent a small percentage of dollars (20 percent), but a large percentage of transactions (80 percent). Indirect purchases cost U.S. companies about \$250 billion each year.

While EDI is not new technology, the application of this technology to create a paperless purchasing environment is sufficiently lagging. In the past, the problems have stemmed from incompatible file formats, a lack of technological sophistication, fear of cyberspace, and the fact that old habits die hard. With the development of user-friendly information systems, many of these obstacles are being overcome.

1.5.2 **Applications of Electronic Commerce**

1.5.2.a *Commercial Sector Use*

The leader in the area of electronic commerce has been the automotive industry, which uses EDI to transfer requirements on a daily or hourly basis with some of their suppliers to facilitate just-in-time (JIT) deliveries.

Hewlett-Packard has implemented a system in their distribution environment where the supplier is given the inventory position every morning with the forecasted demands for the foreseeable future. The supplier is given the authority to ship supplies to Hewlett-Packard as they see fit to keep inventory levels within a targeted range based on statistical process control parameters. Hewlett-Packard is concerned about the quality of their inventory to meet customer demand.

1.5.2.b *Federal Government Use*

The federal government spends about \$200 billion per year on goods and services. The vast majority of that money (about 90 percent) goes for

purchases over \$100,000. The remaining 10 percent of purchases are for less than \$100,000, and these purchases represent 98 percent of actual transactions.

It appears that the federal sector is farther along in developing a paperless process than the commercial sector. For example, in the very near future, an office manager or motor pool soldier will not have to go to a purchasing office to buy a part or component. Instead, the individual will call up a list of available items on his or her computer and order the items directly, with all of the conditions and discounts prenegotiated. To avoid the bureaucratic payment process through a government finance office, all purchases through the electronic catalog will incorporate direct payment through the government purchase card, avoiding the expense of the traditional finance office operations. This will save the Department of Defense (DOD) huge processing and inventory costs, and significantly improve responsiveness to the requester for the item and the vendor for payment.

The DOD is well on its way toward achieving the goal of a paperless process through the use of their electronic catalogs and electronic shopping malls. For example, the Defense Logistics Agency recently established an electronic commerce mall called Email. Email, now online, provides one-stop shopping for DOD customers. Payment for supplies and services is done through normal billing processes or by use of a credit card. The Email will offer integrated search capability with a single online registration and ordering process. Customers will be able to order from over four million DLA-managed items, hundreds of thousands of commercial contracts, and the U.S. Navy's information management technology catalog. Shoppers will be able to look for the best value, comparing quality, prices, and availability.

A number of other federal agencies, including the General Services Administration and the National Institutes of Health have begun to move some or most of their indefinite-delivery indefinite-quantity contracts to web-based electronic catalogs.

2 Purchase Planning

2.1 Preliminary Planning.....	2-3
2.1.1 Planning Sessions	2-4
2.1.2 Topics for Discussion.....	2-4
2.1.3 Contract File Contents	2-4
2.1.4 Planning for Ethical Conduct and Protecting Confidential Information	2-4
2.2 Purchase Teams	2-5
2.2.1 Commercial Sector Use of Purchase Teams	2-6
2.2.2 U.S. Government Use of Purchase Teams	2-6
2.3 Market Research	2-7
2.3.1 Market Research Processes.....	2-8
2.3.1.a <i>Market Surveillance</i>	2-8
2.3.1.b <i>Market Investigation</i>	2-8
2.3.2 Market Research Team	2-8
2.3.3 Market Research at the Requirements Phase.....	2-9
2.3.4 Market Research at the Presolicitation Phase.....	2-10
2.3.5 Sources of Information.....	2-10
2.3.5.a <i>Information Sources to Support Market Surveillance</i>	2-10
2.3.5.a.1 <i>Consumer Price Index</i>	2-10
2.3.5.a.2 <i>Producer Price Index</i>	2-11
2.3.5.a.3 <i>Information from Trade and Professional Associations</i>	2-11
2.3.5.b <i>Information Sources for Use in the Requirements Phase</i>	2-11
2.3.5.b.1 <i>Purchase Histories</i>	2-11
2.3.5.b.2 <i>Government Buyers, Commodity Specialists, Technical Experts, and Other Market Researchers</i>	2-12
2.3.5.b.3 <i>Supplier Files</i>	2-12
2.3.5.b.4 <i>The Supplier Automated Database on the Internet and the Contractor Performance System</i>	2-12
2.3.5.b.5 <i>Thomas Register</i>	2-12
2.3.5.b.6 <i>i-Mart</i>	2-13
2.3.5.b.7 <i>Other Information Sources</i>	2-13
2.3.5.c <i>Information Sources for Use in the Presolicitation Phase</i>	2-13
2.3.5.d <i>Locating Minority and Woman-Owned Businesses</i>	2-14

General Purchasing Concepts and Practices

2.3.6	Research Results.....	2-15
2.3.7	Market Conditions.....	2-15
2.3.8	Pricing Analysis.....	2-16
2.3.8.a	<i>Market Prices.....</i>	2-16
2.3.8.b	<i>Independent Postal Service Estimate.....</i>	2-16
2.3.8.c	<i>Historical Pricing Data.....</i>	2-16
2.3.8.d	<i>Published Pricing Data.....</i>	2-17
2.3.8.e	<i>Pricing Data from Buyers and Experts.....</i>	2-17
2.3.8.f	<i>Pricing Data from Suppliers.....</i>	2-17
2.3.8.g	<i>Pricing Data from Other Sources.....</i>	2-17
2.3.9	Documenting Research Results.....	2-17
2.4	Individual Purchase Plans.....	2-18
2.5	Supplier Selection Strategy.....	2-19
2.5.1	Performance Evaluation Factors.....	2-19
2.5.1.a	<i>Factors.....</i>	2-20
2.5.1.b	<i>Standards of Measure.....</i>	2-20
2.5.1.c	<i>Order of Importance.....</i>	2-21
2.5.1.c.1	<i>General Statement.....</i>	2-21
2.5.1.c.2	<i>Scoring Systems.....</i>	2-21
2.5.1.c.2.1	<i>Adjectival Scoring System.....</i>	2-21
2.5.1.c.2.2	<i>Numerical Scoring System.....</i>	2-22
2.5.1.c.2.3	<i>Application of the Scoring System.....</i>	2-22
2.5.2	Types of Performance Evaluation Factors.....	2-23
2.5.2.a	<i>Proposal-Specific Factors.....</i>	2-23
2.5.2.b	<i>Supplier-Specific Factors.....</i>	2-24
2.5.2.b.1	<i>Past Performance.....</i>	2-24
2.5.2.b.2	<i>Supplier Capability.....</i>	2-25
 Exhibits		
Exhibit 2.4.a	Individual Purchase Plan Outline.....	2-26
Exhibit 2.4.b	Individual Purchase Plan Checklist.....	2-30

2 Purchase Planning

Planning is essential to the success of any purchase. Successful purchase planning is dependent on many factors and it is the responsibility of the purchase team to consider these factors when planning a purchase. This chapter describes the planning process from the broadest perspective, including the role of the purchase team in this process, and how market research and sources of information aid the team in planning purchases. The purchase team's involvement in supplier selection and the use of performance evaluation factors also are emphasized. For information regarding commodity-specific planning requirements, such as decision analysis reports and Board of Governors' approvals, and other Postal Service organizational approvals, see the *Purchasing Manual (PM)* and the relevant commodity-specific handbook.

2.1 Preliminary Planning

The power and effectiveness of intelligent purchasing is dependent on early and continuous involvement of purchasing professionals in budget planning, both long-range and short-range. Purchasing represents a significant portion of the overall Postal Service budget, and it is essential that purchasing professionals contribute actively and continuously to the development of Postal Service budgets at all levels. It is incumbent on purchasing personnel at every level to take the initiative to ensure their early involvement in the budget process. During the budget process, purchasing professionals will identify appropriate purchasing strategies and their relative impact on the proposed budgets.

Effective purchase planning is a team effort. As business leader of the purchase team, it is the contracting officer's responsibility to ensure that every purchase team includes representation from interested organizations within the Postal Service and, where appropriate, selected suppliers or consultants. Further, where commodity or unique purchases are involved, it may be necessary to establish an internally and externally integrated team to modify plans as internal requirements or external conditions change.

The level of intensity of the planning effort is dependent on many factors, such as the item being purchased, the level of expenditure, and the urgency of the purchase. No matter how simple or how complex the purchase, planning is always required. A detailed summary of planning activities is contained in every contract file and is maintained on a continuous basis as conditions warrant.

The purpose of preliminary planning is to define the requirements of the Postal Service, establish the purchasing strategy, and ensure that best value is obtained for the Postal Service. In every case where the item being

purchased is expected to retain some salvage value, life cycle costing techniques should be used in the planning process as part of the price analysis. Life cycle costing is covered in Section 5.2 of this handbook.

2.1.1 **Planning Sessions**

The purchasing organization manager should meet with the requirements activity well in advance of a purchase in order to plan effectively for executing the annual purchasing program. Such meetings are mutually beneficial. The requirements manager will have an opportunity to describe his or her planned program, the relative importance of projects, any special demands of the program, and the need for any special cooperation from the purchasing activity. The purchasing organization manager will have an opportunity to identify any potential purchasing problems and to describe any new purchasing rules or constraints that may affect the requiring activity's annual program. On the basis of his or her knowledge of the requirements manager's anticipated program, the purchasing manager also will be better able to forecast workload and personnel.

2.1.2 **Topics for Discussion**

While a written plan is not necessary, an agenda for the planning sessions will prove beneficial. In addition to identifying major purchases and any areas of concern relating to them, the agenda should include plans for conducting market research and for obtaining any necessary approvals, as well as a review of the previous program in terms of objectives achieved, overall results, and customer satisfaction. Other topics for discussion include:

- a. Critical, highly visible, or politically sensitive purchases.
- b. Major, first-time Postal Service purchases.
- c. Purchases involving complex technical requirements.
- d. Business opportunities for small, minority, and women-owned businesses.

2.1.3 **Contract File Contents**

Planning activities initiate the total purchasing process, which consists of specific events in the presolicitation, preaward, postaward, and contract administration phases of the purchase. On completion of these events, some documentation is normally required to be placed in the contract file. Guidance on the documentation requirements is contained the relevant commodity-specific handbook.

2.1.4 **Planning for Ethical Conduct and Protecting Confidential Information**

As described in the PM, the purchase team and the contracting officer responsible for the purchase conduct the planning process. The contracting officer should advise members of the purchase team that information generated throughout the purchasing process, but especially in the solicitation and evaluation phases, is of a highly sensitive nature and must be protected from disclosure to unauthorized sources. Such information includes data

submitted by suppliers, such as cost or pricing data, indirect costs and direct labor rates, proprietary data, and any other information specifically identified by a supplier as confidential.

During the purchase process, including market research activities, there will be occasions when the Postal Service will need to discuss with individual suppliers its requirements and the supplier's capabilities. Care must be exercised in these situations to ensure that they do not result in any unfair advantage being given to an individual supplier. During these discussions of the Postal Service requirements with suppliers, the suppliers must be advised that such discussions are preliminary, and that the official Postal Service requirements will be those set forth in the solicitation.

Purchase team members also must be advised that they are expected to perform all of their official Postal Service purchasing duties in accordance with the highest standards of conduct, ethics, and integrity. Any purchase team member who discovers that he or she is in a situation that may lead to a potential conflict of interest must alert the contracting officer to the facts of the situation as early as possible in the purchase process.

Supplier selection information, including technical evaluation plans, proposal evaluations, and reports, is specifically restricted from disclosure. Disclosure of restricted information could result in withholding or cancellation of contract award, formal investigations, and other penalties and remedies.

2.2 Purchase Teams

Purchase teams are an integral and critical part of Postal Service purchasing. Purchase teams will vary depending on the specific purchase. In more complex purchase situations, multifunctional or integrated teams may be created.

Multifunctional teams are made up of representatives from all appropriate functional disciplines (purchasing, diversity development, finance, technical services, legal, etc.) working together to provide the best service to the customer. Integrated teams include selected suppliers or consultants. Multifunctional or integrated teams are used when purchasing specific commercial or unique items or services, or as a permanent team coordinating commodities or services over an extended period of time.

In every case, the contracting officer serves as the business leader of the purchase team. Where legal and/or financial assistance is required on the team, the legal and/or financial members serve as business advisers to the contracting officer. At a minimum, the team consists of the contracting officer and a representative from the requirements organization.

The team is created when the requirements organization determines that a requirement exists and the requirement is communicated to the contracting officer. The contracting officer must immediately determine the representation needed from other interested organizations within the Postal Service and, under some conditions, from suppliers or consultants.

The purpose of the purchase team is to provide overall guidance, direction, and oversight for the purchase or series of purchases, within or across buying centers, from the beginning of the purchase process to contract closeout. As

required, permanent integrated teams are established to accommodate purchases of specific items or classes of items over an extended period.

Once the team has been constituted, the contracting officer holds a meeting to begin developing the purchase plan (see PM 2.1.4). In less complex purchases, the initial meeting can be telephonic. In every case, a summary of all purchase planning meetings should be included in the contract file.

2.2.1 **Commercial Sector Use of Purchase Teams**

In the commercial sector, the rise in the use of multifunctional purchase teams coincides with the recognition of time as the next source of competitive advantage. The first supplier of a good or service to the market generally gains 50 percent of the market share. To reduce the concept-to-market time in the product delivery process, teams have been used to speed the information flow in concurrent engineering approaches to bringing out new products. Team Taurus, Ford Motor Company, is an example of the successful use of this concept. Chrysler also credits the concurrent engineering approach to the successful introductions of many new models. Chrysler has even constructed a building dedicated strictly to the development of this concept in practice.

Other innovations in the area of purchase teams involve the inclusion of suppliers and customers on these teams. Some firms (e.g., General Motors) have gone so far as to have the supplier actually function as the team leader in certain situations. An important issue in the use of purchase teams is the debate over permanent, dedicated teams that stay together from one project to the next rather than transitional teams that disband once a project is complete. Advocates of the dedicated approach recognize the importance of team cohesion to ultimate project success. Advocates of the transitional approach cite innovation and scarce resources as key factors.

2.2.2 **U.S. Government Use of Purchase Teams**

The commercial sector is not alone in its innovative use of purchase teams. Department of Defense integrated product teams (IPTs) are an integral part of the defense acquisition oversight and review process. Led by the program manager, the IPTs are made up of small teams of 15 to 40 people from all appropriate functional disciplines. Team members are generalists with broad-based knowledge; possess business and technical knowledge; and use computers, interactive databases, and electronic links to the maximum. IPTs operate under the following broad principles:

- a. Open discussions with no secrets.
- b. Qualified, empowered team members.
- c. Consistent, success-oriented, proactive participation.
- d. Continuous up-the-line communications.
- e. Reasoned disagreement.
- f. Issues raised and resolved early.

IPTs are used for major acquisitions and are intended to replace the current sequential review process. Sequential review processes take considerably

longer than the IPT approach that simultaneously takes advantage of all members' expertise and produces an acceptable product the first time.

The Defense Industrial Supply Center completely changed its organization overnight into multifunctional, problem-solving teams called Commodity Business Units (CBU). On one weekend, 1,600 people changed locations, supervisors, buildings, and organizational units. The change was called the Big Bang and was employee-driven. Each multifunctional team is comprised of specialists in acquisition, inventory, product technical services, and cataloging. A team has total responsibility for its customers. Teams do it all, from customer requisition to delivery. The team is also organized to address critical business issues, such as:

- a. Increasing direct supplier deliveries to customers.
- b. Increasing long-term contracts with suppliers.
- c. Increasing the use of electronic commerce.
- d. Buying response, not inventory.
- e. Reducing costs.

The reengineering has changed the organization from functional specialty groups with technical experts that had narrow missions with a set of well established procedures, to a team organization with senior leaders that possess a broad and deep understanding of the complex business process associated with effective purchasing. Teams get it done better, faster, and cheaper. They know the product, the customer, and the market. Teams get things done because there is ownership, accountability, and responsibility.

2.3 Market Research

Market research is a continuous process of gathering data on product and service characteristics, suppliers' capabilities, and the business practices that surround the purchase of products and services. Market research is essential to optimize the potential use of commercial items and services to meet Postal Service needs. Market research information can be used to:

- a. Shape the purchasing strategy.
- b. Determine the type and content of the product description or statement of work.
- c. Develop the support strategy, the terms and conditions included in the contract, and the performance evaluation factors used for source selection.

