



# Lowest Price Technically Acceptable

Overrated, Overused?

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The Lowest Price, Technically Acceptable (LPTA) source-selection method is overused, and that overuse harms the products and services that our warfighters rely on. While LPTA has a proper function in the acquisition of commodities and commoditized services, the increased use of the LPTA in recent years means that the tool has expanded into other areas where it does not belong.

The downward pressure on price reduces industry's incentive to innovate and may drive quality suppliers entirely out of the defense marketplace as they look for more lucrative opportunities. Without updating the guidance for LPTA and narrowing the range of solicitations for which it is used, contracting officers will continue to misuse LPTA, harming both acquisition outcomes and our industrial base in the process.

Reports demonstrate that the use of LPTA has increased significantly in recent years. According to the Government Accountability Office (GAO), between fiscal years 2009 and 2013, the Department of Defense (DoD) use of LPTA in solicitations rose 10 percentage points, from 26 percent to 36 percent of solicitations, a relative increase in use of 38 percent. Over the same period, the Tradeoff process declined 11 percentage points, from 69 percent to 58 percent. Bloomberg reported a government-wide increase in the use of LPTA, from 55.7 percent of solicitations in 2010 to 61.4 percent in 2014. Over the same period, growth in the use of LPTA was most significant in the Navy, with the number of LPTA solicitations in 2014 outstripping the total number of all Best Value Continuum solicitations in 2010, 2011, or 2012.

To be fair, there are four possible explanations for the rising use of LPTA. First, we may have significantly changed the profile of items we are buying, necessitating a change in our

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source-selection methods. Second, we may have overused Tradeoff or other Best Value processes in the past. Third, we may now be overusing LPTA. Last, it could be some combination of the other three possibilities.

Fairness notwithstanding, the most obvious explanation is an overuse of LPTA due to downward pressure on costs. Although I cannot offer evidence of a causal relationship between the two, the increased use of LPTA correlates in time to overall budget pressures created by DoD efficiency initiatives, the Budget Control Act, and budget sequestration. Better Buying Power 1.0's emphasis on cost reductions likely reinforced the tendency.

The overuse of LPTA is an effort to receive more than what we pay for. The Center for Strategic and International Studies' annual contracting report demonstrates that the pain of sequestration has fallen disproportionately on modernization accounts, while the demands made of the DoD, including demands on its materiel, continue without significant reductions. A sustained demand signal coupled with reduced resources prompts the acquisition workforce to look for new ways to save money—including LPTA—even if, under normal circumstances, LPTA would not be the ideal source-selection method. While asking industry and our acquisition workforce to do more without more funding can temporarily produce good outcomes, it is not a sustainable approach in the long run unless it is coupled with technology-enabled productivity increases. Without real productivity gains, "do more without more" becomes magical thinking enabled by short-term needs borrowing against long-term investments. That is a recipe for hollowing out our long-term technology superiority.

For that reason, the tendency to overuse LPTA leads to very worrisome anecdotal examples. In my own experience, I have witnessed LPTA used to purchase personal protective equipment for soldiers and Marines headed for combat. I have heard stories of LPTA used to purchase pilot training services. National Defense Industrial Association members could likely fill the remainder of this allotted space just with examples of the inappropriate use of LPTA. Suffice it to say that if I or one of my loved ones is heading into harm's way, I want the very best, not the lowest-priced, body armor or flight training. I prefer a solicitation that gives due consideration to quality distinctions above the threshold of technical acceptability.

We rightly talk a great deal about competition among suppliers for government contracts, but we often fail to remember that the government also is in competition with other marketplaces for the very best suppliers. Like water seeking its own level, capital flows to those places where

it can most efficiently deliver returns at an acceptable risk. For quite some time, the defense marketplace has offered reasonable returns with low risk. That has made our marketplace desirable for investment.

But times are changing, and not for the better. What once was a very stable and predictable market has been roiled by budget uncertainty, government shutdowns, topline reductions, and sequestration. At the same time, sourcing strategies that employ LPTA put increasing pressure on already limited returns. Coupling an unpredictable market with unattractive returns is no incentive for new capital and is a disincentive for existing capital. Becoming a less-desirable customer will inevitably mean losing good suppliers in exchange for bad ones.

LPTA actually conditions the market to favor less-desirable suppliers, since it reverses the standard incentive structure of product and service competitions. Under generalized Best Value and Tradeoff sourcing processes, industry has incentives to make the best product possible and offer it at its best price. But under LPTA, the incentive structure is for companies to reduce the price point no matter what, as long as they can remain above the threshold of technical acceptability. LPTA actually incentivizes contractors to worsen their product offerings, provided doing so will reduce price and remain above the technically acceptable threshold.

