

Preparing for Software Negotiations: Adding Value Through the IGCE Process

Ryan Webster: IT Portfolio Manager – Augur Consulting

Stephen Koellner: Cost Analyst – Augur Consulting

Speakers

- **Ryan Webster:** Augur Consulting IT Portfolio Manager
 - 10+ Years of Experience in DoD Cost Estimation
 - LCCEs/POEs, IGCEs, Cost-Benefit Analysis for IT Acquisitions, Business Case Analysis
 - BS in Finance, Contributor to GAO Cost Guidebook, CCE/A through ICEAA



- **Stephen Koellner:** Augur Consulting Cost Analyst
 - 3+ Years of Experience in DoD Cost Estimation
 - LCCEs/POEs, IGCEs, Cost-Benefit Analysis, Analysis of Alternatives
 - BS in Mathematics, Mathematical Modeling, Contributor to GAO Cost Guidebook



Agenda

- Speakers Introduction
- IGCE Overview
- Scenario/Problem Statement
- How Reasonable Cost was Determined
- Volume Unit Cost Analysis
- Evaluation of vendor proposal
- Cost team recommendation
- Meeting with Vendor
- Conclusion

Preparing for Software Negotiations:

Adding Value Through the IGCE Process

- Independent Government Cost Estimates (IGCE)
 - Crucial document in the acquisition process
 - Facilitates vendor negotiation/fair & reasonable determination

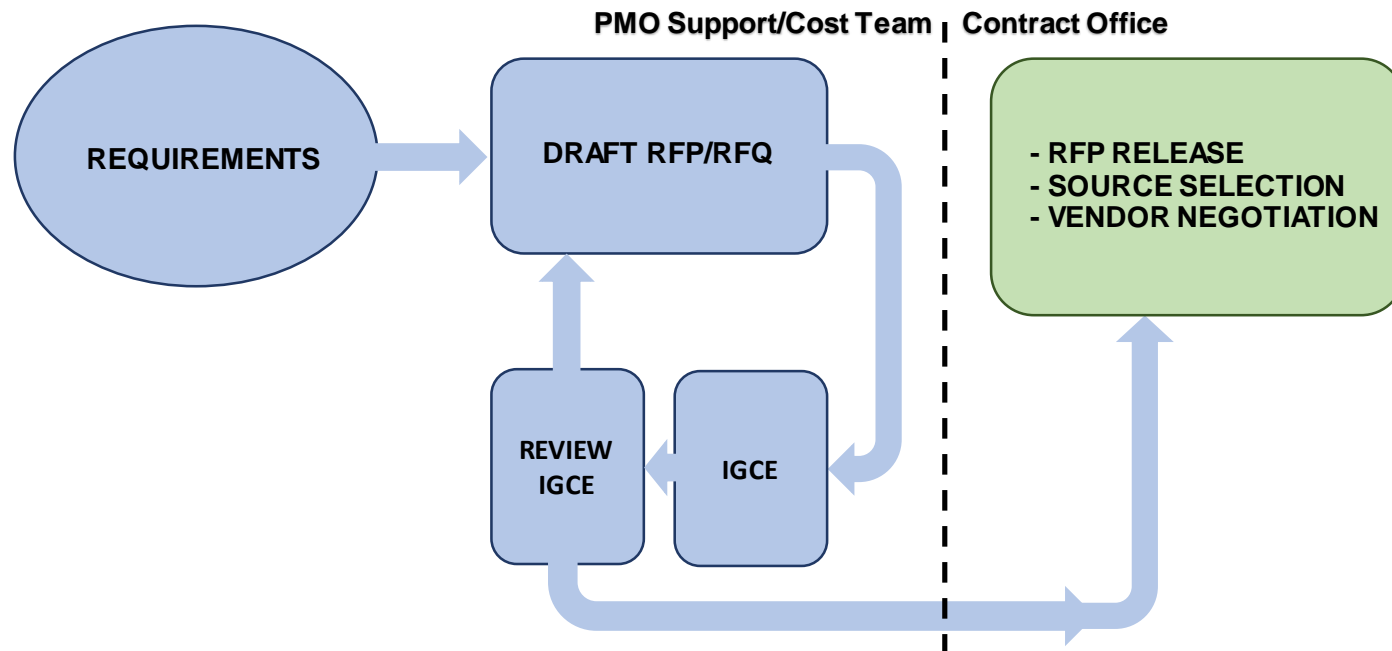
- Representative application using generated data
 - Generated/clean data for larger audience
 - Representative of a real-world IGCE experience

IGCE Overview

- IGCE: Simply a cost estimate for a specific contract
 - Done prior to seeking proposals from industry
 - *“An aid in achieving best value and shared contract risk”* – DAU
- Cost Team pretends to be a *reasonable* potential vendor
 - Base IGCE off same info provided to the vendor
 - Estimate should be as vendor agnostic as possible
 - Validate assumptions/inputs with PM team
- IGCEs have 2 distinct purposes:
 - Check to see if quotes cover the intended scope
 - Determine if proposed pricing is “fair and reasonable”

Independent Government Cost Estimate (IGCE) Overview

- Independent cost team develops estimate concurrently with RFP
 - Iterative review process improves both documents
 - Estimate reveals unintended consequences of content in RFP/RFQ
- IGCEs must precede vendor proposals to be credible
 - Government should fully establish an understanding of scope/cost



IGCE Challenges in IT/Cybersecurity Projects

- Requirements documentation intentionally vague
 - Technology/Government needs rapidly evolve
 - Multiple solutions to single requirement
 - Leads to reliance on vendors to define solutions
- Requirement owners may want/need specific solutions
 - Specific products need J&A for sole source award
 - Variance in IGCEs for specific products observed in resellers
- Limitations may impact validity of IGCE
 - Intended scope will not be fully defined by Gov.
 - Resulting cost implicitly can not be verified
 - Lose the “Independence” of an IGCE



Additional Considerations

- Common Cost Drivers:
 - Endpoints
 - Seated/named users
 - Concurrent (floating) users

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Poll Question:

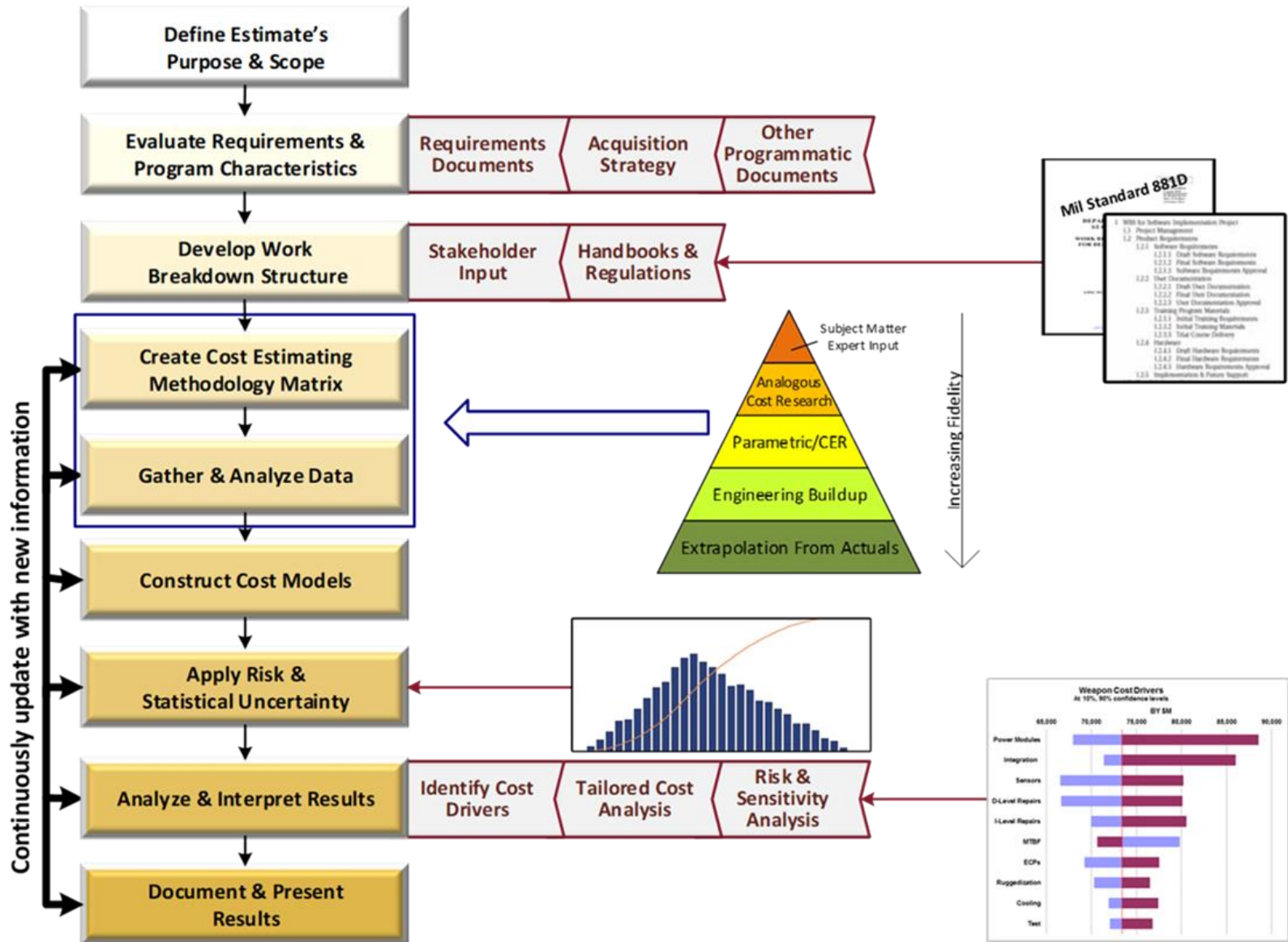
**What are other cost drivers for
IT systems?**

Additional Considerations

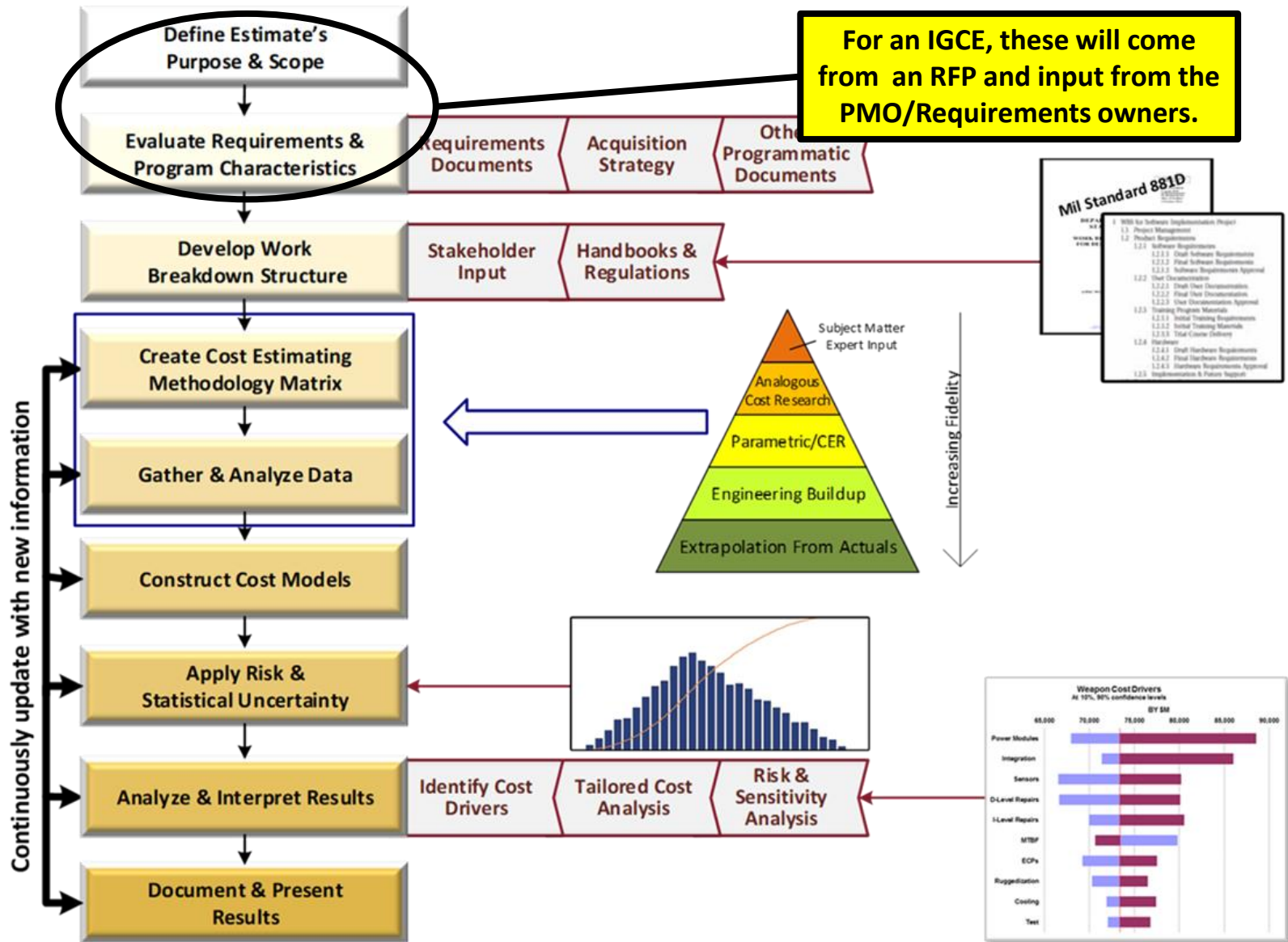
- Common Cost Drivers:
 - Endpoints
 - Seated/named users
 - Concurrent (floating) users
 - Data Throughput/Database size
 - Virtual Machines
 - Maintenance: Renewal vs subscription
 - License terms: Uninstall/reinstall
 - Volume licenses
 - New functionality (potential offsets)
 - Overlapping capabilities