Leading edge firms are requiring purchasing personnel to become more strategic in their thinking, research, analysis, and decision making. In the area of market research, the commercial sector is requiring much more formal procedures and models to analyze buying situations. In the past, the focus has been on the item of interest (raw materials, component parts, and systems). Today, the focus is on the industry level. Purchasing personnel are required to understand the complex dynamics of the supplying industry to facilitate long-term decision-making rather than a short-term perspective

based on the current price of an item. Tools used to facilitate this process come from the strategic planning and marketing literature. Because this process is very labor intensive, firms are using the commodity-team approach to delegate the research responsibilities to various groups within the organization. This reduces the duplication of effort and speeds the transmittal of vital, time-sensitive information.

2.3.1 **Market Research Processes**

Market research can be broken down into two interrelated processes: market surveillance and market investigation. These functions should be used together to create a consistent and continuous flow of market information.

2.3.1.a ***Market Surveillance***

Market surveillance is a continuous process. It includes activities designed to keep purchasing professionals abreast of current technology, product development, and innovative services in those areas in which buying is anticipated. Purchasing personnel rely on market surveillance to provide a general sense of the products and services available in the market and their characteristics and capabilities.

Market surveillance can provide the Postal Service with:

- a. Information regarding the current and projected availability of products and reliable sources.
- b. The extent of competition in the market.
- c. The range of product performance characteristics.
- d. Market acceptability.
- e. Price trends and current market prices.
- f. Types of available distribution systems and support services.

The objective of market research is to keep the Postal Service informed of events and conditions that may affect long-range purchasing activities and future purchases. This research focuses on industry trends, technological change, macro economic conditions, and other factors that might have an impact on Postal Service commodities and long-term Postal Service plans for purchasing them.

2.3.1.b ***Market Investigation***

Market investigation involves comprehensive research that is conducted in response to a specific product or service need. The purpose of market investigation is to determine, with a high degree of confidence, whether any goods or services are available to satisfy the need (including support, standardization, and other considerations) or whether products or requirements can be modified or tailored accordingly.

2.3.2 **Market Research Team**

The Postal Service should establish market research teams as early as possible in the purchasing process to plan and conduct research activities.

The composition of the teams will vary according to the size and complexity of the purchase. Initial team members in the requirements definition phase of research may be supplemented by others in the presolicitation phase. Core members of the market research team may be designated members of the purchase team. Generally, however, the team should include, as appropriate, program or requirements managers, users, logistics specialists, and purchasing specialists. It also could include non-Postal Service participants, such as industry representatives, potential suppliers, and others, as needed.

Market research team activities should be planned in advance, giving special consideration to the following:

- a. Understanding of essential requirements, alternatives, and possible trade-offs.
- b. Methods for contacting potential suppliers, including techniques for handling initial and follow-up queries, and protecting the confidentiality of supplier information.
- c. Information to be given to potential suppliers and the types of information to be obtained from them. Team members may decide to furnish potential suppliers with printed statements of the Postal Service's needs, and should consider limiting initial data collection to available supplier publications covering product and pricing information. The team members also may plan to design a matrix for collecting information from the potential suppliers.

2.3.3

Market Research at the Requirements Phase

The Postal Service should conduct market research before developing new requirements documents. This research should be initiated as early as possible in the acquisition cycle, once the requiring activity determines its needs. An acquisition begins with a description of Postal Service needs, typically stated as a narrative description of an item or service. It is expressed as a general statement of the item's intended use in terms of function to be performed, performance requirements, essential physical characteristics, and, if necessary, the environment in which it will operate.

Some requirements are critical and essential; others may be expressed as desirable targets or objectives. Differences between these two categories should be made clear in the statement of work, the requiring activity's initial narrative description of its requirements. The Postal Service has substantial latitude to describe its needs in a manner that reflects an optimum purchasing strategy (e.g., considering which item represents the best value in terms of quality, expected life of the item, and supplier past performance). However, a statement of work should be written in a manner that will promote adequate competition. Restrictive provisions and features unique to specific products in the market should be avoided and used only when they can be clearly justified.

Purchasing personnel may be involved in preparing the statement of work (for example, as members of the team conducting the initial market surveys developing the requirement); however, the users or requirements staff generally prepare the work statement. The statement of work must be written clearly and in general terms. The more general the statement, the greater the possibility that the commercial marketplace will satisfy the needs of the Postal Service.

2.3.4 **Market Research at the Presolicitation Phase**

The Postal Service benefits from conducting market research before soliciting offers for purchases if adequate market, product, and source information is not on hand and the cost of gathering it is justified. This research should be conducted as soon as possible after the requirement has been defined, to provide sufficient time for identifying standard commercial practices, analyzing available and alternative terms and conditions, and negotiating an appropriate business arrangement for the Postal Service.

Effective research at this stage of the purchase enables the purchase team to develop an appropriate solicitation that will include the appropriate terms and provisions, reflect market conditions, aid in estimating reasonable prices, and encourage responses from the suppliers most capable of meeting the requirement.

Depending on the circumstances, suppliers may be required to demonstrate that their products have enjoyed commercial market acceptance, have been satisfactorily supplied under similar contracts, or otherwise meet product specifications. Market acceptance ensures against some purchase risk. In specifying the solicitation's commercial market acceptance criteria, criteria must be related to the:

- a. Item's intended use.
- b. Postal Service's minimum need.
- c. Relevant commercial marketplace (including small, minority and women-owned businesses).
- d. Past experience related to recent or current contracts.

Market acceptance may not be used as the sole evaluation criterion, and requiring market acceptance may be inappropriate for new or evolving items.

2.3.5 **Sources of Information**

2.3.5.a *Information Sources to Support Market Surveillance*

Market research focuses on industry trends, technological change, macro economic conditions, and other factors that might have an impact on long-term Postal Service purchase planning. Some sources of information that may be useful in market surveillance are listed below.

2.3.5.a.1 *Consumer Price Index*

The Consumer Price Index (CPI) is a guide to changes in prices at the retail level. The Department of Labor's Bureau of Labor Statistics publishes it. Use it to develop price adjustment data for lease agreements and as a general inflation gauge. The purchase team should consider the CPI as an especially valuable indicator for ongoing market surveillance. For CPI reports, see the Bureau of Labor Statistics web site at:

<http://stats.bls.gov/datahome.htm>

2.3.5.a.2 *Producer Price Index*

The Bureau of Labor Statistics publishes the Producer Price Index (PPI) as a measure of inflation at the wholesale level. Like the CPI, the PPI is a useful indicator for ongoing market surveillance. Access the PPI at:

<http://stats.bls.gov/datahome.htm>

2.3.5.a.3 *Information from Trade and Professional Associations*

Trade associations conduct research, forecast industry trends, and represent industry interests before the public. Industry trade groups are excellent information sources. They can help the market research team's efforts by making their expertise and their membership lists available. Trade associations often prepare studies for their memberships and will usually sell them to the public for a nominal fee. These studies can be very helpful information sources on either specific topics or general industry trends.

2.3.5.b ***Information Sources for Use in the Requirements Phase***

The objective of market research in the requirements phase is to determine whether products or services in the marketplace can be used to meet the Postal Service's specific needs. In addition to identifying available products or services, it is important to identify the prevailing commercial terms, conditions, and practices so that they may be considered in the purchasing strategy and can be incorporated into the resulting solicitation or contract. Information on industry pricing practices, product warranties, and maintenance issues help in formulating an appropriate purchasing strategy. To investigate these issues, begin with Postal Service purchase histories. Historical purchase information may be obtained from contract files, reports of contract awards, or other sources.

2.3.5.b.1 *Purchase Histories*

Purchase histories may have information about previous contracts awarded for the same or similar items or services currently being sought. Materials found in purchase histories include:

- a. Previous market research documentation.
- b. Contract award date.
- c. Purchase method.
- d. Contract type.
- e. Product descriptions.
- f. Prices.

When reviewing purchase histories, the market research team should consider, among other questions:

- a. How well did the product or service support Postal Service requirements?
- b. What costs were involved?
- c. What types of problems did the Postal Service encounter when using the product or service?

After reviewing purchase histories, it may be necessary for the market research team to gather additional information if the purchase histories do not fully meet the team's research needs. Perhaps the organization has not purchased the product or service, or marketplace instability or technology changes may have forced previous suppliers out of business. Perhaps the marketplace has changed.

Aside from the purchase histories, there are many other information sources, including those described below, that will aid the team in its market research. Some of these sources are now accessible online via the Internet, and others may be available through the purchasing office or local library.

2.3.5.b.2 *Government Buyers, Commodity Specialists, Technical Experts, and Other Market Researchers*

Government agencies are excellent information resources for market research. By checking presolicitation notices in the *Commerce Business Daily* (CBD), the market research team may be able to identify agencies that have bought similar or identical items in the past. Contact them to review the results of their own market research efforts. Solicitation mailing lists, qualified products lists, and prequalified suppliers lists are useful sources also. Furthermore, government agencies employ many experts on whose opinions the team can rely regarding specific product capabilities and product prices.

2.3.5.b.3 *Supplier Files*

The purchasing office maintains files of supplier information. Use these sources to learn what:

- a. Products suppliers sell.
- b. Terms and conditions the suppliers offer.
- c. Distributors carry these products.
- d. Subcontractors do business with these suppliers.
- e. Agencies have contracts with them.

2.3.5.b.4 *The Supplier Automated Database on the Internet and the Contractor Performance System*

The Postal Service maintains a Supplier Automated Database on the Internet (SADI) where business firms can register online as prospective suppliers to the Postal Service. Supplier and product information are available in SADI (see 3.1.5). SADI is accessed at:

www.blue.purchasing.gov/sadi

Additionally, the Contractor Performance System (CPS) contains valuable past performance information for Postal Service and Federal suppliers. Information regarding the CPS is available at:

<http://blue.usps.gov/purchase/cps.html>

2.3.5.b.5 *Thomas Register*

The Thomas Register is a very useful resource that the market research team can use to identify companies and products. It lists company names,

addresses, and telephone numbers; and product listings, product descriptions, and manufacturers. It can be accessed at:

www.thomasregister.com

2.3.5.b.6 *i-Mart*

The Department of Defense has established a Commercial Advocates Forum on the Internet. Among its many features is i-Mart, a market research tool. i-Mart is a gateway to primary sources of information to develop and analyze market research data. Enter a product name or Federal Supply Class, and i-Mart will search the web and provide available market and product information, including current prices. i-Mart can be accessed at:

www.imart.org

2.3.5.b.7 *Other Information Sources*

Other information sources include:

- a. The Yellow Pages.
- b. GSA Schedules.
- c. *Consumer Reports* online.
- d. Procurement directories.
- e. Commodity indices.
- f. Product brochures and promotional literature.
- g. Product catalogs.

2.3.5.c ***Information Sources for Use in the Presolicitation Phase***

After a determination to solicit offers is made, the focus of the market research shifts to researching standard commercial practices. Effective research at this stage of the purchase enables the purchase team to develop an appropriate solicitation that:

- a. Includes customary commercial terms and provisions (as appropriate).
- b. Reflects market conditions.
- c. Aids in estimating reasonable prices.
- d. Encourages responses from the sources most capable of meeting the requirement.

Clauses used in a solicitation or contract for a commercial item must be consistent with standard commercial practice. Market research can help identify customary commercial terms and conditions appropriate for a specific purchase, including warranties, financing, and quality assurance.

The Commercial Advocates Forum, mentioned above, also offers a searchable database of contract terms and conditions, including the following:

- a. An anthology of commercial contract terms and conditions.

- b. A tool for searching the anthology by category, industry, and contract clause.
- c. The Uniform Commercial Code (UCC).
- d. Examples of general provisions, terms and conditions, and agreements used by some corporate contractors.

Contact the Commercial Advocates Forum at:

www.cadv.org

Select Terms and Conditions Database.

Assistance is also available from the National Association of Purchasing Managers (NAPM) in Tempe, Arizona, which publishes customary commercial terms and conditions. To obtain this information, contact NAPM at (602) 752-6276 or via the Internet at:

www.napm.org

Industry associations can also provide information regarding standard commercial practices for customizing, modifying, or tailoring products to meet customer needs, and their associated costs.

2.3.5.d ***Locating Minority and Woman-Owned Businesses***

PM 3.2 requires contracting officers to perform market research to develop a diverse supplier base.

Consult the following sources to develop lists of minority and woman-owned businesses:

- a. Postal Service Supplier Development and Diversity (SS&D).
- b. Postal Service Corporate Supplier Diversity (Diversity Development).
- c. The Supplier Automated Database (SADI; see 2.3.5.b.4 and 3.1.5).
- d. Purchasing and Material's Home Page.
- e. National minority business enterprise publications and directories.
- f. Your state's office of minority business enterprise.
- g. Your local council for equal business opportunity.
- h. Current and past minority suppliers (they can refer you to others).
- i. Local minority business directories, trade associations, and trade fairs.
- j. Automated query systems, such as:
 - (1) PRO-Net — an automated database developed by the Small Business Administration that lists about 67,000 small suppliers indexed by type of ownership, location, number of employees, labor surplus area, and other factors. Access PRO-Net at:

www.pro-net.sba.gov

- (2) Phoenix — an automated database management system developed by the Minority Business Development Agency of the U.S. Department of Commerce. Access Phoenix at:

www.mbda.gov

Select Find Minority Vendors.

- (3) Vendor Information Service — a databank of minority suppliers maintained by the National Minority Supplier Development Council, a private nonprofit group. Access the council at:

www.trainingforum.com/ASN/NMSDC

- (4) World Wide Minority Business Network — an effort to centralize the efforts of organizations, associations, and groups committed to the minority business community. Access the business network at:

www.wbnet.com/index.htm

2.3.6 **Research Results**

After the team has collected and analyzed all of the product, supplier, and market information obtained during the research, it must recommend a course for the immediate purchase. The market research results may indicate that commercial items are available, with or without modification, that meet the Postal Service's needs and that existing sources in the marketplace are capable of providing them. In such cases, the Postal Service should use commercial procedures to purchase the items (see PM 4.3).

When the market research results indicate that existing commercial items could meet the Postal Service's needs if the needs were modified to a reasonable extent, the team members should conduct trade-off analyses to consider possible alternative requirements. Some performance parameters may be relaxed to achieve best value while still ensuring user satisfaction.

If the market research results clearly lead to the conclusion that no commercial items exist that, with or without modification, could meet the Postal Service's needs, the purchase will proceed in accordance with the general purchasing process described in PM 4.2.

2.3.7 **Market Conditions**

Market information gathered through market research may be used to craft the purchasing strategy, the solicitation, supplier selection, and the contract. Some elements to consider are:

- a. Extent of competition and its effect on price, quality, special product features, service, and support.
- b. New products in development for future availability and new firms entering the marketplace. A purchase may be delayed, if appropriate, to take advantage of additional products in a more competitive market.
- c. Availability of spare parts, technical data packages, training, and training support. If these items are needed, but not currently provided, the Postal Service must consider alternatives, such as contracting directly for the items or having the supplier subcontract for them.

- d. Commercial practices regarding customizing, modifying, or tailoring items to meet customers' needs. Minor modifications and modifications customarily made in the commercial marketplace generally present no problems. Be alert, however, to the need for major modifications, which could diminish the benefits of a commercial item purchase.
- e. Customer service, including installation, checkout, and instructions on user operation and maintenance. Research will help determine whether these services are customarily provided and whether their cost is included in an item's price. Plan to negotiate for the services with the supplier or plan to procure them separately.
- f. Applicability of any industry-wide laws or regulations to purchases of the product. Regulations could apply to shipping or environmental protection procedures, for example, and could involve additional costs to be considered in the pricing strategy.

2.3.8 **Pricing Analysis**

2.3.8.a ***Market Prices***

When the market for a commercial item is highly competitive, and a competitive purchase for the same or similar items is anticipated, the task of determining fair and reasonable prices is relatively easy. With a less competitive market, however, the task becomes more difficult. Some recommended sources and methods for finding information to assist in determining prices to be fair and reasonable are listed below; any combination of the sources should facilitate estimating of prices.

2.3.8.b ***Independent Postal Service Estimate***

An independent Postal Service estimate is the initial estimate of a purchase's cost, usually prepared by the purchase team. To assess the reliability of this estimate, it is important to:

- a. Identify the estimator's sources of information (factual, verifiable data, or hearsay).
- b. Determine the extent of market research that contributed to the estimate (the amount of data analyzed).
- c. Determine the age of the data.
- d. Examine the estimator's consideration of past prices paid, with allowances made for changes in market conditions and Postal Service requirements, and differences in quantities.

The independent estimate is a useful tool for forecasting the cost of the purchase, but it must be tailored to the specifics of the purchase.

