

# Pricing for Value – A Conversation

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# Overview

- Recap – Canada's Pricing Regime and KPMG's Engagement
- Teaming to Maximize Value
- Costing Capabilities Required
- Implementation Challenges
- Future State

# Canada's Pricing Regime

## What is it?

- A proxy for a “competitive” price, when market pricing is not available.
- Pricing is said to be negotiated within PSPC's parameters for cost-plus profit pricing,

## What does it seek to achieve?

- To limit the price, not to exceed “a fair and reasonable cost of performing the contract together with a fair and reasonable profit.”  
*S.24 Defence Production Act.*
- *This is a cost of production pricing model.*

# Canada's Pricing Regime

How is price determined?

By formula:

- Cost – Contract Cost Principles (SACC 1031-2)
- Profit – US-based *Weighted Guidelines Method*
  - Return on Capital calculations
  - Set Risk Premiums – *Business Risk* (cost elements) & *Contract Risk* (basis of payment)

# KPMG's Work – Guidance

## Costing Guidance

- The development of a Costing Standard that considers leading practice with those used in other jurisdictions
- Discussion Papers on topics, where additional guidance and clarification is required including for example, executive compensation and transfer pricing

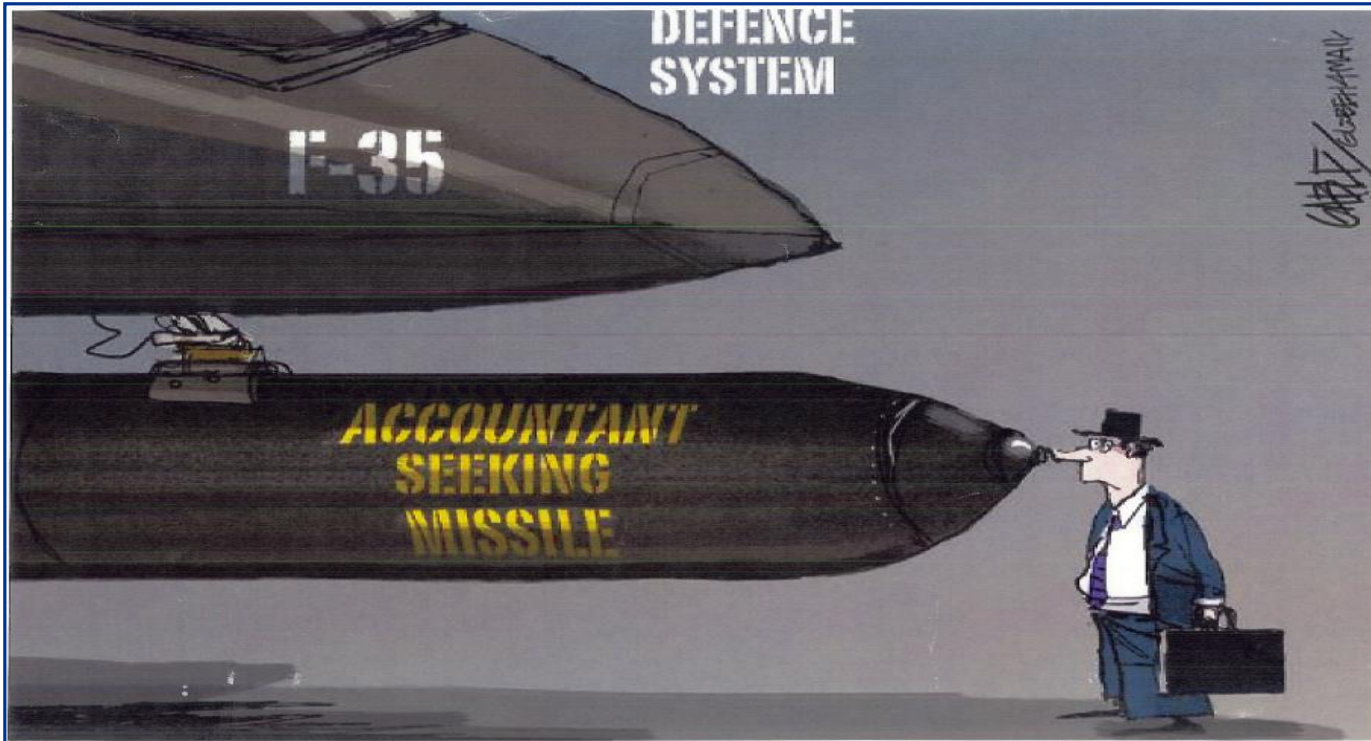
## Pricing Guidance

- Use of alternative approaches to pricing
- Discussion Papers to aid with the selection of a pricing strategy, including the use of incentives and profit premiums, managing risks and long term relationships

# Teaming to Maximize Value

- How can costing and pricing work together to maximize contract value?
  - Although costing and pricing are two distinct levers of contract value, better value on sole sourced contracts can be achieved through better alignment of both
- Thoughts?