Along with a desire to make a profit, most contractors take great pride in their work—they entered defense contracting out of a sense of patriotism and desire to help warfighters. Many contractors are former warfighters or government employees. Under LPTA, they are in effect told, "Make this product as cheaply as you can and, if need be, as badly as you can as long as it meets minimum requirements. If you refuse, we will punish you by awarding the contract to someone else."

Contractors are caught on the horns of a dilemma. They want to provide a high-quality product or service that they themselves would be glad to use. At the same time, if they do not bleed out every last cost, they will never have the chance to provide anything at all. The message is simple: Bid a cheap product or service, or leave the government market.

Ironically, one effect of LPTA is of benefit to industry. Under the Federal Acquisition Regulation (FAR) Part 15, all negotiated source selections, including lowest-price source selections, could be made without using LPTA. With the exception of LPTA, the Best Value Continuum is highly flexible and allows contracting officers to review all bids, weigh their different characteristics, and use judgment to accept the best overall value—and that could include choosing the lowest-price bid.

Since LPTA circumscribes the judgment of a contracting officer in what would otherwise be a very flexible post-bidding source-selection environment, LPTA exists to provide an advance signal to industry about what the government will weight most heavily in bids. Providing that information to industry in advance, at the expense of ex post facto government flexibility, actually is the most welcome aspect of LPTA—worse than LPTA would be a stream of non-LPTA solicitations that still consistently chose the lowest-priced offerings without advance warning.

Therefore, industry eschews the reflexive preference for the lowest-priced bid without regard to other factors, not the LPTA tool itself. The United States enjoys its military advantage for three reasons: quality people, realistic and continuous training, and cutting-edge equipment. In the area of equipment, the United States for the last half-century has enjoyed a technological advantage that is all too quickly slipping away. Better Buying Power 3.0, with its emphasis on technology innovation, is a clear recognition of the need to reassert and maintain U.S. technological superiority, as are the Defense Innovation Initiative and the Offset Strategy. But telling companies to aim for a highly specific target of technical acceptability and an ever-diminishing price point directs their innovative energies toward price reductions alone without regard to quality.

In fact, LPTA incentivizes industry to be innovative about quality reductions, provided those reductions in quality also will reduce price. Is that really the kind of innovation we are looking for?

Driving toward the lowest possible price does not always make sense. For products, logic suggests that capability areas that are regularly subject to LPTA solicitations over time will see flat-lining or even reduced capabilities, as LPTA incentive structures punish companies when they independently attempt innovations in quality that may cost more to develop or produce. Therefore, if the DoD hopes to see independently developed, defense-unique current or future innovations in a product area, it needs to reward and not punish industry for making innovations, and that means avoiding the use of LPTA.

Any service that requires skill or experience is unlikely to fare well under the LPTA source selection method. Unrealistically low bids can reflect carelessness in bidding, an attempt to undercut the competition, or a misunderstanding of the solicitation. Whatever the reason, the winning bidder still will seek to make a profit on the work and therefore will look for any and all ways to cut costs. That is not a recipe for high-quality services.

If a company offers a high-value product or service at the lowest price, that source selection is a no-brainer. In circumstances where that is not the case, choosing the lowest-price option makes sense when the government wants industry to apply its innovative energies to price reduction at the expense of value creation. That outcome is most preferable in areas where there are no meaningful distinctions in value above the threshold of technical acceptability—which means, for the most part, commodities and commoditized services. So long as we establish a minimal quality threshold, the DoD does not need more innovation in its No. 2 pencils or lawn mowing.

In this regard, the current FAR guidance for LPTA misleads contracting officers. That is how the GAO can observe a significant increase in the prevalence of LPTA and yet conclude that LPTA is used in accordance with guidance. The guidance itself is too narrow and focused on individual transactions rather than on capability area outcomes over the course of multiple solicitations. To address the deficiency, the FAR should point out that LPTA is ideal for commodities and commoditized services and note that contracting officers should consider the possible and probable long-term impacts of an LPTA source selection on the capability area addressed by the solicitation.

While the technical acceptability standard is sufficient for a single purchase, the broader view of overall capability area goals deserves consideration before committing to the lowest-price option. Likewise, guidance should stipulate that complex services requiring highly technical knowledge and experience only rarely will be suitable for an LPTA source-selection method. This guidance gives pause but does not prohibit contracting officers from using LPTA in such circumstances.

Over time, customer behavior shapes the market. Following a decade of investment in warfighter technology, we have high-quality contractors making high-quality products. But the market will not provide something in exchange for nothing for very long. If we allow current trends to continue, what will we have after a decade of prevalent LPTA solicitations?

Industry and government agree that LPTA is a proper tool when used properly. To argue that point is to blow over a straw man. If the government contends that LPTA is used properly, policy makers should account for the recent and dramatic increase in its use. Otherwise they argue against a point that no one in industry is making.

LPTA is a highly limited tool. The trick for policy makers and contracting officers is to find a purpose for the tool as limited as the tool itself. 

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