2.3.8.c ***Historical Pricing Data***

Contract files contain prices and price-related data and usually document why the prices paid for similar purchases were determined fair and reasonable. When considering historical data, you must allow for changes in the market, in requirements, and in quantities.

Consider historical prices in relation to current conditions, such as:

- a. Extent to which increased competition can lower prices.
- b. Changes from detailed design specifications to performance requirements, enabling consideration of new sources and potentially leading to lower prices.
- c. Changes in quantity discounts, which can affect prices.
- d. Changes in inflationary pressures on prices.

2.3.8.d ***Published Pricing Data***

Some sources publish pricing or price-related data that can help develop estimates of fair and reasonable prices. These publications include manufacturer and dealer catalogs; product brochures; sales promotion materials; and articles, advertisements, and product evaluations in trade journals. Federal Supply Schedules also contain pricing information. Surveys of published price data can reflect a range of current market prices for the item being purchased. Many of these prices are applicable to specific quantities; evaluate those prices for the quantities being ordered.

2.3.8.e ***Pricing Data from Buyers and Experts***

Buyers in industry and in other federal, state, and local governments may have purchased the same or similar items in the past, and may be able to refer you to other sources, including contract files, for relevant pricing information. Contract administrators, technical experts, and auditors may also be sources of valuable pricing information. Other contacts may be made through telephone surveys and through attendance at professional meetings.

2.3.8.f ***Pricing Data from Suppliers***

Through presolicitation conferences and the use of solicitations for information or planning purposes, some price-related information may be obtained from potential suppliers. Use comments on discounts given for bulk purchases to reevaluate quantities proposed for order, thus possibly taking advantage of the price discounts. Comments on delivery terms may reveal that the Postal Service's proposed delivery requirements are shorter than customary, requiring expedited supplier processes that raise prices. The purchase team may consider extending the delivery dates to achieve lower prices. The team may receive comments regarding restrictive elements of the requirements statement that would limit competition, and thus increase prices. The team could consider eliminating those restrictions.

2.3.8.g ***Pricing Data from Other Sources***

Other potential sources of information regarding prices and price-related data include trade and professional associations, chambers of commerce and better business bureaus, and state and local consumer protection agencies.

2.3.9 **Documenting Research Results**

The comprehensive product, industry, and market information collected during the conduct of market research should be compiled, analyzed, and

documented in a manner that clearly supports the best method for satisfying customers in terms of cost, quality, and timeliness of the delivered product or service.

The documentation should be appropriate to the size and complexity of the purchase. The contracting officer may consider including the documentation as part of the individual purchase plan.

The research findings must be presented in a manner that adequately supports purchase decisions. Information gathered by the market research team might be critical to final determinations of industry capabilities, industry practices, available technologies, market trends, standard terms and conditions, competitive market forces, and availability of products or services.

A summary of the team's activities should provide a logical basis for determining whether commercial products are available to meet the requirement. The summary should include the team's comments regarding the extent to which commercial items can be incorporated at the component level.

Topics to be considered when organizing and documenting the research results include the following:

- a. Identification of the market research team members.
- b. A description of the purchase's background, including its purpose and any special features.
- c. A description of the Postal Service's needs, in terms of their function, performance, and essential physical characteristics. This section could also summarize any team discussions and conclusions reached regarding possible alternatives, requirements modifications, or trade-off analyses.
- d. Desired or required delivery schedules for contract items.
- e. Identification of industry sources that were contacted, and the types of information obtained from them.
- f. A summary of relevant customary commercial terms, provisions, and conditions.
- g. A description of price ranges discovered and possible reasons for any significant variations.
- h. Descriptions of available commercial items, including their respective merits or deficiencies.

2.4 Individual Purchase Plans

See Exhibit 2.4.a, Individual Purchase Plan Outline, which lists items that should be included in an individual plan. Exhibit 2.4.b, Individual Purchase Plan Checklist, will assist you in developing the plan.

2.5 Supplier Selection Strategy

Supplier selection is a process designed to ensure that there is an optimum supply base to support the goals, values, and mission of an organization. The process begins with the identification of an organizational need and includes the identification and evaluation of potential suppliers. The process concludes with the determination of the supplier(s) that meet or exceed the buying organization's selection criteria and expectations. While the process initially may be considered completed with the selection of the appropriate supplier(s), the process is actually an ongoing and evolutionary one. The search for the highest valued-added relationship is a never-ending process.

One of the most visible innovations in supplier selection is the effort to limit the number of suppliers to no more than are operationally required or effective. This concept is referred to as supply base rationalization, a process that involves establishing an adequate supply base to ensure the delivery of materials and services while consolidating the purchases among a few capable suppliers. The primary goal of this strategy is to improve quality by reducing the sources of variation in the process. Other benefits include working more closely with the supplier to improve processes, reduce cost and cycle time, and achieve other cost reductions through standardization and volume discounts.

Supplier selection is a strategic process that directly affects the corporate competitive advantage. Because of its importance, formal programs and procedures have been established to make the process more objective and create higher value-added relationships with suppliers.

One of the ways in which the Postal Service makes the process of supplier selection more objective is to use competition and the forces of the marketplace as a means of comparing and judging suppliers and their proposals (see PM 1.7.1). Purchase teams must strive to keep the supplier selection strategy simple. In many cases, evaluating only the supplier-specific factors (past performance and supplier capability) is sufficient to predict supplier performance and determine the best value to the Postal Service. In other words, keeping the supplier selection strategy simple is an excellent means of saving time and effort and rewarding good performance.

2.5.1 **Performance Evaluation Factors**

Performance evaluation factors are criteria used by the purchase team to compare and judge suppliers for a given purchase requirement. The process of developing evaluation factors helps the purchase team concentrate on identifying what issues are critical to the success of a purchase.

To develop performance evaluation factors, you must consider the following four primary elements:

- a. Factors — the elements, features, or details of the supplier's proposals to be evaluated.
- b. Standards of measure — how the acceptability and relative merit of the proposals are to be determined.

- c. Order of importance — which factors are most important in making that determination.
- c. Role of price — the role price will play as an evaluation factor; will it be more or less important than, or equally important as the other factors.

2.5.1.a ***Factors***

Performance evaluation factors describe what elements, features, or details of suppliers' proposals are to be evaluated. They reflect the Postal Service's priorities. The factors must include all of the elements that the evaluation team will use to evaluate offers and that the purchase team will consider in determining which proposal offers the best value.

The solicitation must inform suppliers of the factors that will be used in evaluating their proposals. By including the evaluation factors in the solicitation, suppliers can focus their efforts on proposing products or services that excel in areas that are most important to the Postal Service.

In practically every case, a solicitation must include one or more factors related to the technical quality of the supplies or services being offered. This is especially true when the specification for the items or services requires performance goals and suppliers are requested to propose their own approach to meeting those requirements. When appropriate, a solicitation may also require suppliers' plans for managing the contract work, their record in meeting similar requirements for other customers, or their approach to assuring quality.

Evaluation factors may be broken into smaller units to permit more detailed analysis. For example, factors may be further divided into major subfactors. If this is done, the major subfactors are disclosed in the solicitation, and ranked by their order of importance under that particular factor.

Once the evaluation factors are established, the purchase team must determine how they are to be applied. To decide this, the team isolates the key areas of the specification or other parts of the solicitation that the supplier must address. These key areas are assigned to a particular evaluation factor. Then standards are developed for determining whether a proposal meets, fails to meet, or exceeds the identified solicitation requirements.

2.5.1.b ***Standards of Measure***

Evaluators use standards of measure to determine whether the proposal satisfies the factors. Standards of measure state how the acceptability and relative merit of the proposals are to be determined.

Standards are predetermined measures of the minimum qualities that proposals must have to satisfy the factors. Some standards, such as requirements for weight, speed, color, size, or frequency, are contained in the specifications or statement of work; they relate directly to the product or service itself. But others must be developed through research into the industry in question, such as those for management capability.

Once developed, standards make the actual process of evaluation much easier. The evaluator simply searches the proposal for evidence that the proposal meets, fails to meet, or exceeds the standard. This evaluation process involves judgment, interpretation, and weighing of the evidence, but

the standard provides a common measure that ensures that all evaluators are using the same basis for deciding whether the factors have been met. Without standards, evaluators may find themselves applying different values, and the resulting evaluation would not reflect a common assessment of the proposal's merits. Standards must be developed before proposal preparation instructions are issued as standards dictate proposal content.

2.5.1.c *Order of Importance*

Not all evaluation factors will be equally important in determining which proposal offers the best value to the Postal Service. Some factors will be more important than others in determining supplier selection, and the purchase team must find a way to express these relative values. The relative order of importance must be clearly communicated to suppliers in the solicitation.

The factors' relative order of importance may be described in a variety of ways, including the following two methods or a combination thereof.

2.5.1.c.1 *General Statement*

Provide a general statement indicating whether any one factor will be given predominant importance in the solicitation. Do this by stating that "Factor 1 is substantially more important than any of the other factors, followed by factors 2 through 5 in descending order of importance."

If the solicitation states that "Proposals will be evaluated according to factors 1 through 5 in descending order of importance," factor 1 could not have a weight of 50 percent while factors 2, 3, 4, and 5 have weights of 20 percent, 15 percent, 10 percent, and 5 percent, respectively. In this case, the difference between the weights assigned to factors 1 and 2 is too great. If the solicitation does not state that any single factor is substantially more important than the others, or that the factors are not listed in descending order of importance, all factors will be considered equal.

2.5.1.c.2 *Scoring Systems*

A score is nothing more than a shorthand expression of how well a supplier has met the evaluation standards. The detailed evaluation is contained in the evaluation team's report. Strictly speaking, a score is not necessary. The purchase team can make its decision after reading the report. However, the score summarizes that report. The purpose of the score is to provide the purchase team and other Postal Service officials a quick look at the findings of the panels. Many forms of scoring systems are available to the Postal Service, including the adjectival and numerical systems described below.

2.5.1.c.2.1 *Adjectival Scoring System*

An adjectival scoring system is similar to the common school grading system of assigning an A, B, C, D, or F to an examination paper. As an example, the adjectives used can have the following meanings:

- a. Exceptional — the proposal meets or exceeds the most important factors in a way that is beneficial to the Postal Service. Risk is low, and the proposal indicates a very high probability of successful performance. There are no deficiencies in major subject areas or items.

- b. Acceptable — the proposal meets all significant factors. Risk is low, and there is a good probability of success. There are no critical deficiencies, and any others can be readily corrected.
- c. Marginal — the proposal does not meet some important factors. Risk is evident, and there is a low probability of success. There are serious deficiencies in the proposal, but they are correctable.
- d. Unacceptable — the proposal does not meet several important factors. Risk is high, and there is little likelihood of success. The proposal would have to be substantially re-written to make it acceptable.

2.5.1.c.2.2 *Numerical Scoring System*

A numerical scoring system involves using a number to describe how well the proposal meets the performance evaluation factors. Examples involve the use of numerical ranges, such as 0 to 10 (10 being best) or 0 to 100 (100 being best).

Numerical scoring is a popular method. In school, some tests are scored on the 0 to 100 range. A minimum of 60 may be required to pass. At least 70 is needed for a C, 80 for a B, and 90 for an A. The instructor is able to make distinctions among As, since 95 is a better score than 90. This is especially true if the number somehow reflected the number of correct answers. Otherwise, it is difficult to understand the difference in merit between a 92 and a 93.

This demonstrates the central problem in using numerical scoring systems. What conclusion can we reach about two proposals, one of which received a 9 and is priced at \$110,000, and the other of which received an 8 and is priced at \$100,000? Is the one-point difference worth \$10,000 to the Postal Service? The answer depends on the basis used by the team in assigning numerical scores.

Suppose there are five evaluators. Three score the proposal as a 9, while two score it as an 8. All agree that the proposal is very good. There are at least three ways to resolve the differences: (1) voting (in this case, three votes for a 9 and two votes for an 8); (2) averaging the individual scores (resulting in 8.6); or (3) conducting a discussion leading to consensus. However, the key question is: What, if anything, does the one-point difference indicate in terms of substantive proposal content? Is it merely the product of ill-defined and subjective differences in value systems applied by the evaluators? If the difference cannot be resolved and made clear to the contracting officer, the decision may be faulty.

Scoring differences must be resolved through consensus and on the basis of clearly defined scoring guidance for assigning numbers. Any numerical scoring system must contain clear scoring guidance so that subjective, nonsubstantive differences in scores are minimized. Complex arithmetical schemes and formulas should not be used.

2.5.1.c.2.3 *Application of the Scoring System*

A scoring system helps the contracting officer and other Postal Service officials summarize evaluation results. A scoring system should clearly communicate the findings of the teams so that the teams and the contracting officer may compare the proposals to each another in a meaningful way.

It is not necessary to develop a scoring system that conveys minor, inconsequential differences. Such a system would be too complex. The purchase team can refer to the detailed write-ups to distinguish between closely scored proposals.

2.5.2 **Types of Performance Evaluation Factors**

Two types of performance evaluation factors are described in the PM. These types are proposal-specific factors and supplier-specific factors.

2.5.2.a ***Proposal-Specific Factors***

When the purchase team develops proposal-specific factors, it must be thoroughly knowledgeable of the products or services the Postal Service plans to purchase. That knowledge embraces all product features but especially those characteristics that are critical to the product's success or failure. The team must establish factors that discriminate among proposals, enabling the evaluation team to make clear distinctions between acceptable and unacceptable proposals. When sound factors are established and properly weighted, their application will clearly identify strengths and weaknesses in proposals, and will result in high scores for excellent proposals and low scores for the poorest proposals.

Specific factors will be tailored for individual purchases, but some factors and subfactors are generally applicable, including the following, as appropriate:

- a. Understanding of the requirement, as reflected in the supplier's:
 - (1) Knowledge of the Postal Service mission and purchase objectives.
 - (2) Awareness of the environment in which the product will operate or the work will be done.
 - (3) Stated comprehension of work tasks.
- b. Technical approach to performing the work, as evidenced by:
 - (1) Proposed innovative solutions.
 - (2) Use of current technology and methodologies.
 - (3) Awareness of potential problem areas.
 - (4) Overall feasibility of the approach.
- c. Qualifications and competence of proposed personnel, as evidenced by:
 - (1) Educational qualifications.
 - (2) Prior relevant experience.
 - (3) Extent of their commitment to the proposed work.
- d. Compliance with required delivery schedules.
- e. Management plan, including:
 - (1) Organization for the project.
 - (2) Lines of authority.
 - (3) Interfaces.
 - (4) Corporate commitment.

(5) Schedule, cost, and related controls.

(6) Subcontracting plans.

2.5.2.b ***Supplier-Specific Factors***

Supplier-specific factors include past performance and supplier capability.

2.5.2.b.1 ***Past Performance***

A supplier's past performance is usually a reliable indicator of its future performance. While a supplier's experience is an evaluation factor that assesses the type and extent of work the supplier has previously performed, past performance is a factor that evaluates how well, in terms of customer satisfaction, it has been performed.

The specific factors that the PM requires in all past-performance evaluations — quality, timeliness, business relations, cost control, and supply chain management — should be assessed in relation to their relative importance to the purchase, considering its size and complexity. A supplier's past performance should be evaluated in the aggregate, not as an assessment of these individual, distinct subfactors.

The same subfactors can be used by the Postal Service, in consultation with its suppliers, to evaluate past performance of subcontractors. Potential Postal Service suppliers should be required to evaluate past performance of proposed major subcontractors and to provide the Postal Service with such information, as appropriate.

Postal Service solicitations must clearly describe the past performance information it will evaluate and its importance relative to other evaluation factors. The type of information to be evaluated must be tailored to the needs of the specific purchase. Past performance information must be relevant to the specific work to be done under the proposed contract. See 4.5 for information regarding the gathering, protection, and disclosure of past performance information.

When considering the age of past performance data, the actual dates of relevant work performance should be considered, rather than contract award or completion dates. Trends in past performance during that period should also be assessed. A supplier whose performance has steadily improved will be evaluated more positively than one whose performance has continued to decline.

Sources of past performance information include purchase histories and market research results. These two sources may provide data regarding customer satisfaction; market acceptance; general comments regarding quality, cost, and timeliness; and specific performance problem areas.

Surveys of requirements staff and users can also be conducted, along with surveys of other government and private organizations, agencies, and buyers.

The solicitation should request past performance data from potential suppliers and may request identification and resolution of problems experienced. The past performance data can be submitted separately or as part of the supplier's proposal. For purchases of commercial items, suppliers should be requested to submit, at a minimum, contract numbers, points of contact and their telephone numbers, and any other relevant information.

2.5.2.b.2 *Supplier Capability*

Supplier capability is the ability of a potential supplier to perform the proposed work. It is measured in various ways and from a variety of information sources as described in the PM, and is evaluated as part of proposal evaluation. As stated in PM 2.1.7.a.3, there may be overlaps between some aspects of supplier capability and particular proposal-specific factors (like production capacity). In these cases, purchase teams should take care in describing to potential suppliers how proposals will be evaluated, compared, and scored.

The supplier capability evaluation replaces the determination of responsibility, which formerly was made just before the time of award, after the supplier had been tentatively selected. Supplier capability is now treated like any other performance evaluation factor during the evaluation process.

Individual Purchase Plan Outline

Note: Depending on the particular purchase, the following elements should be addressed as appropriate.

- I. Description of Requirement
 - A. Purpose of the requirement
 - B. Summary of required items (including data items, attendant rights, and service and performance requirements)
 - C. Options
 1. Description
 2. Rationale
 - D. Component breakout (summary and rationale)
- II. Market Research
 - A. To support requirements definition
 - B. Pre-solicitation phase
 - C. Purchase history
 1. Previous purchases, if any
 2. Problems, if any
- III. Estimated Cost
 - A. Cost estimate, including estimate of life cycle costs
 - B. Preparer
 - C. Basis for calculation (e.g., budget, decision analysis report, catalog, market survey, etc.)
 - D. Board of Governors, CIC approval
 - E. Availability of funds
- IV. Delivery, Performance, and Installation Requirements
 - A. Description
 - B. Basis for requirements, including explanation of any urgency
 - C. Reasonableness of requirements in terms of industry norms and if unusual, likely effect on purchase (e.g., risk, higher cost, etc.)
 - D. Shipping considerations (f.o.b. points)
- V. Purchase Approach
 - A. Specification
 1. Type (performance, functional, detailed design, commercial item description, brand name or equal, Technical Data Package, etc.)
 2. Preparer
 3. Previous use and adequacy (see results of market research)
 - B. Expectation of competition
 1. Extent of expected competition, including any special considerations which may limit competition
 2. Known sources (list or refer to previous suppliers and provide number of potential offers)
 3. Steps to be taken to enhance competition (for example, preproposal conference)
 4. If noncompetitive, provide justification and plans for ensuring competition in the future

Exhibit 2.4.a

Individual Purchase Plan Outline (Page 2 of 4)**Individual Purchase Plan Outline**

- C. Method of purchase (general, commercial, special, competitive)
- D. Plans for CBD synopsis (if purchase will not be synopsisized, provide reason)
- E. Sources
 - 1. Potential suppliers identified in market research
 - 2. Known commercial suppliers
 - 3. Supplier diversity: small, minority, and woman-owned firms
- F. Prequalification considerations
- G. Supplier selection strategy
- H. Potential conflicts of interest
- I. Proposal evaluation
 - 1. Evaluation factors and relative weights
 - a. Proposal-specific factors
 - b. Supplier-specific factors
 - 2. Method and responsibility for technical evaluation, and, on major projects, detailed plans for managing the evaluation effort
 - 3. Benchmark, functional demonstration, etc.
 - 4. Price evaluation (including method and responsibility)
- J. Best value selection
 - 1. Price
 - 2. Price-related factors
 - 3. Evaluation factors
 - 4. Combination
- K. Type of contract (with rationale)
- L. Reasonableness of price
 - 1. Explanation of method(s) for ensuring reasonableness of price
 - a. Adequate price competition
 - b. Catalog or market prices (include verification method)
 - c. Price analysis (total price only; cost and profit not evaluated separately)
 - d. Cost analysis (elements of cost evaluated separately; may employ price analysis on individual elements)
 - 2. Support (audit, contract pricing, etc.)
- M. Data rights (approach, alternatives considered, and rationale)
 - 1. Rights in technical data
 - 2. Software
 - 3. Other intellectual property
- N. Patent considerations

Individual Purchase Plan Outline

- O. Statutory considerations
 - 1. Service Contract Act
 - 2. Equal Employment Opportunity (EEO) compliance
 - 3. Other (as appropriate)
- P. Milestone schedule (through contract completion)
- VI. Contract Management
 - A. Inspection and acceptance (quality assurance)
 - 1. Quality system required
 - 2. First article (include description, supplier testing or Postal Service testing)
 - 3. Performance test (extent, required performance level)
 - 4. Responsibility for inspection and acceptance
 - B. Project manager (requisitioning organization)
 - 1. Identification
 - 2. Responsibilities
 - C. Receiving report process
 - D. Postal Service-furnished property or facilities
 - E. Payment process
 - 1. Billing address
 - 2. Certification responsibility
 - 3. Type (include rationale)
 - a. Completion
 - b. Partial
 - c. Progress (include management)
 - d. Advance
 - e. Audit involvement
 - F. Warranties
 - 1. Description
 - 2. Rationale
 - G. Liquidated damages
 - 1. Rationale
 - 2. Basis
 - H. Logistic support
 - 1. Supplier maintenance
 - 2. Spares (include management and control)
 - I. Supplier reports

Exhibit 2.4.a

Individual Purchase Plan Outline (Page 4 of 4)

Individual Purchase Plan Outline

VII. Special Risks (include actions taken to minimize)

- A. Technical
- B. Cost
- C. Schedule
- D. Performance
- E. Environmental

VIII. Other (include considerations such as deviations from policy requirements)

Individual Purchase Plan Checklist

Requirement Impacts/Considerations

1. Why is the purchase necessary? Precisely what contribution is it expected to make?
2. What is the scope of the requirement and what precisely must a supplier do to meet it? How can the requirement best be specified or stated?
3. What discussions with technical or operations personnel may be necessary to determine technical approaches, possible difficulties, state of the art, and the like?
4. How is this contract effort meant to interface with other contract or in-house efforts?
5. What experience with previous contract efforts is relevant to the present effort?

Timing Impacts/Considerations

1. How long will it take for purchasing personnel to perform necessary steps leading to contract award? (The length of time needed can vary widely depending on the nature of the purchase; for example, competitive versus noncompetitive)
2. What period of time will the supplier need to deliver items or perform services?
3. What specific performance milestones or key deliverables should be scheduled during the life of the contract?
4. Is there time in the schedule to deal with presently unknown problems? Can the schedule slip or is timely delivery essential?

Funding Impacts/Considerations

1. How much can the effort or product be expected to cost?
2. Have sufficient funds been budgeted?
3. Will the efforts be funded fully or in increments? (If multiyear, although not fully funded, Postal Service is obligated to pay the contractor as funds become available.)

Market Condition Impacts/Considerations

1. What are the results of market research?
2. Is the market highly competitive? Are there many sources?
3. What are the manufacturing lead times?
4. What are economic order quantities?
5. Are there tooling requirements? Must the Postal Service furnish tooling? If so, what is its condition?
6. Are suppliers generally price conscious?

Exhibit 2.4.b

Individual Purchase Plan Checklist (Page 2 of 2)

Individual Purchase Plan Checklist

Approval Impacts/Considerations

1. Is it necessary to request any reviews and approvals or clearances before submitting the requisition request to the purchasing organization?
2. Will purchasing personnel need to obtain other reviews before going forward with the purchase action?
3. How much time must be allowed for these reviews?

Source Solicitation and Evaluation Impacts/Considerations

1. Should the purchase be publicized in publications other than the CBD?
2. Are there any sources, known to be qualified, who should receive solicitations?
3. What plans for evaluation of offers or technical proposals must be made? What specific evaluation criteria are needed? What is their relative weight? How will the technical evaluation panel be structured? Will qualified evaluators be available?

Contract Performance and Administrative Impacts/Considerations

1. What management control or quality systems are expected from the supplier? These may include performance standards, inspection procedures, reports, etc.
2. What contract type and compensation methods would be most appropriate for this contract effort? The contracting officer is responsible for determining contract type and payment provisions; however, approval is required regarding progress and advance payments. In some situations, operations or technical personnel may have cause to recommend that certain arrangements be used.
3. Are there special software, data, or patent issues?

Requisition Preparation Impacts/Considerations

1. Whose contribution will be required in preparing the requisition, and who will have overall responsibility for its preparation and submission?
2. How long will it take to prepare the statement of work or specification and all other elements of the requisition?

3 Supplier Relations

- 3.1 Supplier Diversity..... 3-3
 - 3.1.1 Supplier Diversity Programs in the U.S. Government..... 3-3
 - 3.1.2 Diversity Programs in the Commercial Sector 3-4
 - 3.1.3 Postal Service Diversity Policies 3-4
 - 3.1.4 Supplier Diversity Program 3-5
 - 3.1.5 Contracting Officer Responsibility 3-5
 - 3.1.6 Subcontracting with Small, Minority, and Woman-Owned Businesses 3-6
- 3.2 Supplier Partnerships 3-6
 - 3.2.1 Trust..... 3-7
 - 3.2.2 Collaboration 3-7
 - 3.2.3 Quality Requirements 3-7
 - 3.2.4 Supplier Development..... 3-8
 - 3.2.5 Feedback 3-8
 - 3.2.6 Integrated Supplier Practice..... 3-8
- 3.3 Supply Chain Management 3-9
 - 3.3.1 Schools of Thought..... 3-9
 - 3.3.2 Supply Chain Management and Partnerships 3-10
 - 3.3.3 Supply Chain Management and Technology 3-10
 - 3.3.4 Future of Supply Chain Management 3-10
 - 3.3.5 Model of Supply Chain Management..... 3-10
- 3.4 Prequalification 3-11
 - 3.4.1 Publicizing for Prequalification 3-12
 - 3.4.2 Evaluation Factors and the Prequalification Process..... 3-12
 - 3.4.3 Certification Programs 3-13
- 3.5 Effective Publicizing of Postal Business Opportunities..... 3-13
 - 3.5.1 Publicizing and Advertising 3-14
 - 3.5.1.a *Definitions*..... 3-14
 - 3.5.1.b *Use*..... 3-14
 - 3.5.1.c *Suggested Media*..... 3-14
 - 3.5.1.c.1 *Print, Radio, and Television* 3-14
 - 3.5.1.c.2 *Electronic Media*..... 3-15
 - 3.5.1.d Purpose and Effectiveness..... 3-16

3 Supplier Relations

The Postal Service strategy for cultivating supplier relationships is critical to fulfilling our vision of purchasing as an effective business partner with our customers and our suppliers. Suppliers are one of the Postal Service's strategic assets, and this chapter describes some of the purchasing tools and methodologies we can use to further these partnerships while consistently providing the Postal Service with exceptional quality and value.

3.1 Supplier Diversity

Supplier diversity is a process that seeks to provide suppliers with equal access to purchasing opportunities. The objective generally is to establish and maintain a strong, competitive supplier base that reflects the diversity of the American supplier community.

3.1.1 Supplier Diversity Programs in the U.S. Government

In a 1995 decision known as *Adarand*, the U.S. Supreme Court determined that federal programs (including those regarding government contracting) that use race or ethnicity as a criterion in decision-making are subject to strict judicial scrutiny. To satisfy strict scrutiny, the program must be narrowly tailored to serve a compelling government interest.

The U.S. Department of Justice (DOJ) has issued a proposal to reform affirmative action in government contracting that is designed to satisfy the strict scrutiny standard. Under the proposal, race-conscious measures should be used where race-neutral practices have been found insufficient to overcome the effects of past and present discrimination. The proposal serves to create a coordinated program through the following measures:

- a. Benchmarking industries, nationally or by region, where the level of minority contracting is lower than would be expected absent discrimination.
- b. Establishing certain preferences in contract award and administration to help Small Disadvantaged Businesses (SDBs) obtain contracts and subcontracts.
- c. Pursuing minority participation through outreach and technical assistance efforts.

In accordance with the DOJ proposal, interim rules amending the Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplements have been issued. These rules provide SDBs with two types of preferences regarding contracts that involve benchmarked industries. First, in making an award selection, agencies will add a price evaluation adjustment of

up to 10 percent to proposals from non-SDBs. Second, agencies will use a source selection evaluation factor for planned SDB participation, particularly at the subcontractor level, and may offer a monetary incentive for SDB subcontracts used during performance.

Past performance evaluations will also include the contractor's record of meeting planned SDB subcontracting levels. Unless otherwise excepted, the price adjustment applies to Requests for Proposals (RFPs) issued after October 1, 1998, and the evaluation factor mechanism will apply to RFPs issued after January 1, 1999 for acquisitions expected to exceed \$500,000 (\$1,000,000 for construction).

Most industries are benchmarked nationally, although certain construction industries are only covered regionally. The Department of Commerce also sets the price adjustment, up to the 10 percent maximum, to be applied per industry. These measures will be subject to periodic evaluation. Agencies' ability to meet benchmark goals for SDB participation will be reviewed annually, and the Department of Commerce's benchmarks will be reviewed every five years and revised as needed. The Department of Commerce identifies benchmarked industries at:

www.arnet.gov/references/sdbadjustments.htm

3.1.2 **Diversity Programs in the Commercial Sector**

Most commercial-sector supplier diversity programs are tailored to reflect corporate visions and strategic goals and objectives as published in their annual reports. Many major corporations have home pages that outline diversity policies and methods by which minority and woman-owned businesses can contract with the particular firm. Most of the commercial-sector programs, like those of the federal government, feature seminars, trade fairs, brochures, and other similar devices to publicize the diversity process.

There is an innovative concept being used by Detroit Edison in Detroit, Michigan. The company has instituted a super-mentor approach to enhance its diversity program. The basic approach is to identify an excellent manager, regardless of the business, and offer the manager the opportunity to enter a new business field. If agreement is reached, Detroit Edison then provides appropriate training for management and staff of the newly created firm, assists in obtaining the necessary equipment, and acts as a mentor during the formative stages. For example, a cleaning firm was offered the opportunity to move into tree removal services for Detroit Edison. The procedure outlined above was followed and the firm is now operating successfully on its own. The same firm was then offered the opportunity to provide line maintenance services.

Another technique developed by Detroit Edison is to persuade large distribution firms to use local minority firms as distributors for their products to Detroit Edison. For example, Detroit Edison is now buying electric vehicles and they have made arrangements to buy the vehicles through a local minority automobile agency.

3.1.3 **Postal Service Diversity Policies**

It is the goal of the Postal Service to cultivate supplier relationships and to consider suppliers as business partners. It is also the policy of the Postal

Service to encourage and maximize opportunities for small, minority, and woman-owned firms to become an important part of that supply chain. The Postal Service is committed to developing and maintaining a vital, competitive base of small, minority, and woman-owned suppliers that reflect the diversity of the American business community.

To identify any small, minority, or woman-owned businesses as potential prime suppliers or subcontractors, the purchase team, when planning for any new acquisition, should review the results of any market research that has been conducted as part of defining Postal Service requirements. Previous purchases for similar requirements should also be reviewed to identify any of these potential sources.

The current Supplier Diversity Operating Plan describes various promotion and outreach efforts of the Postal Service to increase participation by small, minority, and woman-owned firms. These efforts include:

- a. Emphasizing market research to identify diverse sources.
- b. Identifying subcontracting opportunities.
- c. Participating in trade shows, conferences, and other events.
- d. Considering diverse sources in purchase planning.
- e. Helping small, minority, and woman-owned firms improve their capabilities.

The Supplier Diversity Operating Plan prescribes annual increases in participation by diverse firms in Postal Service purchasing over a five-year period.

3.1.4 **Supplier Diversity Program**

The Postal Service Supplier Diversity Program is an organization-wide initiative designed to ensure that the Postal Service's supplier base reflects the diversity of the American supplier community. To maintain and improve the capability to provide universal mail service that meets the needs of Postal Service customers at cost-effective and competitive prices, it is essential for the Postal Service to find and use both large and small suppliers that provide performance excellence. In promoting and developing a diverse supplier base, the Postal Service will continue to ensure that no supplier is excluded from opportunities, or given preference, to compete on the basis of race, color, religion, sex, age, or national origin. More information regarding the Supplier Diversity Program is available from Diversity Development and Purchasing and Materials' Supplier Development and Diversity.

3.1.5 **Contracting Officer Responsibility**

Working with the purchase team, the contracting officer is the primary individual who can promote and increase participation by small, minority, and woman-owned firms in Postal Service purchasing programs. The contracting officer can fulfill this responsibility in various ways.

In the early stages of purchase planning with the purchase team, the contracting officer can review purchase histories and results of market research to identify and locate potential small, minority, and woman-owned suppliers. The Postal Service's Supplier Automated Database on the Internet

(SADI) should be accessed to locate small, minority, and woman-owned suppliers who are interested in doing business with the Postal Service.

