LPTA: A HATE-HATE RELATIONSHIP
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Welcome to our industry survey on the impact of lowest price, technical acceptable contracting. The results of the survey speak loud and clear that the use of LPTA is wildly unpopular in the government market.

The use of LPTA has risen as budgets have become tighter. The concept is simple: An agency evaluates proposals on the technical merits. The proposals that meet the minimal technical requirements then compete solely on price.

In a perfect world, requirements are clearly defined, so LPTA should be an efficient and fair way to award a contract. But we don’t live in a perfect world.

LPTA is nearly universally hated and is seen as hurting large, small and midsize businesses, as well as hurting customers. It’s become the bane of incumbents who face a greater risk of losing to a challenger simply because they are less expensive.

As you’ll see in the following charts, respondents had very few positives to say about LPTA.

Several of our survey questions included the opportunity for respondents to write in their thoughts about LPTA. We’ve included representative comments with those questions.

A review of the written comments reveals a lot of venom toward LPTA but many of the comments are reasonable and constructive, pointing out when LPTA is appropriate and when it is not.

As one respondent wrote, “LPTAs have their place. However, being used in the wrong place purely as a cost saving measure and to ease administrative burdens typically creates more problems for both the contractor and the government.”

Our findings also reveal a belief that LPTA contracting will be a permanent part of the contracting landscape with 70 percent of respondents supporting that view. And 49 percent believe its use will increase.

With that in mind, we asked respondents what kind of actions their companies have taken to adjust to the increased use of LPTA contracts.

A frequent response was either not bidding on these contracts or reducing the number they bid on:

“Seek opportunities that are not LPTA since the contracting method is harmful to the company and to its employees. And more importantly – [LPTA’s] inability to meet the mission objectives of our clients,” wrote one survey taker.
Other commenters talked about cutting costs, including head count, hiring less qualified employees, accepting reduced margins and reducing benefits provided to employees.

“The only way to compete is to give the customer less than experienced people coupled with less than experienced program management and then to reduce our back office costs in whatever way we can. Thus, our business stays small,” wrote a commenter.

Four conclusions quickly emerge from our study:

- LPTA is nearly universally disliked with 89 percent saying they are not in favor of it.
- LPTA has negative impacts for both contractors and customers.
- Government contractors are actively adjusting their strategies to cope, even if some of those adjustments are painful for the company and the government customer.
- The expectation is that LPTA is a permanent fixture of the landscape.

As you dive deeper into the responses to the individual questions we asked in our survey, you’ll see these four themes repeated again and again.

As always, we welcome your feedback on how we can make this and future Insider Reports more valuable to you and your business. Email us at WTInsider@WashingtonTechnology.com.

Nick Wakeman, Editor-in-Chief
OVERALL VIEW OF LPTA

Are you in favor of the use of LPTA contracts, or do you oppose this type of evaluation criteria for procurements related to the products or services you sell?

- I’m in favor of LPTA: 11%
- I’m opposed to LPTA: 89%

Do you expect the use of LPTA to be a permanent fixture of the government contracting landscape?

- Yes: 70%
- No: 30%
LPTA CONTRACT DATA

Over the last two to three years, what percentage of contracts pursued by your company have been LPTA?

- 26-50%: 23%
- 51-75%: 17%
- 11-25%: 16%
- 76-100%: 14%
- 1-10%: 13%
- Not Sure: 12%
- 0%: 6%

Going forward do you expect the use of LPTA contracts to:

- Decrease: 22%
- Increase: 49%
- Stay the same: 30%
LPTA vs. INCUMBENT CONTRACTS

Has your company lost an incumbent contract that was recompeted as an LPTA contract?

- Yes: 59%
- No: 41%

In your opinion, was the winning LPTA contractor able to perform the contract satisfactorily?

- Yes: 7%
- No: 93%

“The rates they bid to win made it impossible to hire qualified employees.”

“They cut incumbent employees’ pay and benefits. The good ones left for another job, resulting in a lower quality of services for the government.”

Have you seen winning LPTA contractors receive price relief from the government within the first year following award of an LPTA bid?

- Yes: 54%
- No: 46%
IMPA CT OF LPTA ON CONTRACTORS

What impact have LPTA contracts had on your company?

No impact/Neutral 7%
Somewhat positive 3%
Mostly positive 2%
Positive 1%
Negative 35%
Somewhat negative 18%
Mostly negative 33%

“It’s forced salaries and profits down. This results in lower quality staff and less money for investment.”

“We have a BPA that was awarded LPTA. We have not been able to win a task order on the prices we submitted. In order to win, we will have to make an additional downward price adjustment and will likely not be able to hire the right talent.”

“We are diversifying into other areas such as commercial work or product development to lessen our risks.”
IMPACT OF LPTA ON CUSTOMERS

What impact have LPTA contracts had on your customers?

- No impact/Neutral: 9%
- Somewhat positive: 2%
- Mostly positive: 3%
- Positive: 1%
- Negative: 33%
- Somewhat negative: 19%
- Mostly negative: 33%

"The government is surprised it is receiving junior staff where experience is needed. This often leads to costly failures and rework."

"It’s taking a while, but clients do see the impact of lower costs. They get far less capability and value for their money."

"Two major TOs that were awarded in the last year have still not been completely staffed due to an inability to hire talent with the right skills and experience."

"The customer expects the subject matter experts to return but under LPTA, these ‘greybeards’ are unaffordable."
OVERALL IMPACT BY CONTRACTOR SIZE

Who has experienced a greater impact on their business from LPTA?

