U.S. Small Business Administration
Office of Government Contracting and Business Development

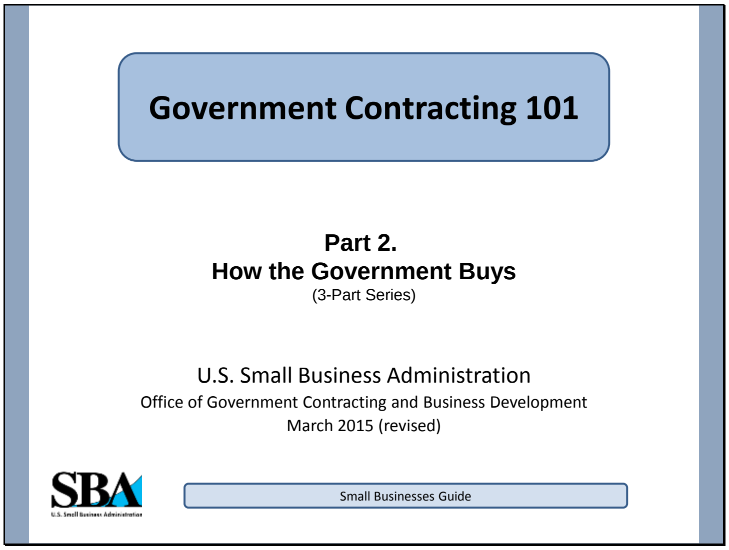
Government Contracting 101 Part 2

How the Government Buys

March 2015

(Revised)

Slide 1



Welcome to SBA's training program, Government Contracting 101, Part 2, How the Government Buys.

NOTE: *This supplemental workbook tracks the slides and narrative contained in the online course, **Government Contracting 101, Part 2.** It is the second module in a 3-part training series. The online version of the training program, with audio can be accessed at: www.sba.gov/gcclassroom. For the user's convenience, all hyperlinks contained in the copied slides are included as links at the end of the workbook.*

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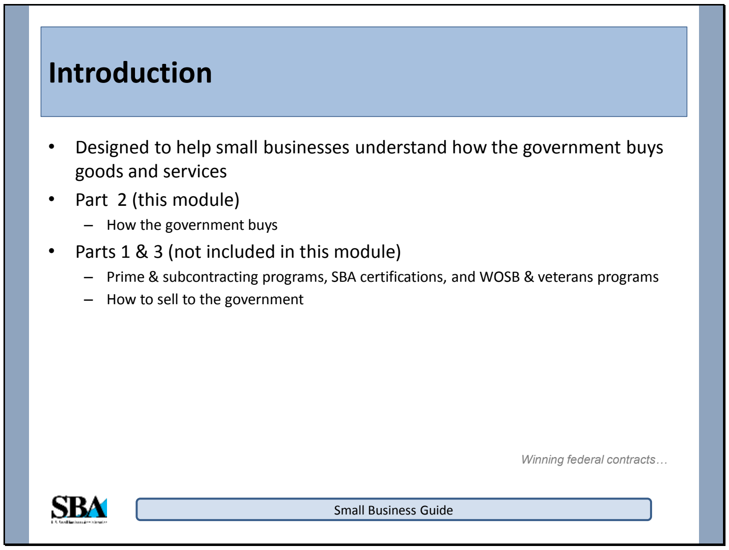

This training module is designed to help small businesses understand how the government buys goods and services.

There are three parts to the GC 101 training program. This part, part two, discusses the steps used by the government to purchase what it needs.

Parts one and three provide clarity and training around prime and subcontract assistance programs, SBA certification programs, women and veteran owned small business programs and how to sell to the government.

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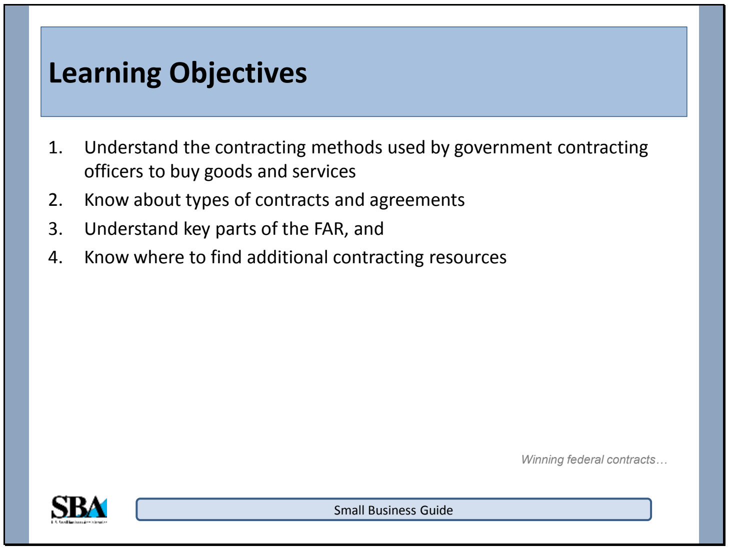

After reviewing this training program you should:

- Understand the contracting methods used by government contracting officers to buy goods and services;
- Know about types of contracts and agreements;
- Understand key parts of the FAR; and,
- Know where to find additional contracting resources.