SADI is accessed at:

www.blue.purchasing.gov/sadi

The contracting officer can also publicize the anticipated purchase in the *Commerce Business Daily* (CBD), on the Postal Service Business Opportunities Bulletins (BOB), and in other media in an attempt to locate those suppliers (see 3.5 for more information on effective publicizing).

BOB is accessed at:

www.blue.purchasing.gov/bob

The contracting officer can ensure that individual purchase plans include specific methodologies for including small, minority, and woman-owned firms in the purchasing process.

In postaward activities, the contracting officer can assist small, minority, and woman-owned firms by providing them with technical and administrative assistance and clarifications when needed, and by publicizing their successful performance.

3.1.6 **Subcontracting with Small, Minority, and Woman-Owned Businesses (Reserved)**

3.2 **Supplier Partnerships**

Supplier partnering takes many forms in industry, from a long-term contract to co-location of suppliers in the buyer's organization. Corporate legal departments have scrutinized partnering relationships as they imply a sense of ownership. Some firms are now shying away from using the term; however, they are actively engaged in implementing the concept.

Partnerships offer business benefits to both parties. They provide long-term stability in terms of performance, price, and quality. They provide stronger, and in many cases, more effective and creative working relationships in which either party can take maximum advantage of the other's strengths. And they foster mutual commitment in which both parties work toward shared goals.

Because the nature of partnering is long-term, the supplier selection process is more critical in the establishment of partnerships than in the typical transactional based buyer-supplier relationship. Considerations include the historic criteria of quality, price, service, and delivery. Considerations also include criteria designed to measure the durability of the relationship, including the alignment and organizational fit of missions and values. The assessment also must include the capabilities of the supplier in the long run or the supplier's potential which is yet to be realized. Selection of a partner should be based on the total cost of acquisition or total cost of ownership approach.

3.2.1 **Trust**

The basis of partnering is trust. Partners recognize their interdependence and realize that the basis of a trusting relationship is the sharing of information. Full disclosure of timely critical information is the key to gaining a competitive business advantage. Partnering relationships are dependent on the implementation of supply base rationalization strategies, including sole-sourcing. Innovative firms are instituting cost sharing programs where both parties share the benefits of the reduced costs of doing business. The cost savings stem from learning curve advantages based on volume, innovations in the process or product, and the reduced general and administrative expenses associated with an established relationship. These programs have been implemented in the automotive industry but required a significant investment of time for suppliers to develop the trust in the buying organizations. For partnerships to work, the supplier usually has to obtain a profit margin consistent with the norms of the industry.

3.2.2 **Collaboration**

Partnering is a technique that can enhance the development of supply chains and supply chain management. Partnerships are not legal entities. They are mutually beneficial and open relationships in which the needs of both parties are satisfied. Buying-selling relationships historically have been conducted in an arm's length mode. Relationships were adversarial; buyers and sellers felt that the only way to win was at the expense of the other party.

Common sense and changing purchasing patterns have combined to motivate buyers and sellers to work in a more collaborative mode. The key characteristics of these relationships are (1) a compatibility of interests, (2) a mutual need, (3) a willingness to share information as well as the benefits resulting from the relationship, and (4) trust. To make partnerships work, purchasing professionals must become supply managers. In this role, they must assume the leadership of cross-functional teams responsible for meeting the supply partner, negotiating the terms and conditions of the relationship on issues ranging from price to co-location of personnel and technology sharing, and managing the relationship during its life.

3.2.3 **Quality Requirements**

In many commercial companies, supply chain management is built around establishing new and closer partnerships with fewer critical suppliers. The fundamental concept underlying the effort to improve supply chains by more intense partnering is that purchasing professionals will be able to spend more time with each supplier to better communicate quality requirements to the primary suppliers and then to the supplier's suppliers. In taking a tougher stance on quality, companies are able to eliminate suppliers that have lesser quality products and services and expand relationships with better suppliers.

Some companies have taken dramatic steps to tighten the bond with quality suppliers. For example, many companies rate their suppliers on a quarterly basis on price, quality, and on-time delivery. Suppliers then are required to change and improve processes. The obvious implication is that suppliers unable to change will be dropped for more efficient and capable suppliers. Another major corporation has integrated its suppliers into its electronic information systems.

Information provided by the thorough assessment of the supplier in the selection process is a valuable tool in determining the long-term potential of a supplier if development programs are instituted and successful. This is a critical factor in the determination of suppliers that are being considered for partnerships.

3.2.4 **Supplier Development**

Firms are using the Pareto principle in their supplier development efforts, targeting the 20 percent of the suppliers who account for 80 percent of the volume purchased. Another group of suppliers targeted for development efforts is minority and woman-owned businesses.

In the past, firms did not play such an active role in the development of suppliers. Supplier development usually involved feedback regarding areas of sub-standard performance with mandates to the supplier to correct the situation by a certain date and document the steps taken during this improvement process. The role of the buyer in supplier development in the commercial sector has changed, taking on a proactive and actively involved role in the process. Companies such as Cincinnati Bell have annual training programs targeted at specific suppliers. Other firms are implementing co-training programs offered to internal employees and members of the supply base. Annual supplier communication programs designed to increase the awareness of the supply base to current company goals and expectations are another vehicle being used to develop suppliers. Members of the supply base in today's competitive environment are being treated the same way as customers. Development is seen as a method of enhancing and maintaining a quality relationship instead of a relationship punitive in nature.

3.2.5 **Feedback**

An innovation in supplier relations is the frequency in which feedback is shared with members of the supply base. Historically, information was provided on an annual or semiannual basis. With the improvements in information technology, feedback can be literally instantaneous but in practice is delivered daily, weekly, or monthly depending on the situation. This information can be used as benchmarking data to evaluate future performance and as a motivational tool.

3.2.6 **Integrated Supplier Practice**

The most aggressive form of supplier partnership is the integrated supplier practice. Under this concept, the supplier assumes almost complete inventory management responsibilities for the customer. In this case, the supplier works in the customer's facility, ordering supplies as needed and replenishing storage locations. Inventory is stored by the supplier in the supplier's warehouse until ordered and delivered in a timely manner. An integrated supplier can also perform quality inspections, maintain data on usage, test the quality of parts, prepare parts kits, establish electronic data interchange links and bar coding, and provide vendor selection management. The savings in inventory costs and supply management personnel are significant.

3.3 Supply Chain Management

Supply chain management is a fully integrated process extending from the supplier's supplier to the customer's customer, and is becoming an increasing focus of purchasing professionals. Supply chain managers search backward throughout the entire supply chain to identify unnecessary or non-productive costs that can be taken out of the system. Supply chain managers work with the entire supply chain to continuously improve quality, service, and delivery time.

For purchasing and materials personnel, supply chain management is practically synonymous with process management. In process management, a process is the transformation of incoming material by activities or operations that add value to it, resulting in products or services used by customers. The input received from a supplier is the supplier's output. The output supplied to a customer is the customer's input. A supply chain is this series of suppliers providing input to customers, who then become suppliers to the next step in the process. This means that the output of any process in the supply chain affects every process and every customer in the supply chain downstream. And this means that improving a process improves every process downstream. This results in cost savings accumulating through the supply chain.

To improve output, identify the elements that add cost without adding value and then change the process to reduce or eliminate them. Elements that add cost without adding value include anything that: (1) does not need to be done to produce the output, (2) causes inefficiency while producing the output, or (3) does not add value to the output from the customer's perspective.

Supply chain management is a strategic function and requires early internal purchasing and external supplier involvement in the purchase. Purchasing is considered to be the business interface with external suppliers and thus must assume the role of supply managers for all classes of goods and services. Purchase teams are necessary in the prequalification and selection of suppliers, but the purchasing organization itself is responsible for developing strong partnering ties with a base of highly qualified suppliers. In these relationships, mutually beneficial linkages must be created with key suppliers in the supply chain in order to control quality, cost, and timely delivery. The supply chain must be monitored constantly for areas of improvement.

3.3.1 **Schools of Thought**

There are four current schools of thought regarding supply chain management.

The chain awareness school recognizes that a chain of functional areas exists and that the chain includes material flows from suppliers through end users.

The linkage-logistics school centers on the actual linkages between the functional areas, not on the areas themselves. Linkages among the functional areas are investigated to determine how the linkages can be exploited for competitive advantage, especially in the areas of logistics and transportation.

The information school emphasizes the flow of information between supply chain members, and considers information to be the backbone of effective supply chain management. To be effective, all chain members must obtain

feedback on how their customers and the end-users perceive their performance.

The integration school attempts to integrate the supply chain areas into a system, defined as a set of processes that strive for the best overall system outcome. The linkage and integration schools are similar, but there is a key difference. The linkage school assumes that the functional areas appear in a sequence that cannot be changed. The integration school believes that the links of the chain are not in any particular order and that alternate chain systems can be explored.

3.3.2 **Supply Chain Management and Partnerships**

Supply chain management is being closely tied to partnerships or other cooperative relationships with supply chain members. Greater emphasis will be placed on relations rather than on transactions. Firms will develop strong relations resulting in a sharing of schedules, sales data, and possibly even key personnel.

3.3.3 **Supply Chain Management and Technology**

Every commercial organization uses technology to support the supply chain model. Most agree that the proper use of technology saves money. Many firms recognize that an essential requirement for better supply chain management is more effective software. Advanced Manufacturing Research of Boston, for example, states that spending on supply chain planning and execution application software will quadruple from \$246 million in 1996 to \$1.7 billion in 2001. What distinguishes today's more advanced supply chain planning software from the outmoded Manufacturing Resources Planning (MRP) software is speed, built-in constraints that provide for more realistic decision-making, and an ability to provide for automated ordering and delivery of products needed for specific supply chain or off-line material repair and operating (MRO) needs.

3.3.4 **Future of Supply Chain Management**

Many of the largest firms in the world are pushing supply chain management: Xerox, Hewlett-Packard, Allied Signal, and Siemens, among others. Many of these firms enjoy above average success in their respective fields. Not all of the success can be attributed to supply chain management, but it has likely played a significant role. Another indicator of the importance of the concept is its prominence in current literature. One prominent author included the concept as the third of 10 key dimensions that define world-class performance. Several others note that supply chain management is becoming a growing area of study and declare that successful supply chain management may be the only way to ensure success in the next decade.

3.3.5 **Model of Supply Chain Management**

The two-step supply chain management model that follows uses a Postal Service national ordering agreement (NAO), Contract Number 104230-89-B-1098, to demonstrate the use of the process. The NAO is used by all Vehicle Maintenance Facilities (VMF) to purchase spare parts for fleet vehicles. Three suppliers are providing parts on an indefinite-quantity basis: General Motors

Corporation; Wheeler Brothers, Inc.; and Mack Motors, Inc. Parts are obtained directly from the supplier by the VMF, and electronic notification is made by the VMF to San Mateo for payment.

Step 1. Create a graphic representation of the supply chain.

Suppliers are shown with a direct link to the various VMFs. The purchasing manager in the Philadelphia Purchasing Center is shown in a dotted line relationship with suppliers and the VMF. The solid links continue from the primary suppliers to their subcontractors or manufacturers, as the case may be, to the commodity suppliers.

Step 2. Examine each link in the graphic representation to determine what innovative procedures might be applied to reduce cost or increase efficiency.

The analysis should include all systems identified in the link, including supply procedures, information systems, billing, and payment. Current literature suggests that this analysis be made through the entire chain to the initial commodity suppliers in the case of manufactured goods. Ideally, the analysis is conducted by the same inter- and intra-organizational teams that were used to create the original contract. Suppliers should be made part of the team.

In the example contract, one of the suppliers, Wheeler Brothers, Inc., took the initiative in proposing that it provide parts in a pilot program to VMFs in a single geographic area on a consignment basis. Wheeler Brothers supplied the computers to the affected VMF to maintain inventory and inventory history. In so doing, Wheeler Brothers created an integrated Postal Service-supplier information network. With the network established, Wheeler Brothers is able to maintain detailed spare parts usage records and resupply the inventory to maintain appropriate supply levels. Wheeler Brothers absorbs the entire cost of the computer system and the cost of transporting and maintaining the parts at the VMF.

Savings to the Postal Service are realized by the almost non-existent inventory costs and, because the parts are not owned by the Postal Service until actually used, the Economic Value Added tax is not applied. Administrative costs are reduced since the parts need not be ordered. Maintenance is improved because mechanics can obtain the necessary parts as needed. Because of the simplicity and convenience built into the system, the use of parts supplied by Wheeler Brothers has increased substantially. Another predictable benefit has resulted. Mack Motors, initially not interested in the investment required to set up a similar system in another area, has agreed to set up a similar system in the Philadelphia Area.

3.4 Prequalification

Prequalification of suppliers is not mandatory in the Postal Service, but purchase teams are encouraged to prequalify suppliers whenever appropriate. Prequalification is a business practice used to enhance competition and contract performance, shorten lead time, and strengthen supplier relations. The effective use of prequalification helps ensure that contracts are awarded to the best suppliers and that the purchasing process as a whole concentrates on meeting the business and competitive objectives of the Postal Service.

Potential candidates for prequalification are evaluated on the basis of the supplier-specific performance factors: past performance and supplier capability. Although all candidates who submit prequalification statements are evaluated by the Postal Service, not all are necessarily placed on prequalification lists. The purchase team has the option of limiting the list to a number of the most qualified suppliers sufficient to ensure adequate competition.

For a specific purchase, competition may be limited to prequalified suppliers if so determined by the purchase team after it considers the business aspects of the purchase and the competitive needs of the Postal Service. Suppliers not previously prequalified may also be considered for the purchase but only after their capability is determined by an evaluation similar to the one that established the original prequalification list. The prequalification process need not be readvertised to place a new, capable supplier on the prequalification list. When competition is limited to the prequalified list, not all suppliers on the list need be solicited — only a number that the purchase team determines sufficient to ensure adequate competition.

Another approach to prequalification is the centralization of the prequalification process. This involves the identification of lead divisions to prequalify suppliers for the entire organization based on mutually agreeable criteria.

3.4.1 **Publicizing for Prequalification**

Opportunities for suppliers to become prequalified must be publicized in accordance with PM 3.5.3. Purchase teams may also use their knowledge of the market to use trade journals, industry publications, or other media to alert suppliers to prequalification opportunities. Similar alternative publicizing efforts should be considered by purchase teams to encourage small, minority, and woman-owned businesses to apply for inclusion on lists of prequalified suppliers.

Purchases competed only among the prequalified suppliers need not be publicized. The purchase team may publicize them if it is in the best interests of the Postal Service, or to promote subcontracting opportunities.

Procedures for reassessing the composition of prequalified lists and for removing suppliers from the list are described in PM 3.5.2.f.

3.4.2 **Evaluation Factors and the Prequalification Process**

In private industry, one of the most interesting trends in prequalification is the degree of rigor and evaluation that is going into the process. Currently, buying organizations are not only interested in a supplier's historical data, they are interested in supplier capabilities and capacity. Evaluation factors once reserved for the selection decision are now being used to screen suppliers prior to further consideration. Capabilities and capacity are growing in importance as the desire for long-term relationships in business are pursued, and purchasing organizations must focus on both present and future needs.

In the Postal Service, the extent of evaluation should be determined by the particular purchase and the business and competitive objectives of the Postal Service. For some purchases, a review and comparison of past performance and supplier capability will be sufficient evaluation; in other cases, complex

proposal-specific evaluation factors may have to be evaluated. The extent of evaluation is determined by the purchase team, and the subject should be addressed during purchase planning.

3.4.3 Certification Programs

Some commercial firms use certification programs to reduce the number of suppliers they use by establishing a pool of preferred suppliers. The certification process varies extensively in the commercial sector but the goals are fairly uniform: higher quality, lower cost, long-term relationships, better response, and streamlining the purchasing process. Simplified programs involve the use of criteria check sheets and an audit conducted by a member of the buying firm. The General Motors Targets for Excellence program involves an extensive pre-evaluation questionnaire filled out by the supplier followed by a multiday, on-site audit by a cross-functional team assessing the supplier's entire business system. In order to continue to do business with General Motors, suppliers are required to pass the audit.

Information gained from these auditing programs is used as a tool for supplier development programs. Areas identified as weaknesses are shared with suppliers, along with the appropriate steps necessary to overcome the shortcomings.

The most innovative use of the certification strategy is the application of the process throughout the supply chain. This involves the trickle down approach to certification starting with the parent company and proceeding through the entire value chain, ultimately to the raw materials suppliers. This methodology recognizes the interdependence of the independent companies in the supply chain. The automotive industry has been a leading agent in implementing this strategy.

The following are areas of interest to firms like General Motors, Honda, Tennant, and Motorola:

- a. Quality systems.
- b. Organizational structure.
- c. Market analysis.
- d. Financial analysis.
- e. Operating systems.
- f. Support capabilities.