# Costing is NOT the Enemy of Price



- When cost and price work together contractors can be more appropriately compensated (risk/reward) and Canada can share in benefits

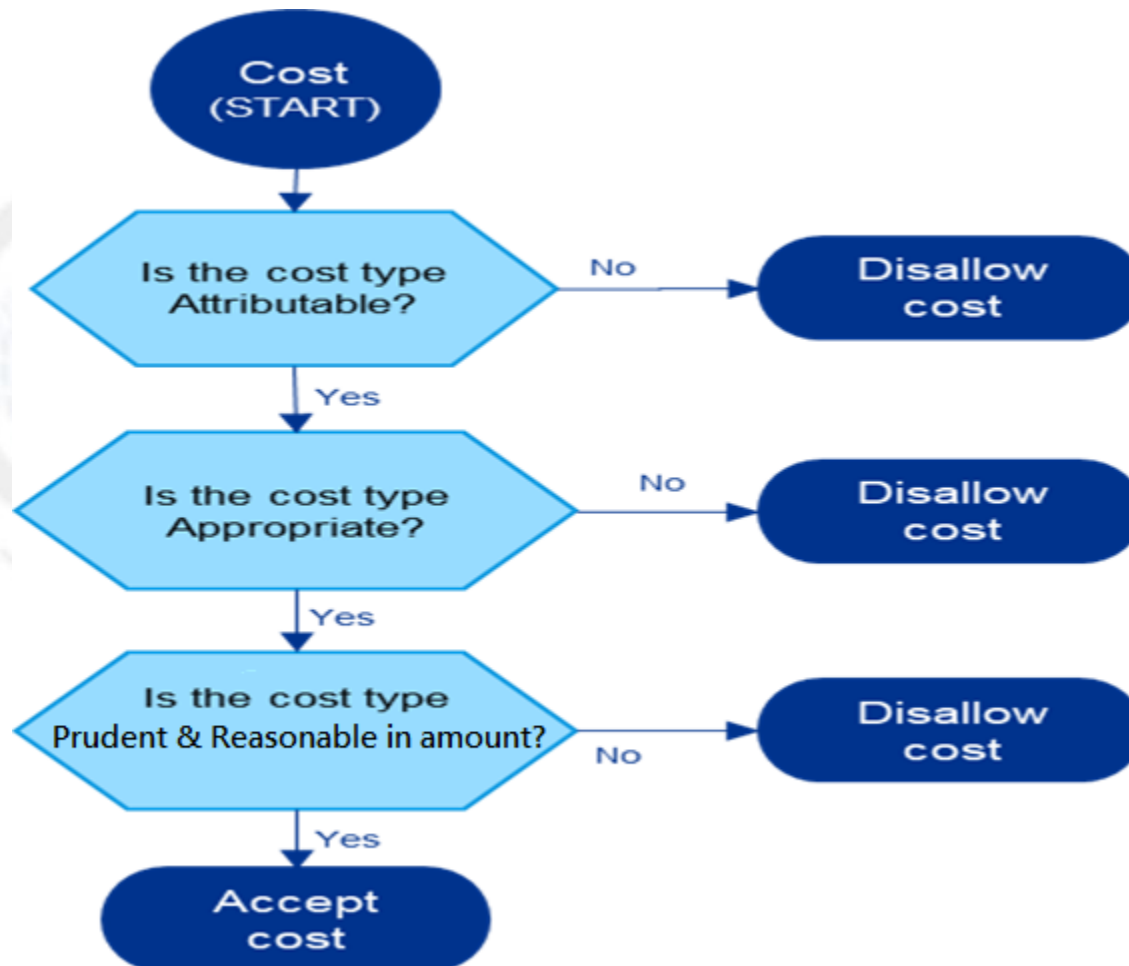
# Discussion



# Costing Capabilities Required

- Achieving the objectives of the Pricing Framework will require changes in GofC costing capabilities potentially including:
  - Understanding of contract risk and potential impact on cost
  - Capabilities in measuring “should cost” with limited information
  - Calculations for assessment of risk/benefit trade-offs
  - Sector/Product specific knowledge
  - Measurement of other benefits (cost, ITBs, time, etc.)
- What do you think the biggest capability challenges are?
- How do we align cost estimating and cost acceptability?

# Contract Cost Acceptability - Decision Tree Tool





# Discussion

# Implementation Challenges

- Current and future costing challenges to the implementation of a new Pricing Framework include:
  - Management of contracts throughout the procurement life-cycle
  - Balancing rules-based and principle-based approaches for improved consistency and value
  - Reducing opportunities to “game the system” – overhead, transfer pricing, etc.
  - Measuring and sharing the risk/rewards of continuous improvement
  
- Thoughts on challenges?



# Discussion

# Future State

- In order to maximize contract value, there will be a number of challenges faced and changes required.
  - Better Contracts?
  - Better Value?
  - Better Administration/Governance?
  
- What do you think the future look like?



# Discussion