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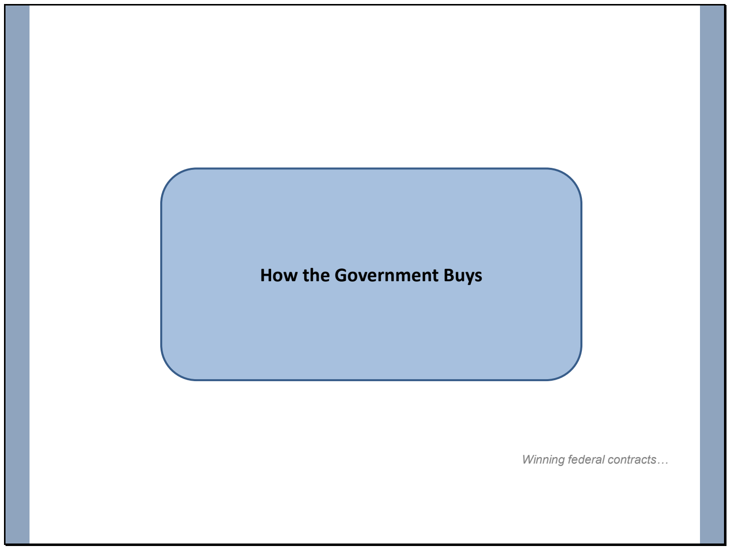

How the government buys.

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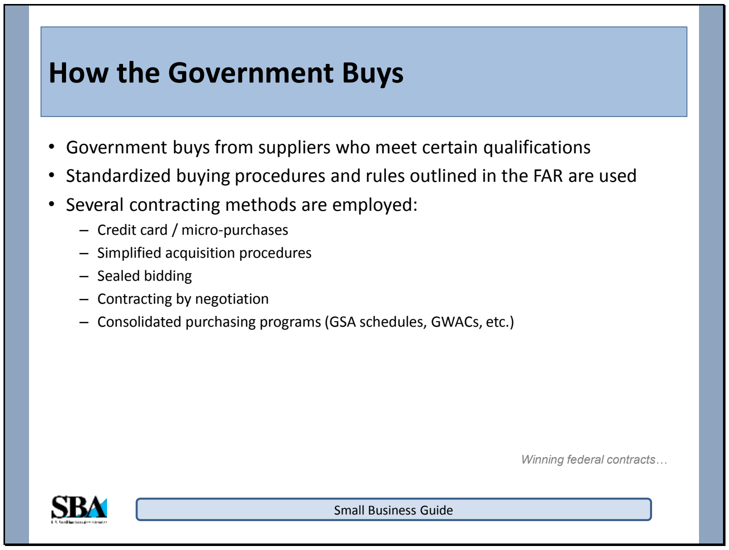


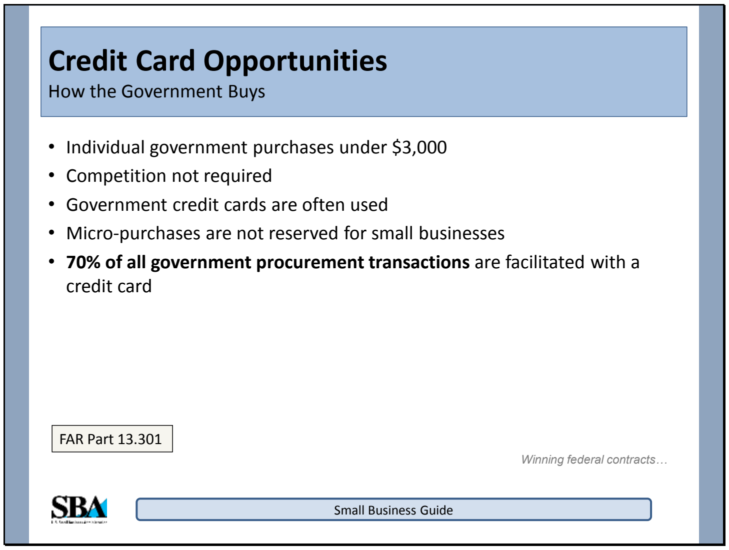
The government applies standardized procedures to buy products and services it needs from suppliers who meet certain qualifications.