<table>
<thead>
<tr>
<th>Contractor Size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large business</td>
<td>38%</td>
</tr>
<tr>
<td>Midsize business</td>
<td>23%</td>
</tr>
<tr>
<td>Small business</td>
<td>40%</td>
</tr>
</tbody>
</table>

“There are increased costs of doing business for small businesses and we do not have the expendable overhead that the large primes have. We also cannot keep people on the bench because we do not have any place to put them and then they file unemployment so we lose their billable income and we have additional costs.”

“Large businesses have the resources - legal and management - to work post-award changes increasing overall prices and small businesses enjoy set-asides for most of the services work contracted by the Government today. Small Federal business units of mid-size firms and those firms just over the small limits have to bid more honestly on what they are allowed to compete for, and get squeezed, even on the “best value” procurements that are essentially treated like LPTA.”

“It hurts all categories of businesses equally because it ignores technical competence in favor of lowest price, which always comes with a cost.”

“LPTA's are affecting businesses of all sizes. It’s a race to the bottom in price. The winner is often the company that can close their eyes and plug their nose the longest and dive the deepest into the low-price barrel.”
DEALING WITH LPTA

Companies have not sat idly by as LPTA contracts have spread across the market. A variety of reactions have taken hold.

We asked an open-ended question: What actions has your company taken to adjust to LPTA contracts?

The moves companies have made fall into four categories:

- Reduce costs
- Change bid strategies, including being more aggressive with pricing
- Adjust staffing
- Work more closely with customers

Cost reduction has taken multiple forms, according to the respondents to our survey. They have focused on overhead costs, staffing, including reducing salaries, and hiring less experienced staff.

“We slashed overhead, decreased expected direct labor cost and undercut expected head counts to drive down the price,” one wrote.

Direct labor costs took a hit via hiring in the “lowest quartile of the expected salary range.”

Another respondent said their company hired a process expert to help them find ways to reduce costs.

The most common bid strategy change is to avoid LPTA if possible.

“Avoid them,” one wrote. “Life is too short to waste time on them.”

Other respondents described how they have become much more selective about which LPTA contracts to bid on and which to avoid.

“We bid them less but when we do bid them, we cut our profit to the bone and provide minimum benefits,” one survey respondent wrote. “LPTA is not good for the government. When you buy [cheap] shoes…they wear out fast.”

“We are now bidding only what the government is asking for, and the government is less happy with what they are receiving,” another wrote.

Changes to staffing included the not too subtle – “Fired people,” wrote one – to more nuanced:

“We lower staffing and write a less robust response to the RFP since an LPTA award is based on an acceptable or unacceptable rating and no risk taking,” wrote another respondent.
DEALING WITH LPTA

“We have cut out people and now work harder as we have a very reduced staff,” said one respondent.

“The only way to compete is to give the customer less than experienced people coupled with less than experienced program management and then to reduce our back office costs in whatever way we can. Thus, our business stays small,” was another written comment.

Another strategic response has been to work more directly with customers in hopes of either getting a better understanding of what they want or to steer them away from LPTA.

“We've tried to work with end-user clients to demonstrate the market place conditions, [the] increased number of recompetes coming from LPTA awards, [and the] dissatisfaction from clients that are using LPTA,” a respondent said.

“We focus more intently on helping customers shape appropriate requirements to define technical acceptability,” another wrote.
COMMENTS/OTHER FEEDBACK

Our final survey question asked for written comments and served as a catchall: Please share any other thoughts on LPTA contracts.

Some responses were reasonable but the overwhelming dislike for LPTA came through with a vengeance.

Here are some representative comments from the 190 submitted during the survey:

“LPTA are great when the government has listed out the specifications and requirements for technical acceptability.”

“LPTA should not be used for services.”

“When Government picks the lowest priced vendor (usually without a price reasonableness check) the winning vendor will also be forced to select the lowest wages employee and in some cases will start using their off-shore employees to meet the profitability goals.”

“LPTA is being applied for both services and products with little understanding of how it was designed to be used. Contract shops see it as a way to show they are squeezing more money from contractors.”

“LPTA SUCKS!! How would you like to jump out of an airplane with a parachute made by a contractor who had the lowest bid price?”

“LPTA prevents vendor innovation for better performance for lower costs. LPTAs often lock both parties into one way of doing business. They can also be more costly in the long run if the government incurs a high number of change orders.”

“We’ve been through this before. Once program managers realize LPTA hurts rather than helps them LPTA will start fading away again.”

“The old saw “you get what you pay for” is never more true than in an LPTA environment. Typically the technical bar is set very low or is poorly defined, so the only competition is around price.”

“LPTA contracts are an artificial attempt to control labor costs for services. It creates job instability and contributes to high employee turnover which can ultimately affect the quality of work being performed.”
CONCLUSIONS

Our survey exploring what contractors think about LPTA procurements and the impact they are seeing in the marketplace has led us to four conclusions:

• LPTA is an extremely unpopular form of contracting.

• The impact of LPTA has been negative for both contractors and customers.

• Companies have been very active adjusting strategies and making other changes (including laying off people) so they can remain competitive and profitable.

• The general belief is that LPTA will remain a significant part of the market for many years to come.

In general, LPTA has made a tough market even tougher. And there is no easy solution.

As with any research report, conclusions and findings can be open to interpretation, so we encourage and look forward to your feedback.

Tell us what you think of LPTA at WTInsider@washingtontechnology.com.
APPENDIX A: RESPONDENT PROFILE

Tell us about your company (check all that apply).

- Small business: 34%
- Large business: 29%
- Service-Disabled, Veteran-Owned Small Business: 13%
- Woman Owned Small Business: 11%
- 8(a) contractor: 8%
- Other: 4%
- Hub Zone contractor: 1%

My company predominantly sells the following to the government (check one):

- Highly skilled services: 50%
- System integration and technical solutions: 34%
- Products: 9%
- Other: 3%
- Low-tech services: 3%