Poll Question:

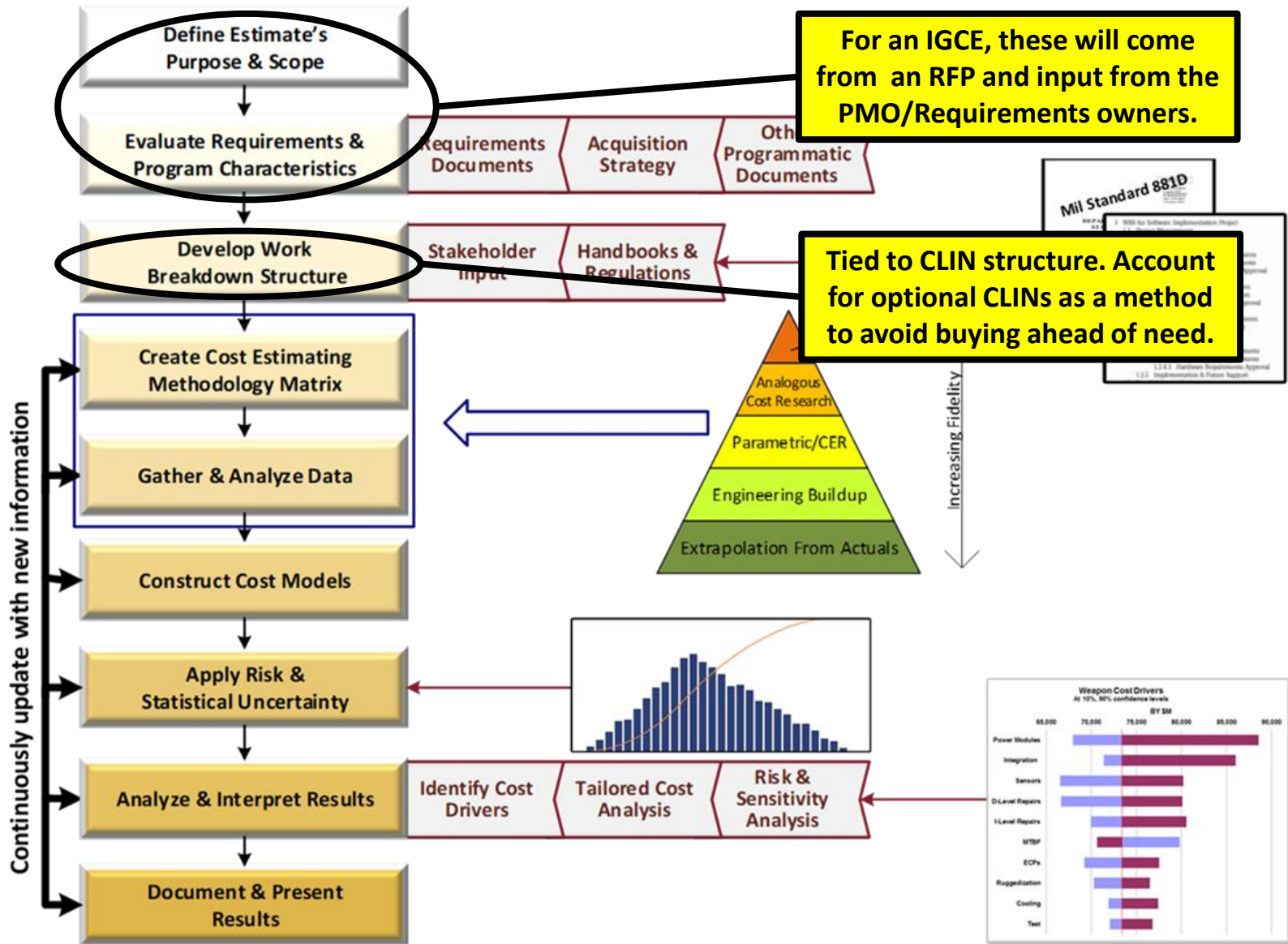
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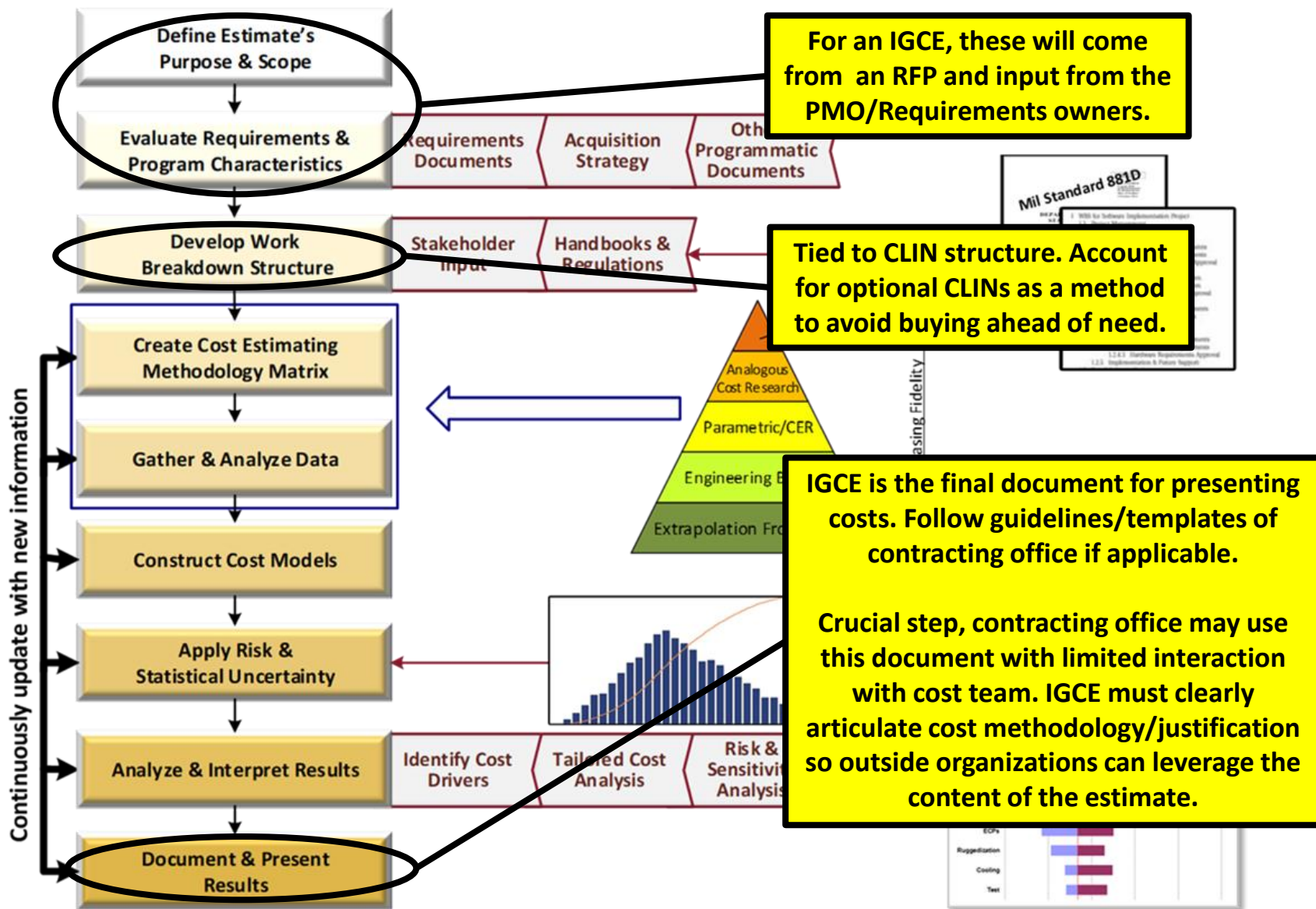
Cost Estimating Process

