

Indirect Spend Analysis

Prashanth Kallat

Manager Professional and Technical Services

United States Postal Service

Indirect Spend - Rates

Objectives:

Our best practice approach on the oversight and analysis of competitive indirect pricing rates when determining fair and reasonable pricing. Analysis also to determine fairness and reasonableness for option periods and when new labor categories are being added to the contract. Focus will be on identifying the right sized supplier providing lean indirect rates.

Direct vs. Indirect

- Direct Compensation
Mandatory & Voluntary
- Indirect Compensation
 - Overhead
 - General & Administrative
 - Profit

Indirect Compensation

Overhead

An accounting term that refers to all ongoing business expenses not including or related to direct labor, direct materials or third-party expenses that are billed directly to customers. Overhead must be paid for on an ongoing basis, regardless of whether a company is doing a high or low volume of business. It is important not just for budgeting purposes, but for determining how much a company must charge for its products or services to make a profit.

Indirect Compensation

General & Administrative

Expenditures related to the day-to-day operations of a business. General and administrative expenses pertain to operation expenses rather than to expenses that can be directly related to the production of any goods or services. General and administrative expenses include rent, utilities, insurance and managerial salaries.

Indirect Compensation

Profit

A financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity.

Indirect Spend/Rates Analyses

| Price | | | | | |
|--|-----------------------|--------------------------|---------------------------------------|--|--------|
| Total Cost to the Supplier | | | | | Profit |
| Direct Cost = Costs incurred for a specific contract | | | Indirect Cost | | Profit |
| Direct Labor | Fringe | | OH (expenses related to the contract) | G&A (general expenses of the supplier) | Profit |
| | Mandatory | Voluntary | | | |
| | | | Administrative Salaries | HR | |
| | WCI | Health & Welfare | Accounting fees | Finance | |
| | FUTA | Vacation | Legal fees | Accounting | |
| | SUTA | Holiday | Advertising | Advertising | |
| | SDI | Sick Leave | Insurance | Insurance | |
| | FICA | Medical Insurance | Office Supplies | Rent | |
| | - 6.2% SS Tax | 401K | Telephone bills | Office Supplies | |
| | - 1.49% Medicare Tax | Life & Disability | Travel expenses | Property taxes | |
| | -0.9% Medicare Surtax | Employee Assistance Plan | | Telephone bills | |
| | | Employee Recognition | | Travel expenses | |
| | | Performance Bonus | | Repairs | |
| | | FSA | | Legal fees | |

Multiplier

- Fully Loaded Labor Rate – \$147

Direct Compensation - \$100

Indirect Compensation - \$47

Direct Compensation * Multiplier = Fully Loaded
Labor Rate

$$\text{\$100} * X = \text{\$147}$$

Multiplier is 1.47

$$\text{\$100} * 1.47 = \text{\$147}$$

Multiplier

- Fully Loaded Labor Rate – \$124

Direct Compensation - \$100

Indirect Compensation - \$24

Direct Compensation * Multiplier = Fully Loaded
Labor Rate

$$\text{\$100} * X = \text{\$123}$$

Multiplier is 1.24

$$\text{\$100} * 1.24 = \text{\$124}$$

Salary.com – HR web Compensation Benchmark Tool

For the convenience of this presentation, Salary.com is used. Search Project Manager I for location Washington, DC or Merrifield, VA.



The screenshot shows the Salary.com website interface. At the top left is the Salary.com logo. To its right is a search bar with the text "Project Manager I" and a location dropdown menu set to "Washington, DC". Above the search bar, there are radio buttons for "Salaries" (selected) and "Jobs", and a "Browse Salaries" link. To the right of the search bar are social media links for @Salary, Facebook, RSS Feed, LinkedIn, Podcast, and YouTube. Below the search bar is a navigation menu with tabs for Salary, Job Search, Education, Career Development, Work & Life, Features, and Business Products. Below the navigation menu are four main content tiles: "Free Salary Info" (green background with dollar signs), "Personal Salary Report" (green background with upward arrows and a dollar sign), "Employee & Open Position Pricing" (blue background with a person icon and a dollar sign), and "Compensation Planning Solution" (dark blue background with a bell curve graph).

salary.com® Search for Salaries Jobs

Project Manager I Washington, DC

Browse Salaries

Follow Us

@Salary RSS Feed Podcast

Facebook LinkedIn YouTube

Salary Job Search Education Career Development Work & Life Features Business Products