Contracting officials use procedures outlined in the Federal Acquisition Regulation, commonly known as the FAR, to guide government purchases.

The primary contracting methods used by the government are: micro-purchases; simplified acquisition procedures; sealed bidding; contract by negotiations; and, consolidated purchasing programs, such as the use of GSA schedules, Government Wide Acquisition Contracts and other multiple award vehicles.

Each of these contracting methods is discussed in the following.

Slide 6



Micro-purchases…

Generally speaking, government purchases of individual items under $3,000.00 are considered micro-purchases.

Such government buys do not require competitive bids or quotes and agencies can simply pay using a Government Purchase Card or credit card, without the involvement of a procurement officer.

It is important to note, about 70 percent of all government procurement transactions are for micro-purchases under $3,000 and are facilitated with a credit card. In recent years, micro-purchases have averaged about $19 billion dollars annually.

Credit card opportunities in the government buying space are huge.

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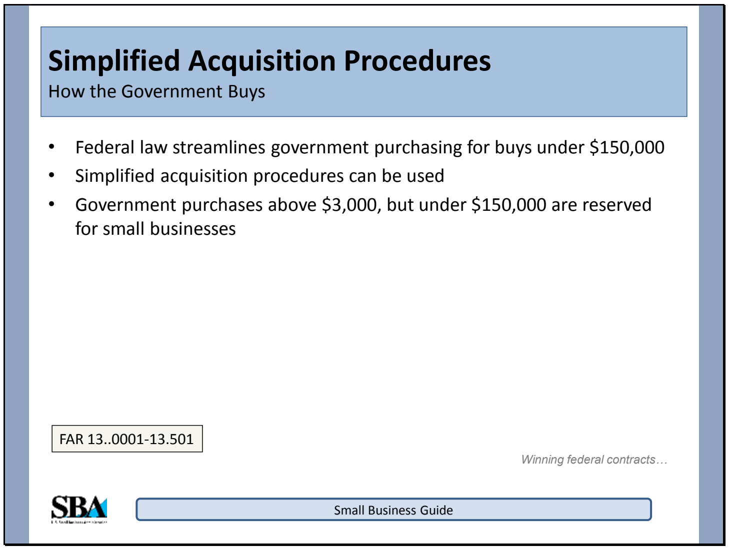

Simplified acquisition procedures…

The Federal Acquisition Streamlining Act and other statutory amendments removed many competition restrictions on government purchases under $150,000.

Agencies can use simplified procedures for soliciting and evaluating bids up to $150,000. Government agencies, however, are still required to advertise all planned purchases over $25,000 in Federal Business Opportunities or the FBO (www.fedbizopps.gov), the government's online listing and database of available procurement opportunities.

Simplified acquisition procedures require fewer administrative details, fewer approval levels, and less documentation. The procedures require all federal purchases above $3,000, but under $150,000, to be reserved for small businesses, an important point.

This small business set-aside applies, unless the contracting official cannot obtain offers from two or more small firms who are competitive on price, quality and delivery.

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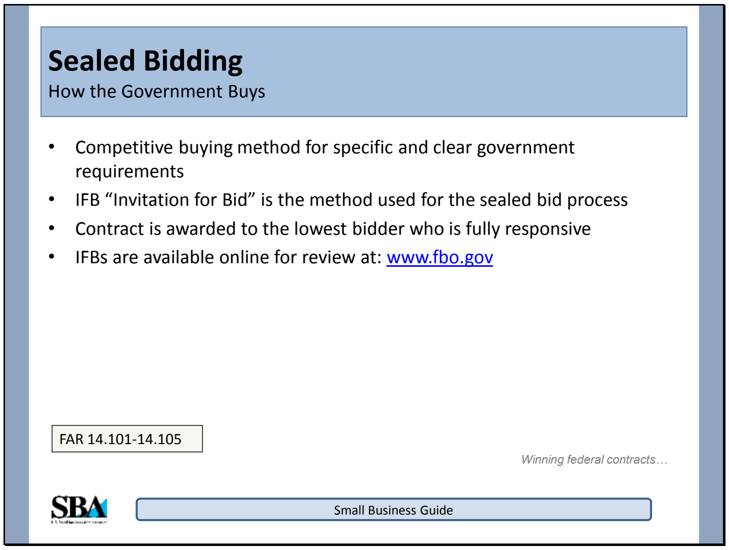

Sealed bidding…

Sealed bidding is how the government buys competitively when its requirements are very specific, clear and complete.

An IFB or “Invitation For Bid” is the method used for the sealed bid process. Typically, an IFB includes a description of the product or service to be acquired, instructions for preparing a bid, the conditions for purchase, delivery, payment and other requirements associated with the bid, including a deadline for bid submissions.