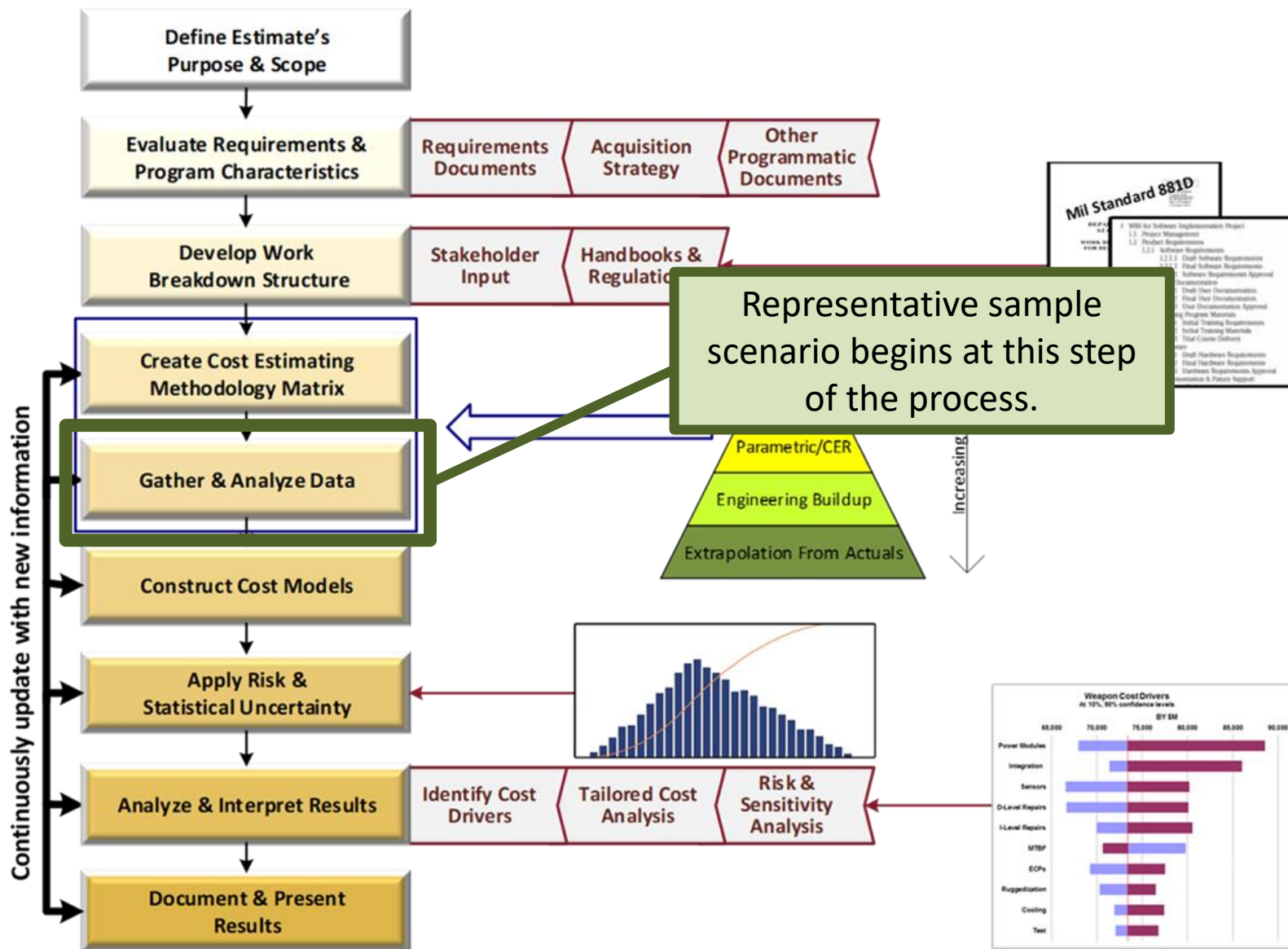


Cost Estimating Process



Cost Estimating Process

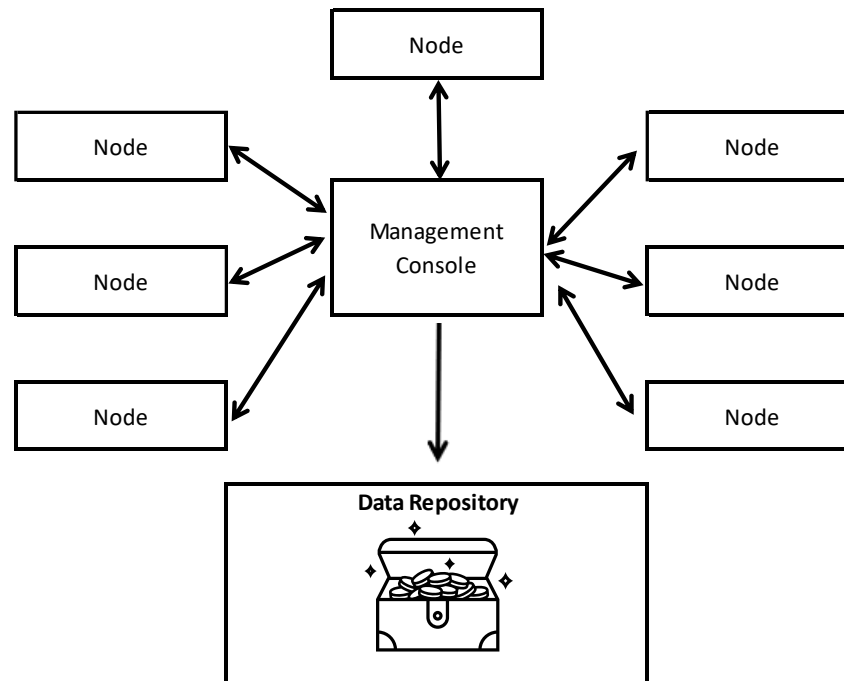




Sample Scenario

Scenario and Vendor Info generated for this brief; representative of real-world scenario

- Network Data Ingest (NDI): PoR to gather data from nodes
 - Had 1 year of legacy SW licenses from Proof-of-Concept contract