3.5 Effective Publicizing of Postal Business Opportunities

The Postal Service is one of America's largest organizations. Effective supplier relations are vital. Postal Service purchasing policies are based on standard business practices, with suppliers chosen on their ability to meet Postal Service needs in a competitive manner. In view of these standard practices, the success of the Postal Service depends on the ability to deliver quality service to customers.

Publicizing is an important part of source identification, but in many cases it should not be the only approach used. Effective publicizing of Postal Service purchasing opportunities helps identify new suppliers and increases opportunities for small, minority, and woman-owned businesses — an important part of the quality team essential to achieving our success. The *Purchasing Manual* requires that contracting officers manage supplier diversity as one of the Postal Service's most important strategic initiatives. Postal Service policy also encourages purchase teams to determine which additional media would be most effective for any given purchase. If the purchase team determines that other purchases (other than those mandated for publicizing by the above policy) offer such opportunities, these opportunities should be announced in whatever media is deemed appropriate.

The following provides suggestions regarding publicizing in mass communication and fostering a more competitive environment for Postal purchasing, prequalification, and subcontracting opportunities.

3.5.1 **Publicizing and Advertising**

3.5.1.a ***Definitions***

Advertisement — any single message prepared for placement in communication media, regardless of the number of placements.

Publicize — the placement of an advertisement in a newspaper, magazine, trade or professional journal, other printed medium, or electronic media.

Electronic media — the broadcasting of an advertisement over radio or television, the Internet, or electronic bulletin boards.

3.5.1.b ***Use***

Opportunities to do business with the Postal Service should be advertised when doing so would enhance competition, identify new sources, and improve the quality of the supplier base. Advertising through mass media often proves a cost-effective means of increasing competition. Two of the most effective ways of enhancing competition are to (1) advertise in media central to a particular supplier community and (2) in terms of supplier diversity, distribute a periodical publication to entrepreneurs or membership lists of organizations such as minority chambers of commerce. Consultation with local supplier diversity coordinators will further these efforts.

3.5.1.c ***Suggested Media***

3.5.1.c.1 ***Print, Radio, and Television***

These media include newspapers, magazines, advertisement trade associations, commercial procurement listing services, trade journals, or other printed media, and radio or television broadcasts.

When deciding on a source (local newspaper with national circulation or a radio show broadcast locally or nationally) or a combination of sources (national newspaper and radio) in which to publicize a purchase requirement, consider which reaches the largest audience among suppliers. Is the broadcast range of the local radio station comparable to that of a nationally distributed newspaper with regional or local advertising? While the major local newspapers in a community may be the most commonly used media, varying

purchases will dictate varying advertising sources and posting periods. Also consider whether a general circulation newspaper has national circulation.

If justified in terms of cost and potential return, publications such as *USA Today*, *The Wall Street Journal*, and other nationally known media should be considered for their potential to reach a wide range of readership and markets, national and worldwide circulation, and established regular distribution schedules. National media may be particularly appropriate for publicizing mail transportation requirements such as air, rail, water, and highway transportation; or large vehicle purchases or leases.

Determine whether the classifieds of national publications are national, regional, or local. The breakdown of circulation and distribution not only makes a difference in the advertising rates, but may also have an impact on the effectiveness of the responses. For example, a newspaper claiming national circulation may only mean that its news sections are national; the classifieds may be strictly regional or local. Verify that the advertisement will reach the broadest possible audience for your requirement. If a requirement involves an area supporting many broad-based newspapers, it may be advantageous to purchase advertising space in competing newspapers.

For construction requirements, check to see whether the construction industry in the community advertises to its membership notices of up-coming business opportunities. If so, try to get notices published there as well. There may not be a charge for this service.

Consider advertising systems-type contracts, such as office supplies or material handling equipment, in national media such as trade association publications and other trade magazines.

Advertisements are expensive regardless of the media. Always seek to negotiate to include notices for free as a public service or at least a reduced rate.

3.5.1.c.2 *Electronic Media*

When electronic bulletin boards are available, electronic posting of requirements in a place accessible by the general public is an excellent means of advertising Postal Service purchase opportunities.

As purchasing professionals and the purchasing and supplier communities become more effective in using the Internet, consider using it as a relatively inexpensive — and increasingly effective — medium for advertising business opportunities to a national audience. Developing a strong presence on the Internet can be very beneficial to your supplier database. Based on responses to a telephone and e-mail inquiry about publicizing methods, both Postal Service purchasing personnel and other government agencies confirmed that the Internet is far more cost effective than other advertising sources, including the CBD hard copy. With the Internet, business opportunities can be inexpensively broadcast to millions of people as well as provide potential small, minority, and woman-owned businesses with valuable information on how to do business with the Postal Service.

CBDNet is the online listing of government contracting opportunities published in the CBD. The Postal Service Internet home page is a very viable and inexpensive source of advertising to a broad and diverse supplier audience. Purchase teams should strongly consider their organizations' Internet home

page(s) as an advertising source. Other federal agencies are using their own home pages to supplement their CBD publicizing.

Purchasing and Material's Business Opportunities Bulletin (BOB) is in the final stages of development. BOB supplements CBD publicizing, and, when deployed, it will allow purchasing specialists to input solicitation information (including solicitation packages) that will be accessible from the Postal Service external web site. Suppliers will be able to access and download solicitation packages for local printing. This reduces administrative costs of distributing solicitations as well as the cost of advertising on other Internet web pages. Also in the development stage is the Supplier Automated Database on the Internet (SADI), which will replace the National Suppliers List. SADI will allow suppliers to access the program to update their own business information.

SADI is accessed at:

www.blue.purchasing.gov/sadi

BOB is accessed at:

www.blue.purchasing.gov/bob

E-mail is another quick and efficient means of communicating business opportunities, and is becoming a primary method of notification for government and private sector purchasing activities. Electronic data interchange (EDI), the computer to computer exchange of business information in a standard format is also an effective means of business communication. By the end of the decade, 80 percent of all U.S. companies will be exchanging documents through EDI. What this means to businesses is that Internet access and a business web presence are becoming essential.

3.5.1.d ***Purpose and Effectiveness***

Obtaining the best value is the bottom line of every Postal Service purchase, and the basis of award of Postal Service contracts. The Postal Service requires strong and reliable suppliers who are capable of providing high quality, on time delivery, and best value. Publicizing to a wider audience of potential suppliers enhances the opportunities for obtaining best value from suppliers. Also, it contributes to the success of the Postal Service's supplier diversity initiative.

Publicizing is a means of enhancing competition. It promotes more opportunity for suppliers to compete for our business. Purchasing organizations are encouraged to publicize business opportunities as deemed appropriate. Publicizing in multiple and different advertising sources not only improves the quality of the supplier base, it also increases the Postal Service's opportunity to partner with quality suppliers.

4 Purchasing

4.1 Oral Presentations.....	4-3
4.1.1 Factors to Consider.....	4-3
4.1.2 Presentation Guidelines.....	4-3
4.1.2.a <i>Topics</i>	4-3
4.1.2.b <i>Simplicity</i>	4-4
4.1.2.c <i>Evaluation Aids</i>	4-4
4.1.2.d <i>Presentation Format</i>	4-4
4.1.2.e <i>Participation</i>	4-4
4.1.2.f <i>The Process</i>	4-5
4.1.2.g <i>Nonincorporation of Oral Statements</i>	4-5
4.2 Performance Evaluation.....	4-5
4.2.1 General.....	4-5
4.2.2 Evaluating a Proposal's Price or Cost Aspects.....	4-6
4.2.3 Evaluating a Proposal's Technical Aspects.....	4-6
4.2.4 The Process.....	4-6
4.2.4.a <i>General</i>	4-6
4.2.4.b <i>Evaluation Package</i>	4-6
4.2.4.c <i>Steps</i>	4-6
4.2.4.d <i>Proposal Evaluation Documentation and Report</i>	4-8
4.3 Discussions.....	4-8
4.3.1 General.....	4-8
4.3.2 Award Without Discussions.....	4-9
4.3.3 Preparing for Discussions.....	4-9
4.3.4 Formats and Methods.....	4-9
4.3.4.a <i>Formats</i>	4-9
4.3.4.b <i>Guidelines on Various Formats</i>	4-10
4.3.5 Conducting Discussions.....	4-10
4.4 Best Value Determinations.....	4-11
4.4.1 Best Value Analysis.....	4-11
4.4.2 Best Value Tradeoffs.....	4-11
4.4.3 Explanation of Proposal Features.....	4-12

General Purchasing Concepts and Practices

4.4.4 Comparing Proposal Features and Price..... 4-12

4.4.5 Justifying the Selection 4-12

4.5 Handling Past Performance Information 4-12

4.5.1 Gathering Information 4-12

 4.5.1.a *Postal Service Sources* 4-12

 4.5.1.b *Supplier Performance Records* 4-13

 4.5.1.c *Supplier Relations*..... 4-13

 4.5.1.d *References*..... 4-13

 4.5.1.e *Other Sources* 4-13

4.5.2 Analysis and Evaluation 4-13

 4.5.2.a *Analysis*..... 4-13

 4.5.2.b *Evaluation*..... 4-14

4.5.3 Disclosure 4-14

 4.5.3.a *General*..... 4-14

 4.5.3.b *Supplier Requests*..... 4-14

 4.5.3.c *Debriefings*..... 4-14

4 Purchasing

This chapter explores several tasks performed when purchasing Postal Service requirements. The tasks include preparing for and conducting oral presentations, evaluating the price or cost and technical aspects of a proposal, conducting discussions, determining best value, and collecting and analyzing past performance information.

4.1 Oral Presentations

4.1.1 Factors to Consider

The purchase team must decide whether only traditional written proposals will be allowable, or whether oral presentations would benefit the Postal Service. Oral presentations reduce the time required for the supplier's preparation of proposals and the Postal Service's evaluation of them, and facilitate discussions.

Oral presentations are subject to certain considerations and limitations that must be conveyed to potential suppliers as part of the solicitation, for example:

- a. Establish a time limit. Generally, a presentation should not exceed three hours. Two hours constitutes an ideal time limit.
- b. Determine whether a question and answer period or other discussions will follow the presentation, and whether proposal revisions will be allowable.
- c. Establish the required presentation media.
- d. Identify the kinds of people who should compose the supplier's presentation team — proposed program manager, key personnel, key subcontractors, and senior management.

Consider instructing suppliers to submit their oral presentation materials at the time offers are due. It will allow the contracting officer to determine whether the solicitation's instructions regarding the oral presentation have been understood. In addition, submission of presentation materials with offers will prevent some suppliers from having more time than others have for preparing their presentations.

4.1.2 Presentation Guidelines

4.1.2.a Topics

The solicitation should advise suppliers what topics to address in their oral presentations. The topics should be consistent with the evaluation factors listed in the solicitation. The supplier must know what information should be

submitted in writing and what information it must provide orally. Instructions to suppliers in this regard must be clearly written and unambiguous, enabling them to understand fully what material they should submit, the medium for submitting it, and when they must submit it.

When requesting specific information from suppliers, consideration should be given to the following:

- a. The ability of the Postal Service to evaluate the information adequately.
- b. The need to incorporate any information into the resulting contract.
- c. The impact on small, minority, and woman-owned firms.

4.1.2.b ***Simplicity***

An elaborate presentation is not desired. Content is more important than presentation.

4.1.2.c ***Evaluation Aids***

A checklist for evaluators helps to facilitate evaluation of presentations. The checklist should list the topics that the suppliers were advised to address in their presentations, keyed to the specific evaluation factors described in the solicitation. This provides a method for evaluators to assure themselves that the supplier has covered those topics, and to indicate whether the coverage was adequate or inadequate. Evaluators' notes of a supplier can be used to supplement the checklist. The notes can be used to record errors of fact, errors of reasoning, useful insights and effective arguments, identification and assessment of risks, and possible effective solutions. The notes can assist in forming Postal Service questions for the question-and-answer session, and they can contribute to the evaluation team's scoring.

The evaluation team may decide in advance of the presentations that standard questions should be considered by all the team members. In this event, a questionnaire, also keyed to the specific evaluation factors, will assist in scoring and in consensus discussions.

4.1.2.d ***Presentation Format***

A format for the presentation must be developed. The presentation may be in the form of a conference table briefing, an interview that employs only questions and answers, a sample problem simulation for the supplier to resolve, or some combination of these or other formats.

4.1.2.e ***Participation***

Only individuals directly involved in the purchase should participate in the oral presentation. Outside observers should not be allowed to attend the presentations; however, other purchasing personnel may attend for training purposes at the option of the contracting officer. It is recommended that an official recorder be present to provide a record of all presentation activities. The recorder's report may be in addition to a videotape of the proceedings, if made. Postal Service personnel participating in the oral presentation are prohibited from disclosing a supplier's proposal materials or any other source selection information to any unauthorized source. And, during the oral presentations, members of the purchase and/or evaluation teams must ensure

that a proper business-like atmosphere is maintained, and that all suppliers are treated fairly and objectively.

4.1.2.f *The Process*

The contracting officer should open each presentation, distribute material (notepaper, questionnaires) to the evaluation team, and announce the ground rules. The supplier may elect to allow questions during the presentation, provided there is sufficient time to complete the presentation, or a question and answer period can be scheduled to follow the presentation. In such cases, and if they have not been prepared beforehand, the evaluation team should recess to prepare questions for this session.

When the supplier begins the presentation, the recorder and the videotape, if any, begin to report the proceedings. A designated member of the Postal Service team will start the official clock. The supplier must conclude the presentation by the end of the designated time, whether or not the presentation is complete.

If suppliers have been asked to provide written materials in connection with their presentations, arrangements may be made for their submission prior to the presentation so that members of the evaluation team may evaluate the written materials. Such materials, when required, should be requested as early as possible in the evaluation process. All presentation materials, including the videotape, if used, are collected and stored in a protected area. The chairman of the evaluation team then completes an evaluation memorandum reporting the team's findings and making a recommendation to the purchase team.

A record of oral presentations must be maintained to document what the Postal Service relied upon in making its best value decision. The method and level of documentation detail (videotapes, reporters' records, copies of supplier's slides or other presentation materials, Postal Service notes, checklists, or questionnaires) depends on the purchase, and is determined by the purchase team.

4.1.2.g *Nonincorporation of Oral Statements*

When an oral presentation includes information that the parties intend to include in the resulting contract as material terms or conditions, that information must be put in writing, since oral statements cannot be incorporated by reference.

4.2 Performance Evaluation

4.2.1 **General**

Performance evaluation is an essential step in determining which supplier is offering the best value to the Postal Service. Depending on the particular purchase and the supplier selection strategy, performance evaluation is performed by the evaluation team, a price evaluation team, and the purchase team. See 2.5.1 for a discussion regarding performance evaluation.

4.2.2 **Evaluating a Proposal's Price or Cost Aspects**

If determined necessary by the purchase team, a separate team may be established to evaluate cost or price. The purchase team must maintain an active role in this evaluation task, relying on purchase team members such as purchasing specialists, price analysts, and auditors as necessary to perform individual tasks and make preliminary judgments on the adequacy of the proposal's pricing or cost aspects. Guidance is provided in the PM and in the relevant commodity-specific handbook.

4.2.3 **Evaluating a Proposal's Technical Aspects**

Unless a product or service does not have any technical complexity, selected members of the purchase team will comprise an evaluation team to perform the technical evaluation. The team should have the expertise to make technical judgments on the adequacy and relative value of the proposals as submitted.

4.2.4 **The Process**

4.2.4.a ***General***

Proposal evaluation is a two-step process consisting of:

- a. Evaluation of individual proposals in relation to the solicitation's stated proposal evaluation factors.
- b. Comparative evaluation of the individual proposals in relation to each other in order to judge each proposal's relative value.

4.2.4.b ***Evaluation Package***

To organize the evaluation process and produce the required documentation, the evaluation team should be provided with a Proposal Evaluation Package. The package should include the following:

- a. Personal confidentiality agreement.
- b. Reminder on preaward information security.
- c. Proposal evaluation instructions (these should reflect Section M of the relevant solicitation).
- d. Evaluation score summary sheets.
- e. Consensus score summary for all proposals.

4.2.4.c ***Steps***

The following major steps occur during the proposal evaluation process:

- a. Upon receipt of proposals, the evaluation team chairperson should brief the evaluation team members. The briefing agenda should address:
 - (1) The number of proposals received.
 - (2) Evaluation ground rules.
 - (3) Schedule of evaluation events.

- (4) Evaluation procedures, including documentation requirements.
 - (5) Key solicitation terms and conditions, and key specification contents.
 - (6) Evaluation factors.
 - (7) Proposal format.
 - (8) Security.
 - (9) Confidentiality agreements.
- b. Team members should scan each proposal to get a feel for organization, content, and style. This will facilitate detailed reading.
 - c. Evaluate individual proposals in relation to performance evaluation factors. Team members read each proposal carefully, using the evaluation factors contained in the proposal evaluation package. They then analyze each individual proposal's strengths, weaknesses, and risks as they relate to each evaluation factor. A strength is a proposed element that is superior because it offers an exceptional approach to meet the requirements. A weakness is an element that fails to offer an adequate solution or response. Risk is the degree to which an element places successful contract performance in jeopardy. Purchase and evaluation teams must remember that risk can be used as a proposal-specific factor, and that doing so is different from this sort of evaluation.
 - d. Each evaluator should carefully document where a proposal either meets or exceeds a solicitation requirement (strength) or fails to meet a requirement (weakness), and then note why. Because there may be many ways that a particular need may be met, it is often advantageous to encourage flexibility in supplier's responses to Postal Service requirements. Purchase teams should remember that requirements should not be overstated and that establishing mandatory requirements that must be met to establish technical acceptability may disqualify innovative or otherwise attractive alternative approaches. Team members should also note mistakes and ambiguities, or the need for clarification during discussions with the supplier. All documentation should be organized and referenced by proposal part (volume, chapter, section, page number, and so forth). Upon finishing the relevant proposal segment, the evaluator should write a description of any strong points or weaknesses noted.
 - e. Compare the relative value offered by each proposal in relation to its competitors. This comparison of proposals is very important and must describe the differences between proposals and assess the value of the differences or their impact on the Postal Service.
 - f. Upon completing the descriptions for each relevant proposal segment, the evaluator should summarize the strengths and weaknesses of the proposal as a whole and in comparison with other proposals. Then the evaluator should analyze the risks associated with the proposal, taking into account the relative importance of the subject matter and the evaluation factors to which the weaknesses relate. Finally, to complete the evaluation of the individual proposal, the evaluator should review the scoring guidance and assign the proposal a score.
 - g. The evaluation team meets to form a consensus about the proposals. After all individual evaluations are complete, the evaluation team chairperson should lead a discussion of each proposal. A congenial, open

atmosphere is important. The chairperson must try not to suppress dissenting opinions and must avoid prejudicial behavior. The goal of the meeting is to reach an evaluation team consensus, a team position, on the merits and defects of each proposal relative to the evaluation factors. Consensus means general agreement, not complete agreement on all points. Team members must be aware of the need to reach reasonable compromises, since complete agreement on all points under consideration is highly unlikely.

4.2.4.d ***Proposal Evaluation Documentation and Report***

The evaluation team must reach a consensus on the weaknesses, strengths, risks, and score for each supplier. If there are unresolvable differences, the chairperson makes the decision. There should be no dissenting reports. For each report, there must be a separate document prepared for each supplier and signed by the evaluation team chairperson. The purchase team must be provided all summary documentation and any other documentation as needed. Documentation addressing the following elements of each proposal is generally necessary:

- a. Strong point and weakness summary that presents the consensus on strengths and weaknesses.
- b. Risk assessment that presents the consensus on the risk associated with the supplier when risk is not used as a separate proposal-specific factor.
- c. Evaluation score summary that presents the evaluation team's consensus on the score to be assigned the supplier.

If a price evaluation team has been established, that team should provide the purchase team with a report containing the findings of the price/cost evaluation team, presenting a comparative matrix of the price/cost proposals and including the Price Analysis Reports for each supplier as appendices.

4.3 **Discussions**

4.3.1 **General**

The term discussions applies to all communications with one or more suppliers during the purchasing process, including, if necessary, negotiation of each element of a prospective contract. With some purchases, discussions resolve uncertainties and suspected or known mistakes in a proposal. In other purchases, because of the complexity of the program or the scarcity of competition, discussions may be used to achieve mutual agreement on the detailed contract terms and conditions and price. When necessary, discussions are used to enhance the purchasing process by ensuring that a particular supplier fully understands the Postal Service's requirements and that the Postal Service fully understands the supplier's approach to contract performance; both are necessary to determine which supplier can provide the best value.

During discussions, the Postal Service can ask the meaning of unclear passages, note the answers given, and better understand the suppliers approach. Discussions also give the Postal Service the opportunity to identify and evaluate alternative approaches to meeting performance requirements.

Discussions may be needed in virtually any preaward situation when discrepancies between offers and the solicitation or specifications indicate ambiguity in the solicitation.

4.3.2 **Award Without Discussions**

The Postal Service reserves the right to make an award without discussions in any case in which the solicitation includes Provision A-9, *Award Without Discussions*. Such an award should occur only when the purchase team determines that discussions would not enhance the purchase process. It is often a better strategy to engage the supplier and try to learn something from the discussions that could be used to obtain a better deal. Given the economic leverage of the Postal Service's buying power, there is much to be gained by discussing topics such as the supplier's quality, customer support, warranty procedures, upgrades, and of course price, before award.

4.3.3 **Preparing for Discussions**

Prepare for discussions by:

- a. Understanding the requirement.
- b. Identifying facts in dispute.
- c. Developing a prediscussion outline of what is to be discussed.
- d. Establishing a schedule.
- e. Determining the composition of the Postal Service team.

Discussion plans should maximize the exchange of information so as to improve the Postal Service's understanding of the proposal and to reach agreement with the supplier on what the contract will entail.

An agenda of discussion items should be prepared and provided to suppliers so they will have enough time to prepare adequately. The agenda should include a complete description of each proposal weakness. Before each discussion session, all Postal Service participants should review the agenda and the discussion ground rules. Careful preparation is essential.

4.3.4 **Formats and Methods**

4.3.4.a ***Formats***

Discussions may be conducted in any of the following ways:

- a. In person at the Postal Service or the supplier's facility.
- b. By teleconference.
- c. In writing, through letters posing specific questions to the suppliers and inviting written replies.
- d. Through e-mail communications via the Internet.

4.3.4.b ***Guidelines on Various Formats***

Discussions conducted in person or by teleconference should take place in a cordial, businesslike environment. The purpose of the discussions should be stated at the outset, along with the specific points to be covered. Set aside whatever time is necessary to discuss weaknesses, resolve uncertainties, and resolve mistakes. Discussion time need not be the same for all suppliers. Postal Services attendees should be limited to:

- a. The contracting officer, or the contracting officer's representative, who will conduct the meeting.
- b. The technical evaluation team chairperson, who is responsible for explaining weaknesses and responding to questions.
- c. Other purchase team members needed to assist in the discussions or answer questions.

Discussions may be conducted by exchange of letters. However, this process can be cumbersome and time-consuming and does not allow for any interchange. Use it only when what is at issue is relatively cut-and-dried. Face-to-face discussions are generally best, supplemented by written materials, such as the discussion agenda. If written discussions are used, the contracting officer must sign all communications sent to the suppliers.

E-mail via the Internet offers a new means of communicating questions and obtaining responses from suppliers. However, the need to wait for a response limits e-mail use to cases in which hours can pass between messages without jeopardizing the proposal evaluation schedule.

4.3.5 **Conducting Discussions**

Discussions should be used to reach tentative agreement on all elements of the contract. The purpose of this agreement is to ensure that both the supplier and the Postal Service understand the terms and conditions, and that any interpretations of the specification accord with the Postal Service's best interest. As a result of discussions, it may be necessary after final evaluation to have further discussions to eliminate any remaining weaknesses or price-reasonableness uncertainties. However, changes cannot be made at this stage that would affect the basis for supplier selection.

Suppliers may not be told how to correct weaknesses. However, they may be told specifically what the requirements are and what is necessary and desirable to fulfill them. The source selection process is a competition; all suppliers must be treated fairly and objectively. Therefore, purchase teams may not (1) coach a supplier to help it bring its proposal up to the level of competing suppliers' proposals, and (2) give a supplier information from another proposal. In addition, auctioning may not be engaged in. For example, you cannot tell a supplier that a competitor's price is lower than its price. Let the marketplace and competitive pressure run its course. However, suppliers should be told if their pricing is high and why it is considered so.

Answer questions aimed at helping a supplier understand why its proposal is deficient, and those aimed at finding out what the supplier can do to correct it. When suppliers are responding to performance or functional specifications, all may be offering slightly different designs or solutions to your requirement. In such cases, you may tell suppliers what to address in their individual proposals to make their offers more desirable. With open dialogue in this

situation, the Postal Service and the supplier may collectively create the best solution.

Under no circumstances should suppliers be told of their relative standing or how their proposals compare with others. Similarly, the competitive environment may not be compromised by giving a supplier the idea that it will win if it makes certain concessions or changes. And, to further ensure the integrity of the purchasing process, bring suspected mistakes to a supplier's attention, but without disclosing information about other suppliers' proposals.

4.4 Best Value Determinations

4.4.1 **Best Value Analysis**

Best value analysis provides the discretion to exercise business judgment and purchasing professionalism. Purchase teams must always concentrate on selecting the offer that is most advantageous to, and furthers the business and competitive objectives of, the Postal Service. The selection decision may not be obvious. Technical and other quality-related benefits must be weighed against price advantages in deciding which offer affords the best overall value.

4.4.2 **Best Value Tradeoffs**

At the heart of the best value decision is the tradeoff between price and technical merit among the competing proposals. While this can often be a difficult decision, purchase teams must be able to explain the logic and rationale behind it in a manner that will stand up to scrutiny. Although each decision will have its own unique logic, several general guidelines regarding the analysis and explanation of a best value decision are usually applicable. See Chapter 2 for a discussion of scoring systems.

This decision and trade-off phase begins once evaluations have been completed and documented. The elements of each proposal (strengths, weaknesses, and risk when it is not used as a separate proposal-specific factor) should be listed, and evaluators should also have delineated any discriminators — valuable aspects of a proposal that positively differentiate it from those of competitors. The key thing about discriminators is the value the Postal Service can reasonably assign to them.

The tradeoff decision process must always be conducted in a manner consistent with the supplier selection strategy and performance evaluation factors. The evaluation factors will always include two parts: (1) their description and (2) their relative importance to each other and to price.

Assuming that there are more than two proposals to evaluate, begin by eliminating those that clearly do not offer the best value. For example, the proposals offering the highest price or the lowest technical score might be eliminated; however, when taking such actions, purchase teams must document the reasons for taking this action and provide a narrative showing the logic and business judgment behind them. Using this technique, the best value decision can be reduced to the consideration of a few proposals.

Particular care must be taken when offers are essentially equivalent. In such cases, price may be the deciding factor, even though the supplier selection strategy stated that other factors were more important.

4.4.3 **Explanation of Proposal Features**

A solid explanation should describe the features of the superior proposal that have earned it a high technical score. It is important to describe why those features are important to the Postal Service. Remember that the strengths and weaknesses of all proposals (including lower-ranked proposals) must also be described. That description should explain how the features of those proposals either benefit or harm the Postal Service.

4.4.4 **Comparing Proposal Features and Price**

After describing the strengths of all proposals, the strengths must be compared. First, compare the superior technical proposal to its nearest challengers and determine whether the technical differences or discriminators are significant. If so, compare the prices and determine whether the technical advantage is worth the price differential. This technical/price differential must be made in accordance with the evaluation factors. Therefore, if technical superiority is more important than price, the purchase team can decide that even small technical advantages are worth paying a higher price. Significant technical advantages in one proposal may often justify contract award, even though the proposal is higher priced. Again, purchase teams must document those features of the proposal that are different and valuable, and explain just how they benefit the Postal Service.

4.4.5 **Justifying the Selection**

In many cases, the advantages of the superior proposal are not quantifiable. It is not necessary to prove that a higher priced proposal determined to offer the best value will save more money than a proposal with a lower price; however, purchase teams still should attempt to quantify the expected advantages of the superior proposal. The form and length of the justification will depend on the particular purchase.

4.5 **Handling Past Performance Information**

4.5.1 **Gathering Information**

Past performance and supplier capability information may be gathered from three general sources: (1) reviews of previous contracts the supplier has had with the Postal Service; (2) the references provided by the supplier; and (3) other sources available to the purchase team, including business reference services, online data bases, and the like. While the supplier being evaluated may be expected to provide some of the information, purchase teams should use their market knowledge to investigate Postal Service and other sources as necessary.

4.5.1.a ***Postal Service Sources***

Information regarding a supplier's past performance on Postal Service contracts can demonstrate a particular supplier's understanding of the scope and complexity of Postal Service requirements — an important element in successful future contract performance — and can also provide an easily accessible information source as to the supplier's customer satisfaction

efforts. However, depending on the particular purchase, purchase teams should not limit their information sources solely to those of the Postal Service.

4.5.1.b ***Supplier Performance Records***

So that postal-generated information is readily available for future reference, upon the completion of any contract valued at or above \$100,000, purchase teams should enter the information required by the Contractor Performance System (CPS) (see 2.3.5.b.4).

4.5.1.c ***Supplier Relations***

A supplier should not become aware of the Postal Service's unhappiness with its performance only when it is denied a subsequent contract. Purchase teams should maintain open and effective communications with the supplier throughout the purchasing process. The Postal Service's policy of working in partnership with our suppliers (see PM 3.1) requires that the supplier be promptly made aware of the weaknesses identified in its performance so that it may both understand the basis for the Postal Service's concerns and improve or correct its performance.

4.5.1.d ***References***

For commercial purchases, see PM Provision 4-1, *Instructions to Offerors — Commercial Items*, which lists specific past performance information, including references, required of the supplier. Other solicitations should require suppliers to identify a reasonable number of organizations for which they have performed similar work. When appropriate, information may be requested on specific types of references, such as most recently performed, similar size and complexity, comparable dollar amount, and the like. At least two contacts (name and telephone number) should be requested for each reference provided. Additionally, if the purchase team knows of other organizations for which the supplier has performed, it should seek similar information from them. Also see 4.5.1.e.

4.5.1.e ***Other Sources***

Purchase teams may investigate other sources for past performance or capability information whenever deemed necessary or appropriate. See PM 2.1.7.c.3(c). Other sources may include information services such as Dun and Bradstreet's Supplier Evaluation Report, and quality supplier programs such as the Postal Service's, the Baldrige Award, or the President's Quality Award. Purchase teams may also contact other federal agencies and private sector companies for their thoughts regarding a supplier's performance.

4.5.2 **Analysis and Evaluation**

4.5.2.a ***Analysis***

Like all other aspects of a proposal, past performance information must be carefully analyzed. Particular care should be given to information that is either particularly positive or particularly derogatory. References provided by the supplier are usually business partners with which the supplier feels it has had the most successful relationships, and may not reflect the supplier's overall performance. Derogatory references may provide an equally unbalanced overview of that performance. In all cases, purchase teams must carefully

weigh the sources of the information, and contracting officers must ensure that all suppliers are treated fairly.

4.5.2.b ***Evaluation***

Performance evaluation is addressed in PM 4.2.5. If there are doubts as to the accuracy or veracity of a supplier's past performance information, and the other aspects of the supplier's proposal contain enough relative value to merit discussions, the doubts should be raised and addressed during discussions. If derogatory past performance information is the sole or a principle basis for the purchase team's decision not to consider the supplier for award, the supplier should be given an opportunity to address the information during discussions. Purchase teams must weigh decisions regarding past performance or supplier capability carefully, and, again, contracting officers must ensure that all suppliers are treated fairly.

4.5.3 **Disclosure**

4.5.3.a ***General***

Past performance information is confidential business information and must be treated as such throughout the purchasing process. This information may not be given to individuals not involved in the purchase. Such information may be exempt from disclosure to parties not involved in the purchase, if requested under the Freedom of Information Act. Contracting officers should consult assigned counsel before agreeing to a Freedom of Information Act request for such information.

4.5.3.b ***Supplier Requests***

A supplier may request and receive the source of the information the purchase team has regarding the supplier's past performance and capability (as when it seeks the information provided by its references). Because disclosure is consistent with the partnership concept, sources of such information must be advised by the purchase team that the information they provide and its source may be disclosed to the supplier, and should include the source's agreement to such disclosure with the documented information. If a source does not agree to such disclosure, the purchase team may discuss the information only in general terms and may not reveal its source. This will allow the Postal Service to maintain access to all relevant information sources.

4.5.3.c ***Debriefings***

Past performance and capability information should be discussed during debriefings consistent with the above guidelines.

5 Contract Pricing

5.1 Price Analysis	5-3
5.1.1 Introduction to Price Analysis.....	5-3
5.1.2 Responsibilities for Ensuring a Fair and Reasonable Price	5-3
5.1.3 Price Analysis Techniques	5-4
5.1.4 A Process for Determining Use of Price Analysis	5-4
5.2 Life Cycle Costing.....	5-5
5.2.1 Life Cycle Costing Defined.....	5-5
5.2.2 Life Cycle Costing for Capital Equipment	5-5
5.2.3 A Simple Life Cycle Costing Method.....	5-6

Exhibits

Exhibit 5.1.4.a Supply Management Strategy	5-7
Exhibit 5.1.4.b Classifying Suppliers/Purchases for Cost/Price Analysis.....	5-8
Exhibit 5.1.4.c Selecting Appropriate Cost/Price Analysis Techniques	5-9

5 Contract Pricing

The chapter contains information related to price analysis and life cycle costing.

5.1 Price Analysis

5.1.1 Introduction to Price Analysis

Some form of price analysis is required for every purchase. Methods of price analysis vary by the dollar amount and circumstances surrounding each specific purchase.

In price analysis, prices are compared and evaluated using various sources of information. The objective of price analysis is to ensure the best price and best value for a given purchase. Price analysis assesses whether a supplier's price is fair and reasonable given the market conditions. The price a supplier takes to the market is based on the sales strategy of what the market will bear.

5.1.2 Responsibilities for Ensuring a Fair and Reasonable Price

The purchase team is responsible for ensuring that contract prices are fair and reasonable. This determination is made by:

- a. Evaluating proposed prices using the methods of price analysis or cost analysis described in PM 5.1, Price Evaluation.
- b. Pricing each contract separately and independently, and not considering proposed price reductions, profits, or losses under other contracts.
- c. Excluding amounts for specified contingencies in contracts if they provide for price adjustments based on the contingency.

The contracting officer serves as the pricing expert on the purchase team. Contracting officers need to understand the basis for a price before accepting it. In particular, prices that have substantially increased compared to previous purchases must be questioned. Keep in mind that many catalog prices include services normally provided to commercial customers that the Postal Service may not need, such as inventory control and overnight delivery. An analysis of prices must also address any differences in quantities.

Commercial prices, including catalog prices, are always a basis for negotiation. Contracting officers must carefully examine these prices and

determine how the supplier developed them. Contracting officers should request information to the extent necessary to determine a fair and reasonable price. This information can include sales invoices, discount policies (including quantity discounts), and information related to sales made at other than catalog prices. This information along with market research should provide the contracting officer with sufficient data to negotiate a fair and reasonable price.

5.1.3 **Price Analysis Techniques**

A variety of price analysis techniques can be used for price comparisons depending on the nature of the product or service and the buying organization. Price analysis techniques and information sources include the following:

- a. Obtaining and comparing competitive offers.
- b. Comparing prices in price lists/catalogs.
- c. Comparing existing market prices for standard or commodity items.
- d. Comparing a price to historical prices paid for the item.
- e. Using price indexes.
- f. Comparing a price to prices of similar items purchased.

It is difficult to characterize any of the price analysis techniques as truly innovative. The innovation does not involve the techniques themselves, but the method in which the techniques are used. Due to information technology, the level of research expected by employers and the degree of price modeling and simulation analysis required to make the best price and best value determination has grown tremendously. Buyers are expected to understand and use information sources such as those listed above in evaluating their buying decisions. The level of financial sophistication required of purchasing personnel has grown, usually without the appropriate training or hiring policies to support these expectations.

5.1.4 **A Process for Determining the Use of Price Analysis**

Commercial sector innovation in the area of price analysis includes the process of determining when to use price analysis and the different tools used in implementing the technique. The three-step process is described below. (The process is based on work of Lisa M. Ellram, Ph.D., C.P.M., Associate Professor of Supply Chain Management, Arizona State University.)

- a. The buying organization classifies the buying situation using the strategic sourcing grid (See Exhibit 5.1.4.a). The classification criteria include the importance of the purchase (low or high) and the complexity of the supply market (low or high). This step in the process facilitates the identification of the appropriate purchasing strategy given the nature of the buying situation. The grid identifies the type of buyer-supplier relationship that should be pursued to support the purchasing, operations, and business strategy.
- b. The buying situation information determined during step 1 is input into the supplier cost/price analysis grid (See Exhibit 5.1.4.b). This grid serves to

identify the linkage between the desired relationship and the generic price/cost analysis techniques to employ. The classification criteria include the nature of the buy (one-time or on-going) and the type of relationship sought with the supplier (arms-length or partnership). This grid results in four classifications: leverage, strategic, low impact, and critical projects.

- c. The buying organization classifies the purchase using the cost/price analysis technique grid (See Exhibit 5.1.4.c) to determine which technique(s) is the most appropriate. The classification criteria look at the nature of the buy (on-going/major impact or one-time/limited impact) and the type of buyer-supplier relationship sought (arms length or partnership). Once this determination has been made, the appropriate price/cost analysis techniques are determined by the grid.

The benefits to the process described above include:

- a. A linkage between the evaluation tools and techniques back to the purchasing, operations, and business strategy,
- b. A formal method of analyzing and communicating within the organization,
- c. An appropriate resource utilization.

5.2 Life Cycle Costing

5.2.1 **Life Cycle Costing Defined**

Life cycle costing seeks to determine all of the follow-on costs that accompany a purchase. The life cycle of a product spans the time from the purchase of the product until the product is salvaged. Life cycle costing identifies the total cost of ownership and should be used as the foundation for price analysis in all appropriate contracts. As a concept, life cycle costing should be considered as an important part of the best value analysis and when it is used to evaluate price or cost, the solicitation must contain language alerting suppliers that this will be so.

5.2.2 **Life Cycle Costing for Capital Equipment**

Commercial and government buying organizations are increasing their use of life cycle costing. An example of the life cycle costing procedure for an item of capital equipment is summarized below (from Dobler and Burt, *Purchasing and Supply Management*, McGraw-Hill, Inc., New York, 1996, chap. 18, page 392)

- a. Determine the operating cycle for the equipment — types of operation, routine maintenance, overhaul, sequence, and so on, detailing how the machine functions or what will be done in each step of the cycle.
- b. Identify and quantify the factors that effect costs — power consumption and rates at various levels of operation, labor requirements and rates, average time between failures, time between overhauls, average down-time cost, and so on.
- c. Calculate all costs at current rates and prices.

- d. Project costs at the future dates at which they will be incurred, adjust for expected inflation or deflation, consider estimated salvage value, and complete the life cycle cost matrix.
- e. Discount all future costs and benefits to their present values.
- f. Sum all costs and benefits to obtain the total life cycle cost, expressed in present value terms.

5.2.3

A Simple Life Cycle Costing Method

The following life cycle costing formula is for the purchase of a major appliance, in this case a refrigerator/freezer (From Ken Sheinkopf, *The Energy Column*, 1998):

Life Cycle Cost = Purchase Price + (Annual Energy Cost x Estimated Lifetime x Discount Factor)

The formula's components are:

- a. Purchase price — how much it will cost you to buy the item.
- b. Annual energy cost — the yellow EnergyGuide label used on most major appliances provides the annual energy cost of operating the product.
- c. Estimated lifetime — the average lifetime of a new refrigerator/freezer is 20 years (based on information from some major national organizations).
- d. Discount factor — the discount factor used in this example is 0.76 (this is the number that adjusts for inflation, taking into account the fact that money can be invested and earn interest, making today's money more valuable than money you will get in the future). This particular discount factor is based on a discount rate of 5 percent and an energy price escalation rate of 2 percent per year above inflation. Assistance regarding discount rates is available from the Purchasing and Materials' Contract Pricing organization.

The following is an example of applying the above formula:

Refrigerator A sells for \$800 and Refrigerator B sells for \$900. If Refrigerator A has an annual operating cost of \$130, the formula for determining its life cycle cost is:

$$\$800 + (\$130 \times 20 \times 0.76) = \$2,776$$

Refrigerator B's annual operating cost is \$100 so the formula for determining its life cycle cost is:

$$\$900 + (\$100 \times 20 \times 0.76) = \$2,420$$

Refrigerator B is actually \$356 cheaper to use over its lifetime than the refrigerator that costs less to purchase.

Exhibit 5.1.4.a

Supply Management Strategy

High	II <u>Material Management</u>		IV <u>Supply Management/Expanded Partnering</u>	
	<i>Procurement focus</i> Leverage items (e.g., electric motors, heating oil, EDP hardware)	<i>Time horizon</i> Varied; typically 12 to 24 months	<i>Procurement focus</i> Strategic items (e.g., scarce metals, high-value components)	<i>Time horizon</i> Long term; governed by long-term strategic impact (risk and contract mix)
IMPORTANCE OF PURCHASE	<i>Key performance criteria</i> Cost/price and materials flow management	<i>Items Purchased</i> Mix of commodities and specified materials	<i>Key performance criteria</i> Long-term availability, quality, technology	<i>Items Purchased</i> Scarce and/or high-value materials
		<i>Supply</i> Abundant		<i>Supply</i> Natural scarcity
Low	I <u>Purchasing Management</u>		III <u>Sourcing Management</u>	
	<i>Procurement focus</i> Non-critical items (e.g., steel rods, coal, office supplies)	<i>Time horizon</i> Limited; normally 12 months or less	<i>Procurement focus</i> Bottleneck items (e.g., electronic parts, catalyst materials, outside services)	<i>Time horizon</i> Variable, depending on availability vs. technology and flexibility trade-offs
	<i>Key performance criteria</i> Functional efficiency	<i>Items Purchased</i> Commodities and some specified materials	<i>Key performance criteria</i> Cost management reliable	<i>Items Purchased</i> Mainly specified materials, potentially distinctive
		<i>Supply</i> Abundant		<i>Supply</i> Production-based scarcity
Low ————— COMPLEXITY OF SUPPLY MARKET ————— High				

Exhibit 5.1.4.b

Classifying Suppliers/Purchases for Cost/Price Analysis

NATURE OF BUY	Leverage	Strategic
	<ul style="list-style-type: none"> - Items purchased in large quantity that are made to stock many available sources - Items available on commodity exchanges 	<ul style="list-style-type: none"> - Items important to distinctive competency - Items important to the future success of the organization
One-time	Low Impact	Critical Projects
	<ul style="list-style-type: none"> - Most specialized services - Low dollar, repetitive buys 	<ul style="list-style-type: none"> - Critical project/virtual corporation scenario - Long-term capital investments
<p>Arm's Length Type of Relationship Sought with Supplier Partnership</p>		

Exhibit 5.1.4.c
Selecting Appropriate Cost/Price Analysis Techniques

	- Leverage- Cost Analysis Focus	- Strategic - Continuous Improvement Focus
On-going or major impact	<ul style="list-style-type: none"> - Estimate cost relationships - Value analysis - Analysis of supplier cost breakdowns - Cost estimate/"should cost" - Industry analysis - Total cost modeling 	<ul style="list-style-type: none"> - Open books - Target cost analysis - Competitive assessment/teardowns - Total cost of ownership (TCO) - Total cost modeling of the supply chain
NATURE OF BUY	- Low Impact - Price Analysis Focus	- Critical Projects - Life Cycle Cost Focus
One-time or limited impact	<ul style="list-style-type: none"> - Competitive bids - Comparison price list/catalogs - Comparison to established markets - Comparison to history - Price indexes - Comparison to similar purchases 	<ul style="list-style-type: none"> - TCO analysis/life-cycle costing - TCO analysis of supply chain
Arm's Length _____ Type of Relationship Sought with Supplier _____ Partnership		

6 Contract Administration

6.1 Alternative Dispute Resolution	6-3
6.1.1 Alternative Dispute Resolution Processes	6-3
6.1.2 Examples of Alternative Dispute Resolution Use.....	6-4
6.1.3 Postal Service Use of Alternative Dispute Resolution	6-4

6 Contract Administration

This chapter discusses alternative dispute resolution (ADR). In 1926, the non-profit American Arbitration Association was created to foster binding arbitration of disputes in the private sector. Within the past twenty years, numerous other organizations, both for-profit and non-profit, have been created to advance arbitration and the other processes of ADR as a means of resolving disputes. The Postal Service supports and encourages the use of ADR as an effective way to understand, address, and resolve conflicts with suppliers.

6.1 Alternative Dispute Resolution

6.1.1 **Alternative Dispute Resolution Processes**

ADR is a term applied to many voluntary methods of resolving disputes between parties. ADR also plays a substantial part in the developing concept of partnering between government and industry. ADR is a flexible procedure and readily lends itself to use at any stage of a dispute.

Those processes or combinations of processes that fall under the umbrella of ADR are:

- a. Binding arbitration — a privately conducted adversarial process in which the parties select a neutral (or neutrals) to render a final and binding decision or award on the matter(s) in dispute. The neutral third party can be a lawyer, a retired judge, an expert in a particular field, a businessperson, or a panel made up of such individuals. Neutrals normally are selected based on their knowledge and expertise.
- b. Nonbinding arbitration — substantially the same process as binding arbitration except the decision rendered by the arbitrator is advisory only and can be accepted, rejected, or accepted in part by the parties.
- c. Factfinding — similar to nonbinding arbitration but is limited to fact finding only. A neutral renders an advisory opinion on the factual issues in dispute.
- d. Minitrials — limited and moderately formal adversarial exchanges of information relating to the issues in dispute. High-level business representatives hear the case from each side, with assistance from a neutral. The business representatives have the full authority to reach a binding settlement.
- e. Mediation — an informal but structured negotiation process in which the parties select a neutral third party to assist them in reaching a negotiated settlement.

- f. Negotiation — any settlement discussions between the parties without the interaction of a neutral third party.
- g. Partnering — team building between government and supplier (including subcontractor) is used to help define common goals and foster problem solving. The process is designed to create a positive dispute prevention atmosphere during contract performance; however, it provides processes for dispute resolution when parties cannot agree.

6.1.2 **Examples of Alternative Dispute Resolution Use**

ADR has been accepted in the commercial sector as a more expeditious, less costly, and better means to resolve disputes between parties. Parties to ADR are often happier with the mediated or arbitrated result than they would have been by resorting to litigation because they had a hand in molding the result. It is important for parties to be able to air their grievances and to be heard. ADR permits the parties to amicably work out a solution to an otherwise irresolvable problem.

The U.S. Army Corps of Engineers is a leader in adopting ADR approaches to contract disputes. During the early and mid 1980s, the agency used minitrials to resolve some major claims that had arisen under its construction contracts.

To foster good working relationships early in the contracting process, both the U.S. Army Corps of Engineers and the U.S. Army Materiel Command include a partnering clause in their contracts. Under the clause, the supplier can elect to enter into a partnering agreement that promotes communications and teamwork. The agreement also provides the vehicle for the parties to develop, adopt, or adjust the ADR process to suit their needs and provides the blueprint for dispute resolution.

6.1.3 **Postal Service Use of Alternative Dispute Resolution**

Postal Service purchase teams are encouraged to use ADR as a means of resolving disputes. ADR provides a proven means of understanding and resolving conflicts. In addition to furthering better supplier relations, ADR can be far more cost-effective and timely than the typical dispute process. Paragraph g of Clause B-9, *Claims and Disputes*, encourages the use of ADR in Postal Service purchasing.

Appendix

Important Web Sites

The table below lists web sites referenced in this handbook.

WEB SITE AND P-1 HANDBOOK REFERENCE	ADDRESS
Benchmarked industries at the Department of Commerce (3.1.1)	www.arnet.gov/references/sdbadjustments.htm
Commercial Advocates Forum (2.3.5.c)	www.cadv.org
Consumer Price Index reports (2.3.5.a.1)	http://stats.bls.gov/datahome.htm
Contractor Performance System (2.3.5.b.4)	http://blue.usps.gov/purchase/cps.html
i-Mart (2.3.5.b.6)	www.imart.org
National Association of Purchasing Managers (2.3.5.c)	www.napm.org
Phoenix (developed by the Minority Business Development Agency) (2.3.5.d)	www.mbda.gov
Producer Price Index reports (2.3.5.a.2)	http://stats.bls.gov/datahome.htm
PRO-Net (2.3.5.d)	www.pro-net.sba.gov
Supplier Automated Database on the Internet (SADI) (2.3.5.b.4)	www.blue.purchasing.gov/sadi
Thomas Register (2.3.5.b.5)	www.thomasregister.com
United Postal Service Business Opportunities Bulletins (BOB) (3.1.5)	www.blue.purchasing.gov/bob
Vendor Information Service (a databank of minority suppliers maintained by the National Minority Supplier Development Council) (2.3.5.d)	www.trainingforum.com/ASN/NMSDC
World Wide Minority Business Network (a centralized effort of organizations, associations, and groups committed to the minority business community) (2.3.5.d)	www.wbnet.com/index.htm