Each sealed bid is opened in a public setting by a government contracting officer, at the time designated in the invitation. All bids are read aloud and recorded. A contract is then awarded by the agency to the lowest bidder who is determined to be fully responsive to the needs of the government.

Government-wide IFBs are available daily for review in the government’s online listing service, Federal Business Opportunities. This electronic service, which is discussed in detail later, also provides direct links to available IFB invitations.

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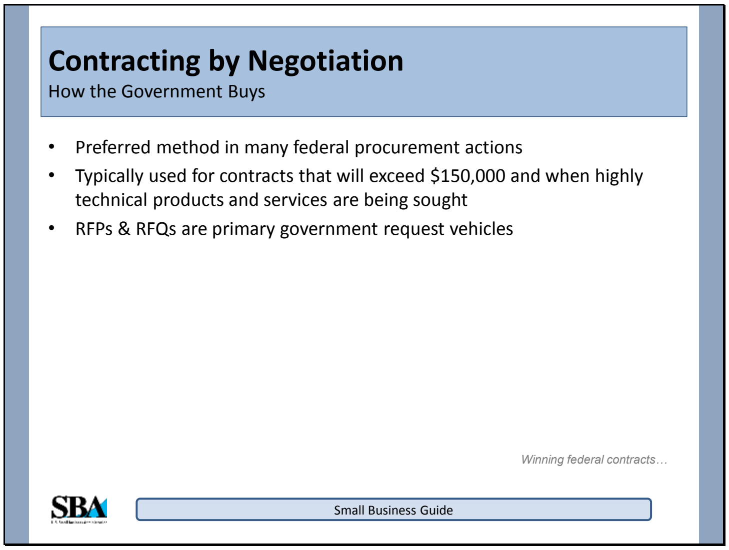

Contracting by negotiation…

Contracting by negotiation is used in many federal procurement actions. This is typically a more complicated process for companies wanting to sell to the government. It is also a method that is more time consuming for buying agencies.

This is how it works….. In certain cases, when the value of a government contract exceeds $150,000 and when it necessitates a highly technical product or service, the government may issue a Request for Proposal. In a typical RFP, the government will request a product or service it needs, and solicit proposals from prospective contractors on how they intend to carry out that request, and at what price. Proposals in response to an RFP can be subject to negotiation after they have been submitted.

When the government is merely checking into the possibility of acquiring a product or service, it may issue a Request for Quotation (RFQ). A response to an RFQ by a prospective contractor is not considered an offer, and consequently, cannot be accepted by the government to form a binding contract.

Government-wide RFPs and RFQs are also available daily for review in the FBO.

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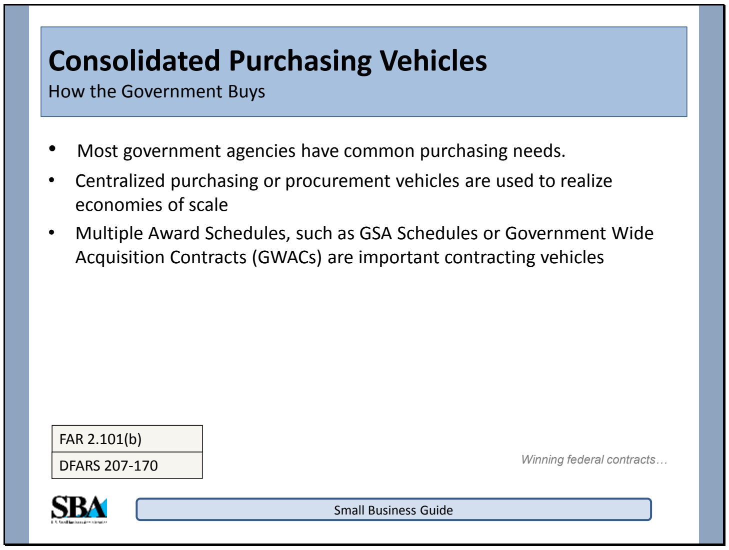


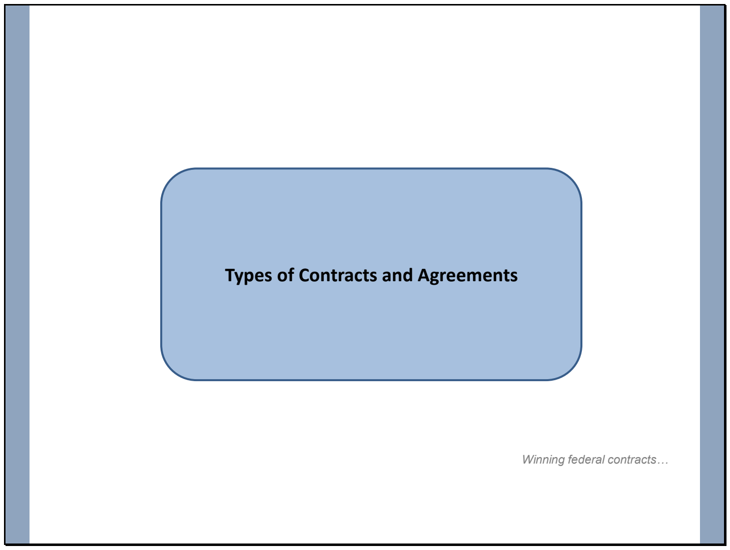
Consolidated purchasing vehicles…

Most government agencies have common purchasing needs.

Sometimes the government can realize economies of scale by centralizing the purchasing of certain types of products or services. This is called consolidated purchasing and multiple award, acquisition vehicles are typically used.

The most common multiple award schedules are GSA Schedules or Government Wide Acquisition Contracts, called G-WACs. These centralized buying vehicles are negotiated by the government with awards to many potential vendors and used by multiple agencies buying goods and services.

Slide 11



Types of contracts and agreements.

Slide 12

OK – so we have discussed the primary buying methods used by the government.

Let's now take a look at the types of contracts and agreements that are typically used. Specifically, fixed price, cost-reimbursement, incentive contracts, indefinite delivery contracts, time and materials and labor hour contracts and agreements.

Slide 13

Fixed price contracts…

Fixed-price contracts are the most common types of contracts that small businesses are involved with.

They provide for a firm price or, in appropriate cases, an adjustable price.

A firm-fixed-price contract provides for a price that is not subject to any adjustment on the basis of the contractor’s cost experience in performing the contract.

A fixed-price contract with an economic price adjustment provides for the upward and downward revision of the stated contract price upon the occurrence of specified contingencies.

And finally, a fixed-price incentive contract is a contract that provides for adjusting profit and establishing the final contract price by a formula based on the relationship of final negotiated total cost to total target cost.

Slide 14

Cost-reimbursement contracts…

Cost-reimbursement contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed without the approval of the contracting officer.

This type of contract is used when — circumstances do not allow the agency to define its requirements sufficiently to allow for a fixed-price type contract, or uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract.

A cost contract is a contract in which the contractor receives no fee. A cost-sharing contract is a contract in which the contractor receives no fee and is reimbursed only for an agreed-upon portion of its allowable costs. A cost-plus-fixed-fee contract is a contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract.

A cost-plus-incentive-fee contract is a contract that provides for an initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs. A cost-plus-award-fee contract is a contract that provides for a fee consisting of a base amount, fixed at inception of the contract and an award amount, based upon a judgmental evaluation by the Government.

Slide 15

Incentive contracts…

Incentive contracts are appropriate when a firm-fixed-price contract is not appropriate and the required supplies or services can be acquired at lower costs and, in certain instances, with improved delivery or technical performance, by relating the amount of profit or fee payable under the contract to the contractor’s performance.

Incentive contracts are designed to obtain specific acquisition objectives by establishing reasonable and attainable targets that are clearly communicated to the contractor, and by including appropriate incentive arrangements designed to motivate contractor efforts and discourage contractor inefficiency.

Slide 16

Indefinite delivery contracts…

There are three types of indefinite-delivery contracts: definite-quantity contracts, requirements contracts, and indefinite-quantity contracts. The appropriate type of indefinite-delivery contract may be used to acquire supplies or services when the exact times or exact quantities of future deliveries are not known at the time of contract award.

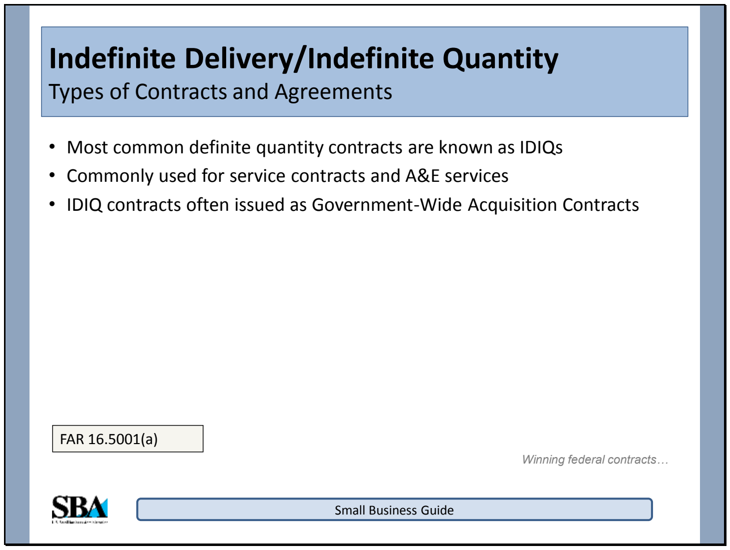
Indefinite-quantity contracts are also known as delivery-order contracts or task-order contracts.