 - Planning a contract award to support Initial User Testing
 - PoR had limited funding for this (~\$600K for testing)



Node = Data collecting HW deployed at networks

Management Console = Manages flow of data from nodes to Data Repository

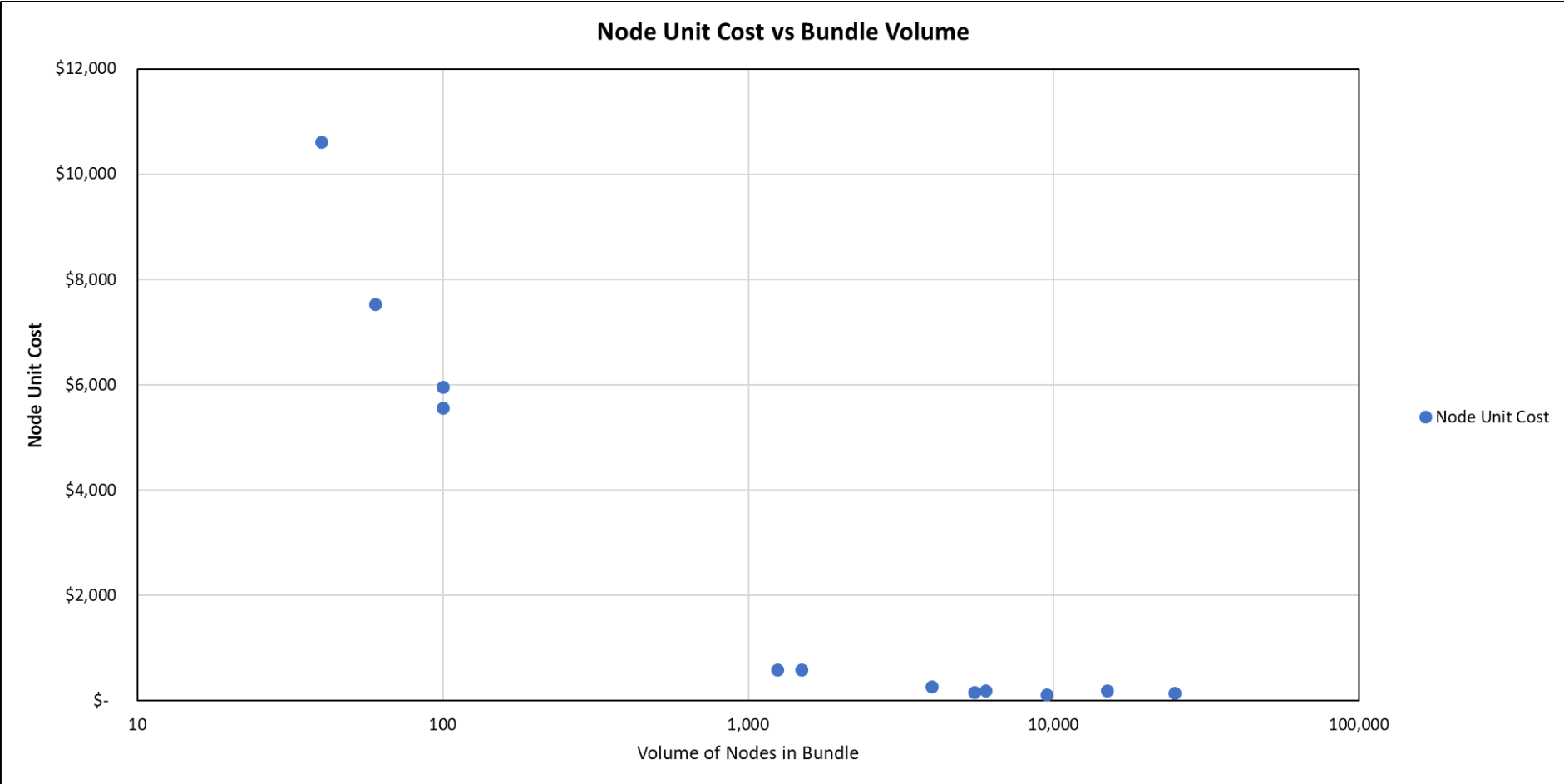
Data Repository = Stores/Runs analysis on data gathered from nodes