Free Salary Info

Personal Salary Report

Employee & Open Position Pricing

Compensation Planning Solution

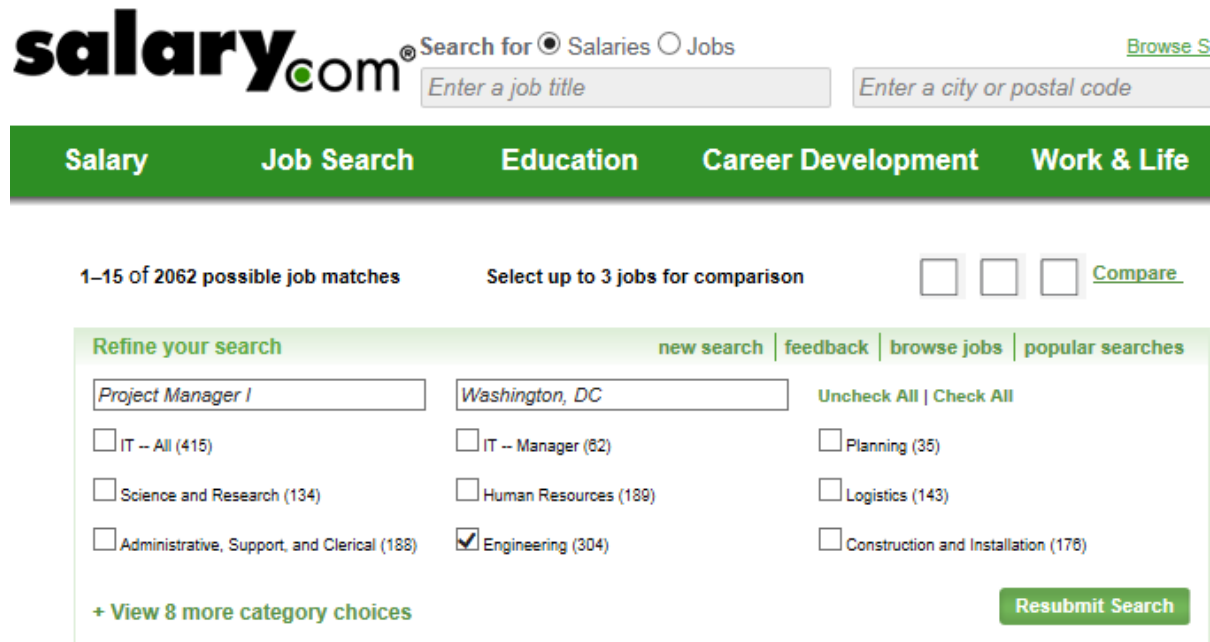
Select **Free Salary Data** from the options below.



The screenshot shows the salary.com website interface. At the top, there is a search bar with the text "salary.com" and a search for "Salaries" (selected) or "Jobs". Below the search bar, there are two input fields: "Enter a job title" and "Enter a city or postal code". A green navigation bar contains the following links: "Salary", "Job Search", "Education", "Career Development", and "Work & L". Below the navigation bar, there is a link "< back to results". The main content area features a section titled "Project Manager I Job Description". The text below this title reads: "The following is a full job description for Project Manager I. Here are the requirements and responsibilities for Project Manager I along with statistics. If after reading this page you determine that Project Manager I is not the position you are looking for, you may want to try one of these similar titles: [IT Project Manager I](#), [Project Administrator I](#), [IT Project Manager II](#), [IT Project Manager III](#), [Project Engineer I - Construction](#), [Project Management Manager](#), [Project Manager III](#), [Project Manager II](#), [Project Engineering Manager](#)". Below this text is another section titled "Requirements and Responsibilities For Project Manager I". The text in this section reads: "Responsible for the coordination and completion of projects. Oversees all aspects of projects. Sets deadlines, assigns responsibilities, and monitors and summarizes progress of project. Prepares reports for upper management regarding status of project. May require a bachelor's degree and 2-4 years of experience in the field or in a related area. Familiar with a variety of the field's concepts, practices, and procedures. Relies on limited experience and judgment to plan and accomplish goals. Performs a variety of tasks. Leads and directs the work of others. A wide degree of creativity and latitude is expected. Typically reports to a manager or head of a unit/department." At the bottom of the page, there are two green buttons: "FREE SALARY DATA" and "PURCHASE THE FULL REPORT".

Salary.com - Continued

Hit Search and select Engineering from the options and select Project Manager from the list.



The screenshot shows the Salary.com website interface. At the top, there is a search bar with the text "salary.com" and a search for "Salaries" selected. Below the search bar is a green navigation bar with links for "Salary", "Job Search", "Education", "Career Development", and "Work & Life". The main content area shows "1-15 of 2062 possible job matches" and "Select up to 3 jobs for comparison". There are three checkboxes for comparison and a "Compare" link. Below this is a "Refine your search" section with a search for "Project Manager I" in "Washington, DC". The "Refine your search" section has a grid of checkboxes for various job categories: IT -- All (415), Science and Research (134), Administrative, Support, and Clerical (188), IT -- Manager (62), Human Resources (189), Engineering (304) (checked), Planning (35), Logistics (143), and Construction and Installation (178). There are links for "new search", "feedback", "browse jobs", and "popular searches". A "Resubmit Search" button is at the bottom right.

salary.com[®] Search for Salaries Jobs [Browse S](#)

Salary Job Search Education Career Development Work & Life

1-15 of 2062 possible job matches Select up to 3 jobs for comparison [Compare](#)

Refine your search [new search](#) | [feedback](#) | [browse jobs](#) | [popular searches](#)

[Uncheck All](#) | [Check All](#)

| | | |
|--|---|--|
| <input type="checkbox"/> IT -- All (415) | <input type="checkbox"/> IT -- Manager (62) | <input type="checkbox"/> Planning (35) |
| <input type="checkbox"/> Science and Research (134) | <input type="checkbox"/> Human Resources (189) | <input type="checkbox"/> Logistics (143) |
| <input type="checkbox"/> Administrative, Support, and Clerical (188) | <input checked="" type="checkbox"/> