

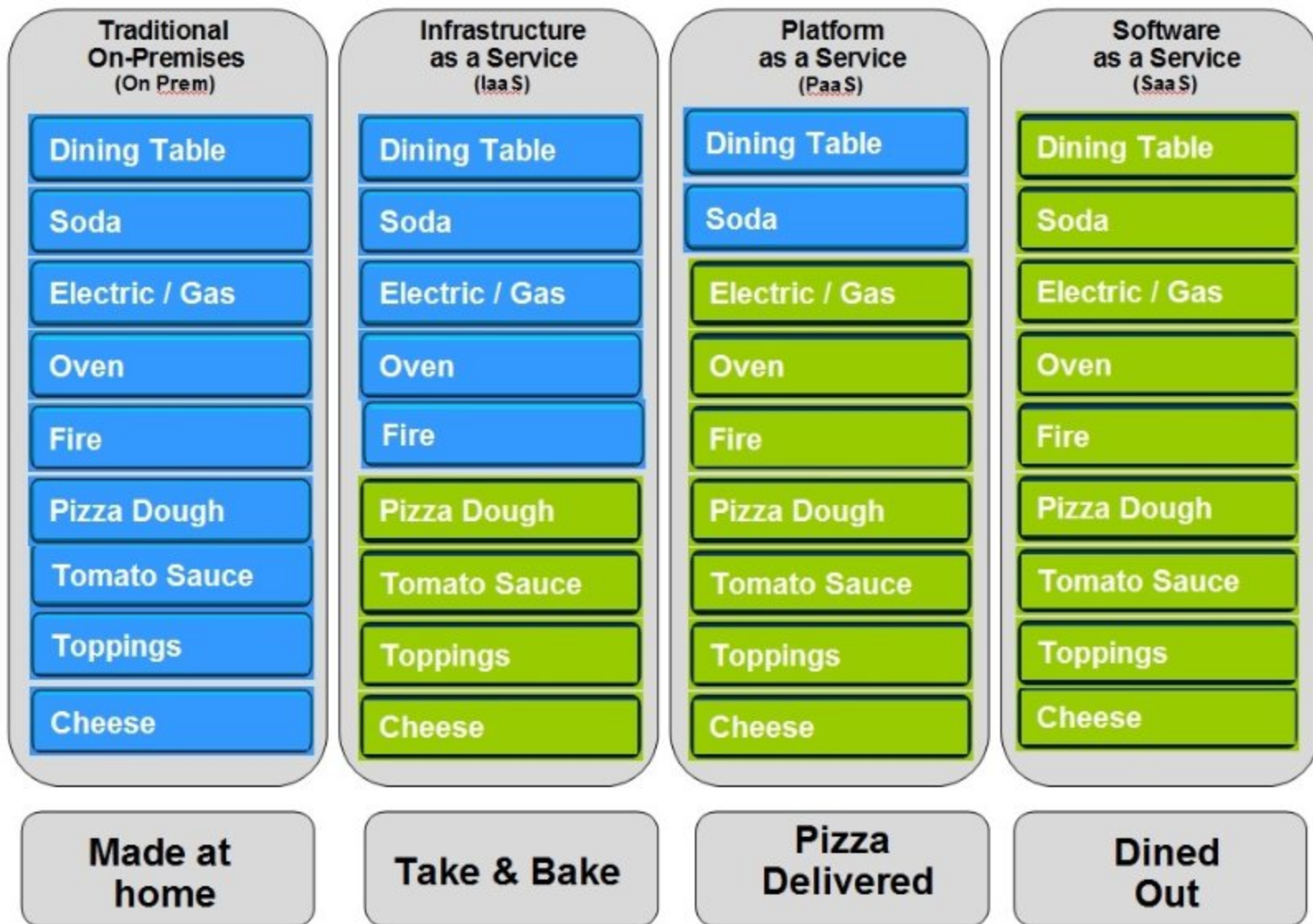


Acquisition Innovations in Motion (AliM)

# **DHS Pricing Strategies and Consumption-Based Pricing Methodologies**

*February 24, 2016*

# Pizza as a Service



■ You Manage    ■ Vendor Manages



## Acquisition Innovations in Motion (AliM)

*Mark Hudak, DHS Office of the Chief Procurement Officer*

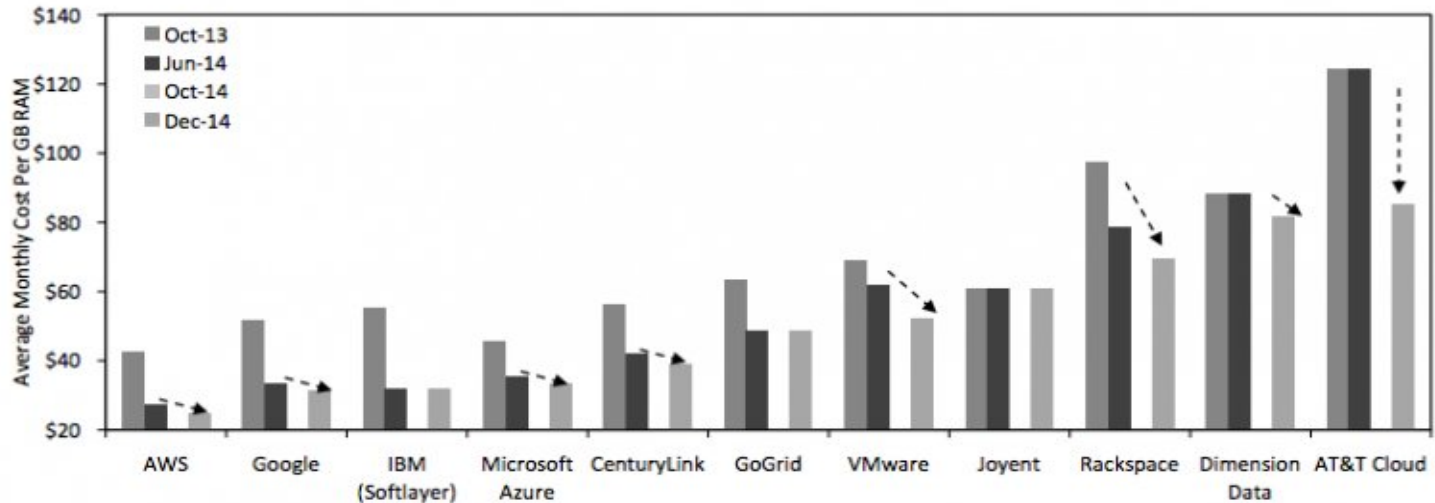


# Pricing Discussion

- Government renewed focus on Commercial Buying Practices
- Independent Cost Estimates:
  - Accurate Independent Government Cost Estimates (IGCEs) are key to a successful price evaluation for commercial buying.
  - Means the estimate of the projected price or cost that a contractor would incur in the successful performance of a contract without the influence of potential contractor's input.
  - Development of "sample" tasks must be based on sound rationale.
  - "Sample" tasks not rationally based, lead to poor pricing outcomes and the incumbent may gain a competitive advantage.
  - Prepared by the Government's Program Management Team.
  - IGCEs help demonstrate how well the Program Group understands the requirement.
  - Major delays can be caused by poorly developed IGCEs.
  - Accurate IGCEs are an important part of successful price evaluation.
  - The more complex the procurement, the greater the need for Industry to reach out to ensure the price evaluation is proper.
- Sole Source or Competitive
- Commercial versus Non-Commercial

# Cloud Computing Trends

Exhibit 14: Average Monthly Cost / GB RAM across various RBC Use Cases (excluding support costs)



**(excluding optional support costs)**

**Average Monthly Cost Per GB RAM across various RBC Use Cases**

	Oct-13	Jun-14	Dec-14	Change
AWS	\$42	\$27	\$25	-8%
Google	\$52	\$34	\$32	-6%
IBM (Softlayer)	\$55	\$32	\$32	0%
Microsoft Azure	\$46	\$35	\$34	-5%
CenturyLink	\$56	\$42	\$39	-7%
GoGrid	\$63	\$49	\$49	0%
VMware	\$69	\$62	\$52	-15%
Joyent	\$61	\$61	\$61	0%
Rackspace	\$98	\$79	\$70	-11%
Dimension Data	\$88	\$88	\$82	-8%
AT&T Cloud	\$125	\$125	\$85	-32%

**(including high-touch support)**

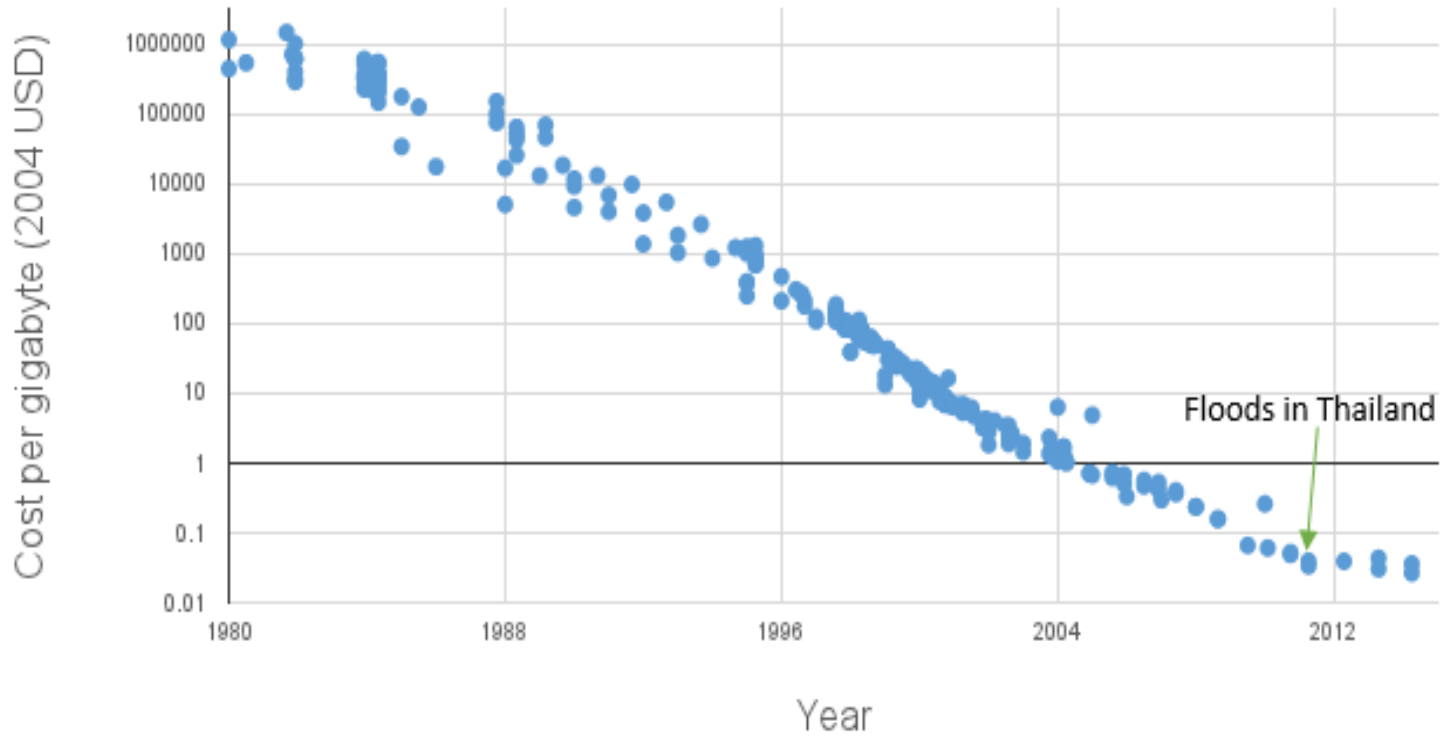
**Average Monthly Cost Per GB RAM across various RBC Use Cases**

	Oct-13	Jun-14	Dec-14	Change
AWS	\$53	\$38	\$35	-6%
Google	\$93	\$69	\$68	-2%
IBM (Softlayer)	\$56	\$32	\$32	0%
Microsoft Azure	\$70	\$60	\$58	-3%
CenturyLink	\$56	\$46	\$43	-7%
GoGrid	\$75	\$60	\$60	0%
VMware	\$79	\$71	\$61	-13%
Joyent	\$72	\$72	\$72	0%
Rackspace	\$108	\$89	\$70	-22%
Dimension Data	\$88	\$88	\$81	-8%
AT&T Cloud	\$129	\$129	\$88	-32%

\* Change Dec-14 vs. Jun-14

Source: RBC Capital Markets, Company Reports

# Cost per Gigabyte of Hard Drive Storage Trends





# Pricing Discussion

- One challenge is obtaining market prices throughout the term of the contract without including a reopener clause.
- There may be increased cost due to configuration changes or additional scope requirements.
- Solutions and cost structure may differ by provider.
- Added controls are needed to ensure billings are accurate.
- Program management needs to continuously evaluate changes, IT needs, and possibly modify the contract if goods or services are no longer needed.
- Pricing issues related to scope changes after contract award.
- Proper planning and contract language can help reduce the Government's risk of developing a sole source relationship.
- Clear contract language is essential if there is a need for contract termination.



# Pricing Discussion

- Most Favored Customer Clause (MFC):
  - These clauses seek to ensure that the contracting authority (typically a federal or state agency) receives at least as favorable pricing as other customers making similar purchases. For example, the government agency may request that the contractor warrant that the prices it charges under the contract will be as favorable as those offered to other parties purchasing similar products of similar quantity under similar terms and conditions. In theory, the request to be treated equally to others making similar purchases is reasonable.
  - Requirement reduces the burden on the contracting authority.
- Price Reduction Clause (PRC)
  - Any change in the Contractor's commercial pricing or discount arrangement applicable to the identified customer, or category of customers, triggers the PRC (FAR Part 13).
  - This is basically a reduction in contract price.





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# **As-a-Service Contracting**

*Andrew Flick, Vion*

# Topic Overview

- “As-a-Service” – Example/Definition
- Contract Risk
- Contract Funding
- Contract Type
- Contract (Unit) Pricing

# Ordering, Delivering, and Accepting “As-a Service” capacity

At this location, DHS needs.....



1. 10TB of 900GB FC Disk with RAID 5 protection
2. 20TB of 450GB NAS storage with RAID 6 protection
3. 64 SAN Ports

...DHS will operate (administer) the hardware/software.

Using an “As-a-Service” Contract , DHS orders:

SLIN 001AA01 – QTY 10TB - High Performance Enterprise Disk Storage

SLIN 002AA01 – QTY 20TB - High Capacity NAS Disk storage

SLIN 003AA01 – QTY 64 PORTS - Director-Class SAN connectivity

...per contract, it is “Ready-for-Use” within 20-day  
Delivery Service Level Agreement (SLA)

Capacity “Ready-for-Use” ....



Enterprise Storage Array  
10TB



NAS Storage Array  
20TB

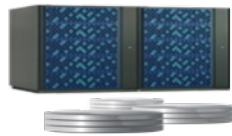


SAN Director  
64 Ports

# Ordering, Delivering, and Accepting “As-a-Service” capacity

## Service Provider .....

- Orders all hardware/software necessary for Government to use ordered capacity;
- Delivers all hardware/software at the DHS location
- Configures hardware/software as “Ready-for-Use” (RFU)
- Turns hardware/software over to DHS for use
- Requests DHS confirmation of RFU submission
- Monthly, Service Provider generates billing statement for DHS review
- Maintains hardware/software at no additional cost
- Includes ancillary hardware (racks, cables, pieces/parts...)



Enterprise Storage Array  
10TB



NAS Storage Array  
20TB



SAN Director  
64 Ports

**INSTEAD OF.....**



# Contract Risk

## Delivery Schedule

- IAW Service Level Agreement (SLA's)
  - Ordering & Delivery
  - Maintenance/Repair/Restoration of Service

## Program

- Transparency of Service Provider's Process and Procedures
- Operational execution and support

## Financial

How does the Government achieve

- an *appropriate* shift in risk to the Service Provider
- the lowest **"Unit Price"** per unit of capacity
- longer planning horizons/ Price & Program stability

# Contract Type

- FAR 16.103
  - requires the exercise of sound judgment.
  - contract type and contract unit prices are closely related.
  - contract type and unit prices should in reasonable contractor risk ***and*** provide the contractor with the greatest incentive for efficient and economical performance.
- For “As-a-Service” Contracting - Advantages/Disadvantages of:
  - Indefinite Delivery, Indefinite Quantity Contracts?
  - Firm Fixed Unit Prices
  - Multi-year Period of Performance
  - multiple one-year Option Periods
  - Aggregate Contract Ceiling for All Years

**Alternative Approaches .....**

# Contract Funding

## *Operations & Maintenance funding vs. Procurement*

### **Anti-Deficiency Act**

- Measured Usage vs. Billing for what is ordered

### **Fund the Contract using CLINs**

- Annual CLIN for all Recurring charges
- Annual CLIN for all Non-recurring charges

### **Order from the contract using SLINs**

- SLINs for Recurring charges
- SLINs for Non-recurring charges

### **Require a monthly Contract Funds Status Report**

- Evaluate and forecast funding consumption



# Unit Pricing

## Firm Fixed - Per a defined “Unit of Measure”

- Per RAW TB of Disk Capacity
- Per CPU-hour of compute
- Per Port for SAN connectivity

## Appropriate to:

- Technology & Manufacturer
- Operational deployment and consumption

## Inclusive of:

- Hardware/software that makes up the “Unit of Measure”
- Labor services to install and configure
- Warranty, Maintenance, restoration of service

# Government's Requirements – How to

- More details or less?
- Rigid Requirements or Objectives?
  - Statement of Objectives?
  - Statement of Work?
  - Performance Work Statement?
- Government proscribed SLINs or Contractor Proposed?

# Evaluating Offers

- Best Value
  - Experience and Past Performance
  - Price
  - Proof-of-Concept
  - Technical/Management approach

Low Price Technically Acceptable

# Thank You

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## Acquisition Innovations in Motion (AliM)

*Robin Jones, DHS Office of Procurement Operations*

- Take advantage of existing flexibilities
- Don't be afraid to be creative!
- Many paths to consumption based pricing:
  - Drawdown Accounts
  - Ordering Officials
  - Tiered Based Pricing
- Options are friends, not foes

## Drawdown Accounts

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- CO negotiates and awards fixed unit pricing on a contract/order, then obligates funding equal to the expected spend rate.
- COR or other CO appointed representative may request deliveries from the Contractor up to the cap established and funded by the CO.
  - Additional quantities may be available via option quantities.
- Contractor invoices for the quantity delivered each month.
- Variations possible regarding Firm Fixed Price or Time & Materials.

- Great for:
  - Supplies
  - Well defined services
  - Limited storage capabilities
  - Level of demand is not consistent
- Be careful regarding:
  - Maintaining oversight
  - COR appointment
  - Amorphous requirements
  - Obligating too much funding
  - Having too many option quantities



# Ordering Officials

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- CO negotiates and awards fixed unit pricing on an IDIQ or BPA.
- Certified Ordering Official places orders using a purchase card.
- CO may establish a cap.
- Payment follows normal purchase card method.
- Rarely used.

# Tiered Based Pricing

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- Several ways to approach:
  - Buckets based on current purchases
  - Based on historical purchases
- Define in advance how and when to measure consumption and adjust tiers
- Either aggregate quantities across an organization or set office specific tiers
- Does not limit ability to exercise option periods - FAR 17.207(f)