

PERFORMANCE-BASED CONTRACTING APPROACHES

NOTE TO DoD BPA USER: This Attachment C has been developed to provide guidance, education and a starting point for programs that wish to engage a systems integrator using a performance based service contract. The approaches and any terms that may be contained herein are a baseline from which your program may negotiate and develop performance based payment structures after negotiation with the BPA holder.

C.1 OVERVIEW

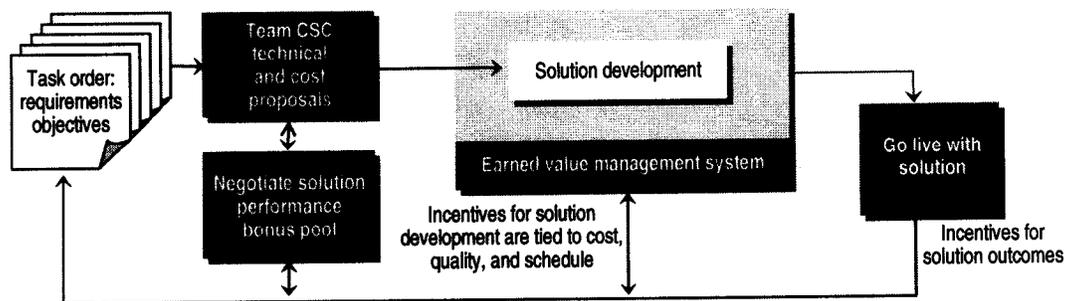
The essence of Performance Based Contracting (PBC) is describing in clear, specific, objective, measurable terms *what* is to be performed, not *how* it is to be performed. PBC serves as a vehicle whereby each party has a greater insight into the progress and expected outcomes of the purchased product or service. CSC is willing to tie its financial success to the success of the programs it performs.

C.2 PRICING STRUCTURES AND APPROACHES

The performance measures for the solution development are based on metrics. We tie appropriate contract performance incentives to variances in cost, schedule, and business results.

As an example, CSC's performance-based task order approach is illustrated in **Figure C-2.1**. CSC's pricing structure and approach under this BPA involve delivering the prescribed solution as planned. We monitor our progress against our plan (e.g., delivery milestones and schedules). A variance is then computed against those plans and the impact on the project is predicted so Team CSC can take corrective action to put the project back on track. Phase completion milestones and key deliverables will be tracked and performance-based payments will be made, or withheld, based on business results. The performance-based payments to be made or withheld will be determined based on parameters set forth by the Task Order agreement. At a minimum, the status of these amounts will be reviewed on a quarterly basis.

Figure C-2.1 Team CSC's Performance-Based Contracting Approach.



This approach ties task order performance to the delivered product ensuring the end product meets and/or exceeds the Government's objectives.

Figure C-2.2 is an example of this portion of the performance-based approach. Development period surveillance is indicated by the Acceptance Criteria provided in Attachment A, Task Tables.

				Performance	Payment Based on Performance Scorecard
Acceptance of SAP business blueprint	\$1,000,000	\$900,000	\$100,000	Exceeds	\$150,000
				Meets	\$100,000
				Does not meet	\$0

Schedule variance < ± 10%	25%	Exceeds (2 points)
Deliverable promptness < ± 2 days	25%	Exceeds (2 points)
Delivery quality < 10% rework	25%	Meets (1 point)
Client satisfaction of deliverable meeting task order objectives (exceeds, meets, does not meet)	25%	Exceeds (2 points)
Summary		Exceeds (1.75 average points)

Note: Exceeds (1.5 – 2 points); Meets (.75 – 1.5 points); Does not meet (0 – .75 points)

An Example of Team CSC's PBC Approach for Solution Development.

This approach ties financial incentives to performance during the development of the solution as well as after the solution is delivered.

CSC recognizes that the most important goal of any solution development project is to develop a product that meets and/or exceeds the task order's business objectives. Thus, as illustrated in Figure C-2.1, CSC proposes an approach that motivates the team not only to develop solutions on time and within budget, but also to deliver a quality product that meets the task order objectives. CSC proposes that a performance bonus be established at task order award and this bonus will be tied to CSC's delivered solution meeting and/or exceeding the task order objectives and achieving user satisfaction.