A definite-quantity contract provides for delivery of a definite quantity of specific supplies or services for a fixed period, with deliveries or performance at designated locations.

A requirements contract provides for filling actual purchase requirements for supplies or services during a specified contract period - from one contractor.

An indefinite-quantity contract provides for an indefinite quantity of supplies or services during a fixed period. Quantity limits may be stated as number of units or as dollar values.

Slide 17



The most common type of indefinite delivery contracts are known as IDIQs or Indefinite delivery / indefinite quantity contracts.

IDIQ contracts are most often used for service contracts and Architect-Engineering services. Awards are usually for base years as well as option years. Agencies place delivery orders - for supplies - or task orders - for services - against a basic contract for individual requirements. An IDIQ contract is typically used when a buying facility cannot predetermine the precise quantities of supplies or services that will be required during the contract period.

IDIQ contracts are often multi-agency contracts issued as Government-Wide Acquisition Contracts or GWACs. Or, they may be government agency-specific contracts. GSA and DOD use IDIQ contracts frequently.

Slide 18

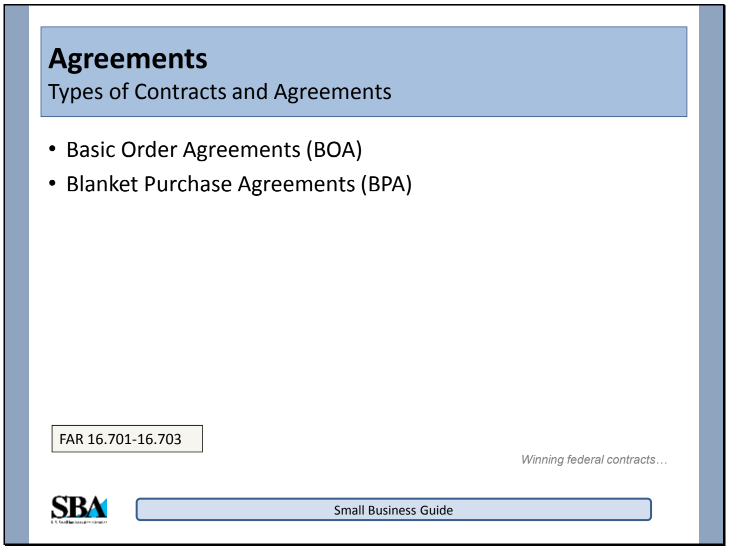
Time and materials and labor hour contracts…

A time-and-materials contract is designed for acquiring supplies or services on the basis of direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit; and actual cost for materials.

A time-and-materials contract is typically only used when it is not possible -- at the time of placing the contract – to estimate accurately the extent or duration of the work, or to anticipate costs with any reasonable degree of confidence.

A labor-hour contract is a variation of the time-and-materials contract, differing only in that materials are not supplied by the contractor.

Slide 19



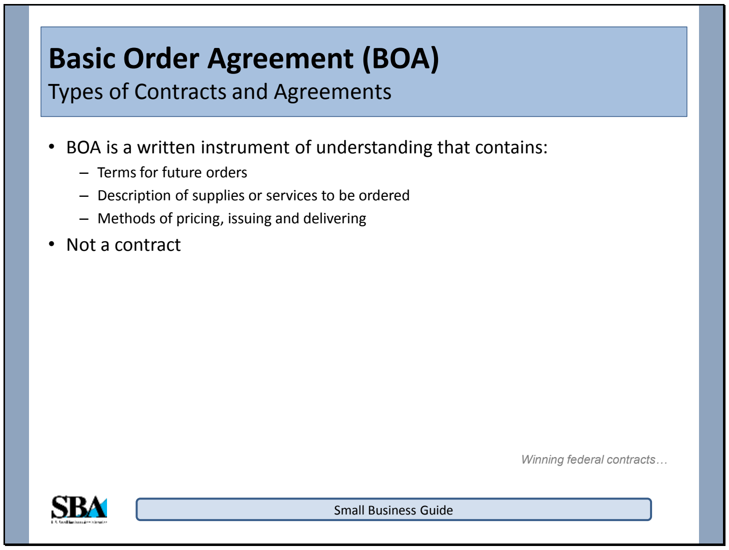
Agreements…

A basic agreement is a written instrument of understanding, negotiated between an agency or contracting activity and a contractor, that contains contract clauses applying to future contracts. It anticipates separate future contracts that will incorporate – by reference or attachment -- the required and applicable clauses agreed upon in the basic agreement.

A basic agreement is not a contract.

Let's take a look at Basic Order Agreements and Blanket Purchase Agreements.

Slide 20



Basic order agreement…

A basic order agreement is a written instrument of understanding, negotiated between an agency or contracting office and a contractor, that contains: (1) terms and clauses applying to future contracts, (2) a description of supplies or services to be provided, and (3) methods for pricing, issuing, and delivering future orders under the basic order agreement. Again, the a basic order agreement is not a contract.

A basic order agreement may be used to expedite contracting for uncertain requirements for supplies or services when specific items, quantities, and prices are not known at the time the agreement is executed, but a substantial number of requirements -- for the type of supplies or services covered by the agreement -- are anticipated to be purchased from the contractor.

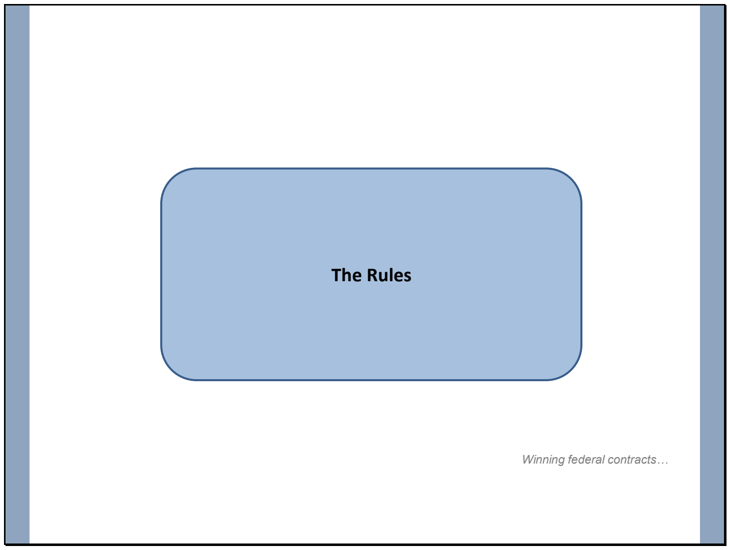
Slide 21

Blanket purchase agreement…

A blanket purchase agreement is a simplified method of filling anticipated repetitive needs for supplies or services by establishing “charge accounts” with qualified sources of supply. BPAs are typically established for use by an organization or agency responsible for providing supplies for its own operations or for other offices, installations, or functions.

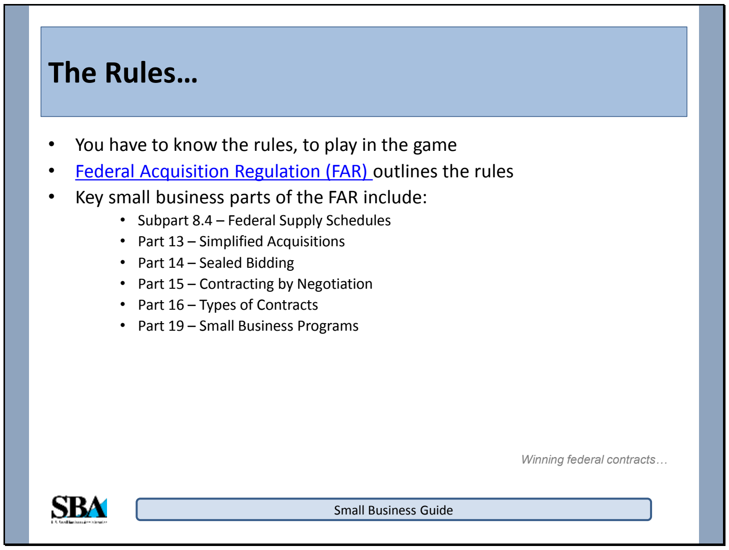
The following are circumstances under which BPAs are established:
There is a wide variety of items in a broad class of supplies or services that are generally purchased, but the exact items, quantities, and delivery requirements are not known in advance and may vary considerably. Or, the use of this procedure would avoid the writing of numerous purchase orders. And, there is no existing contract vehicle for the same supply or service that the contracting activity is required to use.

Slide 22



The rules.

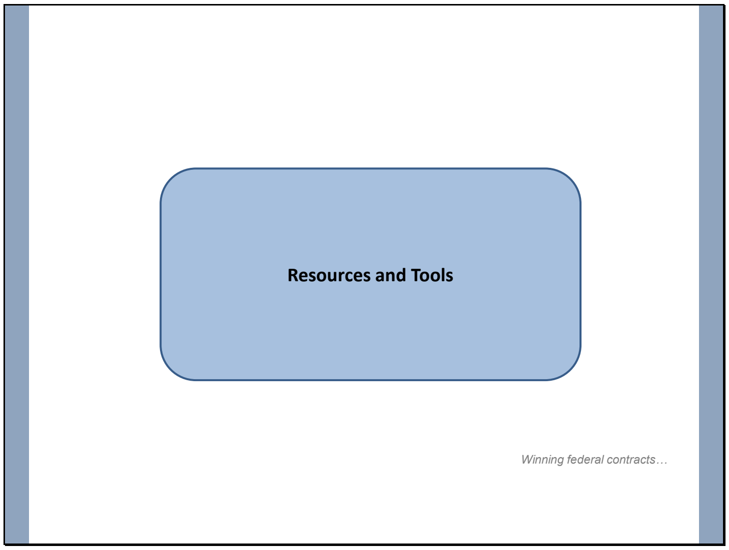
Slide 23



Understanding the government's procurement rules is critical to the success of a small business wanting to participate as a government contractor. The FAR is the roadmap for doing business with the government. It outlines all of the rules. It is a comprehensive guide indexed by topic and an excellent resource tool. The most common FAR sections used by small business are:

- Subpart 8.4 – Federal Supply Schedules
- Part 13 – Simplified Acquisitions
- Part 14 – Sealed Bidding
- Part 15 – Contracting by Negotiation
- Part 16 – Types of Contracts
- Part 19 – Small Business Programs

Slide 24



Resources and tools.

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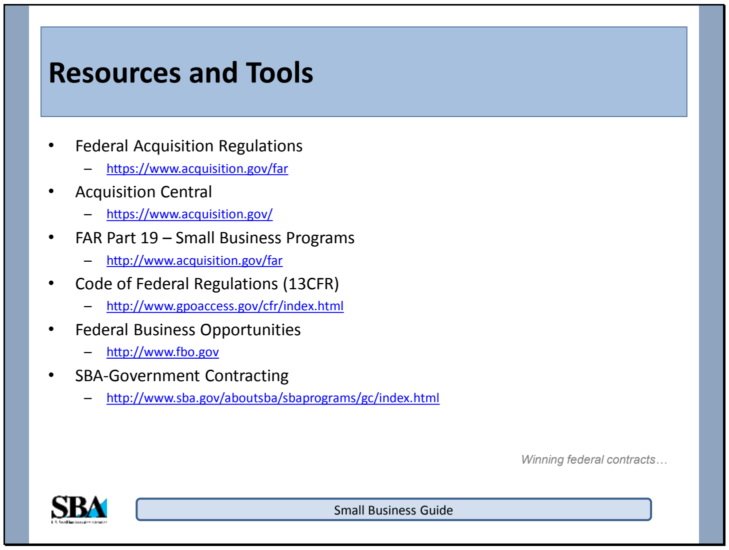

Information is power. Numerous resources are available to help you better understand government contracting programs.

Slide 26

Learn from these resources and use them as tools.

Slide 27

Thank you for participating in Part 2, of the Government Contracting 101 training program. Much information was covered and we hope it is helpful in understanding how the government buys goods and services.

Please also review parts 1 and 3, which provide clarity and training around government contracting and certification programs and, how to sell to the government. Also, consider viewing other training modules in SBA's online **Government Contracting Classroom**.

Thank you.

Hyperlinks Contained in the Workbook

- Federal Acquisition Regulations
  - https://www.acquisition.gov/far
- 13 CFR 124
  - http://www.gpo.gov/fdsys/pkg/CFR-2006-title13-vol1/content-detail.html
- Acquisition Central
  - https://www.acquisition.gov/
- System for Award Management
  - http://www.sam.gov
- FAR Part 19 – Small Business Programs
  - http://www.acquisition.gov/far
- Access & Register in GLS
  - https://eweb.sba.gov/gls/dsp_addcustomer.cfm?IMAppSysTypNm=8ASDB
- Code of Federal Regulations (13CFR)

  http://www.gpoaccess.gov/cfr/index.html
- Federal Business Opportunities
  - http://www.fbo.gov
- SBA-Government Contracting
  - http://www.sba.gov/aboutsba/sbaprograms/gc/index.html
- Learn more about:
  - Non-manufacturer waivers (SBA information)
  - SBA Size Standards
  - 8(a) Business Development Program
  - WOSB Program
  - HUB Zone Program

- Local (client) resources:
  - SBA district office
  - Procurement Technical Assistance Center (PTAC)
  - SCORE chapter
  - Small Business Development Center
    - SBA/SBDC Program Office