How a Reasonable Cost was Determined

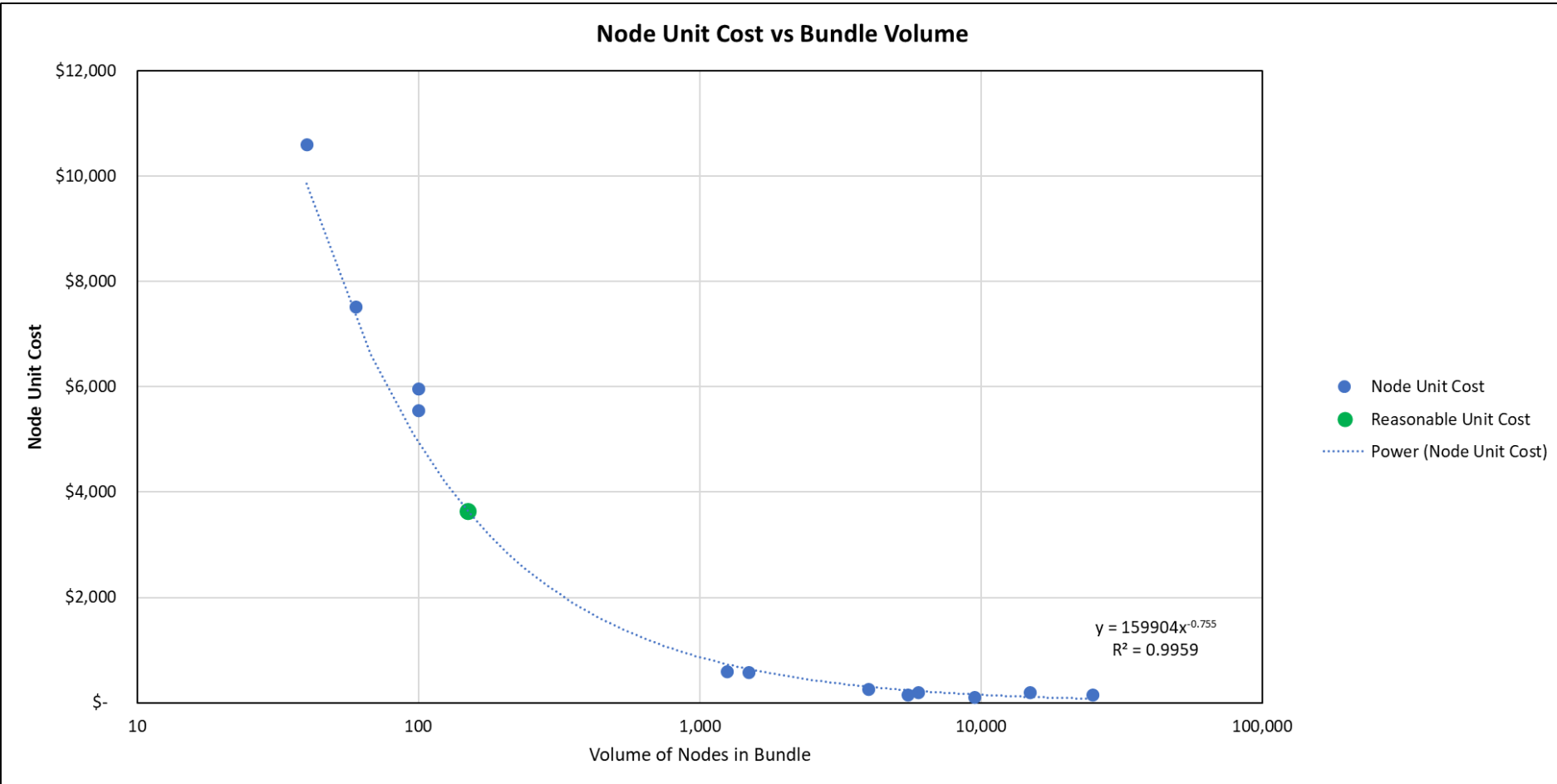
- Scope was determined with Requirement owners
 - 3 locations, 50 nodes per location for testing
 - Month long testing at each site, non-concurrently
- Sole source vendor for this acquisition
- Varied data sources on bundled node license costs

Gray Mesa SW License Cost Data			
Source/Data Point Name	Cost of Bundle	Bundled Nodes	Node Unit Cost
Proof of Contract Award	\$ 595,672.80	100	\$ 5,957
GSA-Gray-Mesa-Bundle-31612	\$ 555,147.06	100	\$ 5,551
GSA-Gray-Mesa-Bundle-218	\$ 730,931.75	1,250	\$ 585
GSA-Gray-Mesa-Bundle-133320	\$ 815,726.62	5,500	\$ 148
GSA-Gray-Mesa-Bundle-5387	\$ 985,316.35	9,500	\$ 104
GSA-Gray-Mesa-Bundle-12392	\$ 451,108.70	60	\$ 7,518
GSA-Gray-Mesa-Bundle-18723	\$ 423,974.34	40	\$ 10,599
GSA-Gray-Mesa-Bundle-71325	\$ 868,055.76	1,500	\$ 579
GSA-Gray-Mesa-Bundle-7431	\$ 1,039,285.23	4,000	\$ 260
GSA-Gray-Mesa-Bundle-1978	\$ 1,120,509.75	6,000	\$ 187
Recent Quote 1 (2 years - Enterprise)	\$ 3,536,899.58	25,000	\$ 141
Recent Quote 2 (1 year - Enterprise)	\$ 2,874,824.90	15,000	\$ 192

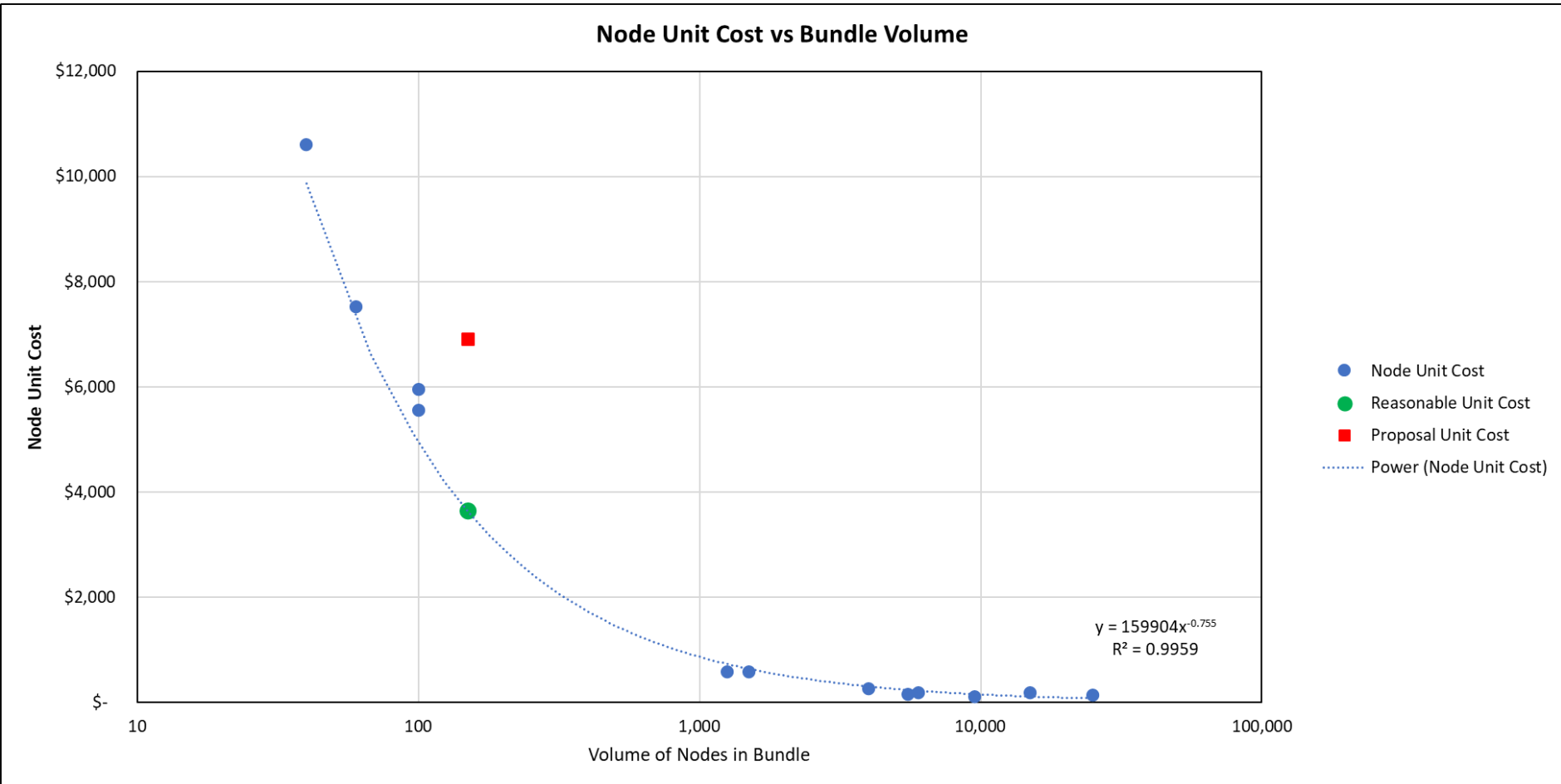
Volume Unit Cost Analysis



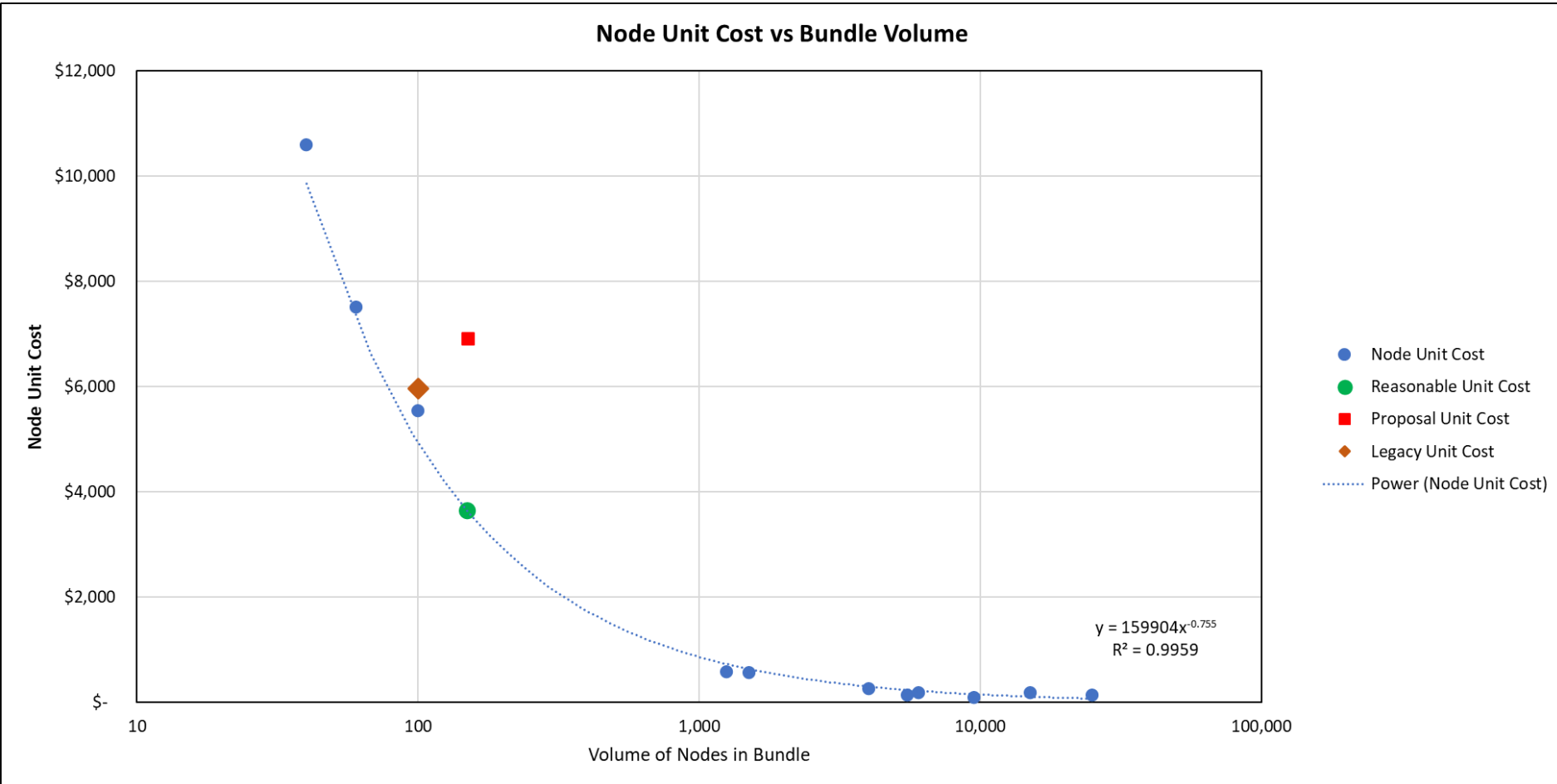
Volume Unit Cost Analysis - Trendline



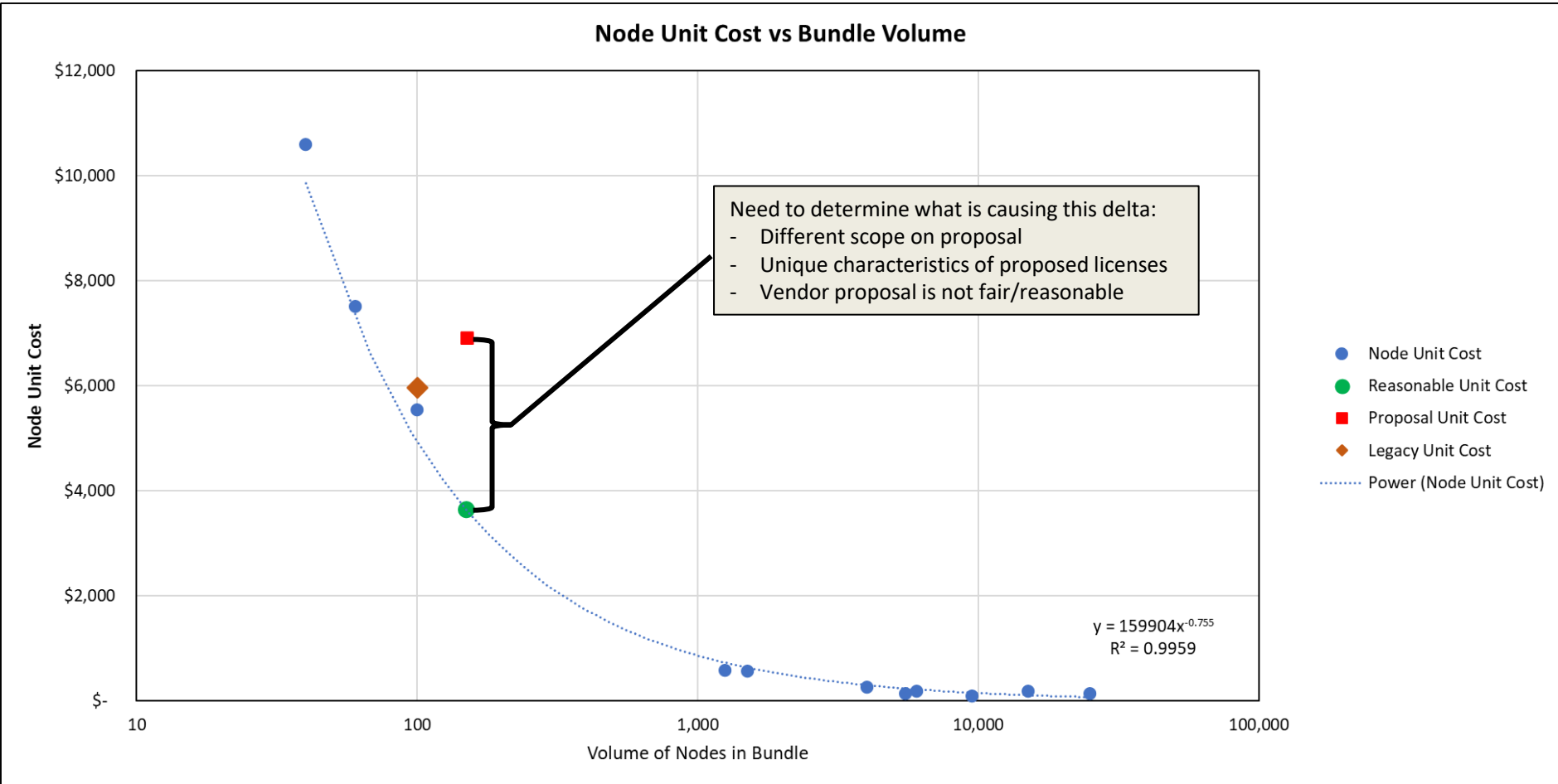
Volume Unit Cost Analysis – New Proposal



Volume Unit Cost Analysis – Past Actual



Volume Unit Cost Analysis – Past Actual



Comparing IGCE with Quote

- Proposed unit cost unexpectedly high given volume
 - More expensive than previously procured
 - General Services Administration (GSA) listings cheaper (unusual)
 - Projected “reasonable” unit cost nearly 50% lower

Initial IGCE Position			
Item	Qty	Unit Cost	Ext. Cost
Node Licenses	150	\$ 3,638.40	\$ 545,760.00
Mgmt Console Licenses	3	\$ 194,841.64	\$ 584,524.92
Total			\$ 1,130,284.92

Vendor Proposal			
Item	Qty	Unit Cost	Ext. Cost
Node Licenses	150	\$ 6,912.89	\$ 1,036,933.50
Mgmt Console Licenses	3	\$ 231,567.92	\$ 694,703.76
Total			\$ 1,731,637.26

- **Major unknown:** are licenses in sample truly analogous?

Cost Team Recommended Course of Action

- Procure bundle packages for each site off GSA
 - Total cost less than vendor proposal
 - Get more nodes (total of 180)
 - Less time to acquire the required SW

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Revised Cost Team Recommendation			
Item	Qty	Unit Cost	Ext. Cost
GSA Bundle (60 Nodes per)	3	\$ 451,108.70	\$ 1,353,326.10
Total			\$ 1,353,326.10

Support During Vendor Negotiations

- Cost team not always involved during negotiations
 - IGCEs typically leveraged by Contract Office
- Met with Vendor multiple times to discuss the proposal
 - Gained insight into new license structure & SW features
 - Delta in cost vs. proposal explained
 - Learned that high unit cost due to flexible installation
- **Result:** Buy less nodes; leverage re-use feature of license
 - New information changes acquisition approach to meet req.

Awarded Contract

- Continually met with PMO and Vendor
- Vendor proposed licenses can be reinstalled/reused
 - Asked for revised proposal with less endpoints
 - Plan to run consecutive site assessments to reuse licenses
- Remained under budget for this action
- Ensure the program maintained the requirement

Final Proposal			
Item	Qty	Unit Cost	Ext. Cost
Node Licenses	50	\$ 6,912.89	\$ 345,644.50
Mgmt Console Licenses	1	\$ 231,567.92	\$ 231,567.92
Total			\$ 577,212.42

What you don't want to hear:

- Requests for IGCEs after receiving vendor ROM/quote
 - *“Need an IGCE for this \$20K cost”*
 - *“Back into this proposal from the vendor”*
 - **Proposals can skew results of independent estimate**
- Relying on vendor to define requirement
 - *“Let me ask the vendor how many endpoints we need”*
 - **Government should establish their own position first**
- Buying excessively ahead of need/for convenience
 - *“We don't need to ramp up, we can afford them all now”*
 - **Should view SW requirements like a HW fielding plan**
 - Exceptions when more licenses may be cost effective at margins of pricing structure

Key Takeaways & Lessons Learned

- IGCEs used to determine value/viability of a proposal
 - Scope, Price are the 2 main criteria
 - IGCEs for IT Acquisitions add unique considerations
- Question deltas in cost (positive or negative)
 - May find new information that changes the contract strategy
 - Vendor may adjust proposal during negotiations
 - Might identify shortfalls of the proposal
- Clearly articulate concerns to the PMO
 - **Push for inclusion directly in discussions on scope/price**
 - **Be involved in meetings with the PMO & Vendor**
 - Find better value alternatives to clients

Questions

- For additional questions reach out to:
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 - rwebster@augurconsulting.net