Conceptually, CSC proposes tying incentives to improvements in business processes as measured by achievement of targets on a performance scorecard defined in the Vision and Strategy Phase and baselined in the Architecture Phase. For example, on a previous contract, the scorecard included the metric "Perfect Order Fulfillment" and paid CSC a performance bonus for enabling the Army to achieve a target of 69 percent perfect, up from a baseline of 38 percent perfect before solution implementation. Surveillance under this PBC objective will be accomplished through periodic computation of performance on the scorecard metrics using the same formulas used to compute the baseline, beginning in a period negotiated to allow a reasonable stabilization and results realized amount of time and continuing for no more than 1 year.

The amount of this performance bonus and measurement metric is to be mutually negotiated on a task order by task order basis. The post delivery performance measures will be directly tied to the unique objectives and requirements of any performance-based task order.

CSC, with the approach described above, is proposing a PBC approach that motivates the team not only to develop solutions on time and within budget, but also to deliver a quality product that meets the task order objectives.

C.3 Circumstances In Which Performance-Based Pricing Applies

Team CSC has been providing performance-based pricing approaches and formulas to our clients since our initial PBC with a commercial client in 1991.

Since that time, CSC has added numerous major commercial and public clients to their PBC portfolio and have matured their performance-based business practices accordingly. For example, Team CSC has deployed the largest and most complex performance-based ERP implementation in the world for the U.S. Army's LMP. CSC's approach for the DoD ERP performance-based task order pricing structure leverages the LMP experience as well as experience on other PBC projects. This experience shows that CSC performance on virtually any task order, whether FFP or time and materials (T&M), can be measured by performance-based metrics by applying performance measures to meet the requirements and objectives of the task order. CSC is willing to enter into a PBC partnership with the DoD on every task order as long as the objectives are clear, specific, quantifiable, and measurable, and all parties are in full agreement. The only time a PBC approach would not be appropriate is when the Government has difficulty in determining what constitutes success for a project or when the current level of performance cannot be determined, making an improvement in performance impossible to measure.

C.4 Duties of the Government

Team CSC believes partnership involves knowing what is expected of each member of the team.

Team CSC will be responsible for implementing DoD ERP task orders, any of which may be issued as a PBC. In this situation, the agency's primary roles are to provide vision, support, and timely decisions from senior Government management as well as advocacy of the solution to the end user community to ensure acceptance. Should issues arise, Team CSC and DoD will resolve these problems in a mutually agreed, beneficial way.

Additional responsibilities of the Government in a performance-based model include:

- Government will produce a Statement of Objectives or Performance Work Statement defining the objectives to be met for the particular task.
- Government will clearly identify their roles and responsibilities with the corresponding risks/awards associated with their performance.
- Government executive committee members will be available to participate in critical project meetings.
- Government users, process owners, and other SMEs will be available for scheduled workshops and interviews and able to answer questions and resolve business issues according to the mutually agreed-upon project plan.
- Government personnel will provide access to the required documentation and/or resources regarding reporting, business strategy, and business processes as defined in the project plan.
- Government will provide access to the computing infrastructure, which includes host, network, and supporting systems for the project team during the project.
- Government's support resources will participate with the user acceptance tests to enable smooth transition from implementation to ongoing support.
- Government will participate in open communication and partnership with Team CSC around a common set of objectives and assign accountability for managing contract performance.
- Government will jointly define metric calculation formulas with CSC and support baseline performance data collection with open access to legacy process data and personnel, who will collect additional data if necessary.
- Government will be an active participant in contract governance and surveillance of contract performance.

To attain the benefits of a PBC, an effective governance model must be established that can be categorized into three major dimensions: relationship management, performance management, and business management. Each of these dimensions is core to the mutual success of the performance-

based relationship — a solid relationship built upon consistent and effective performance which, in turn, will result in meeting the agreed-to business and financial requirements. The causal and cyclical nature of these dimensions (success in one leads to success in the others) underscores the importance of a well-defined, clearly articulated governance model as a prerequisite to an effective relationship.

Industry analysts and experts emphasize that organizations need to be prepared to manage relationships with providers differently when entering into a performance-based arrangement. The relationship is characterized more as a partnership than the traditional customer/vendor dynamic. As such, organizations need to understand the differences in the relationship and ensure that the skills, roles, management structures, and organization are in place to effectively implement this new concept of product delivery and operations. By committing to a partnership governance model, the DoD ERP client retains control of the products and services being delivered while Team CSC retains control of the processes by which they are delivered.

While Team CSC does not propose to introduce metrics or performance measures for individual task orders until the requirements and objectives are fully understood, metrics for overall contract performance can be derived prior to contract performance.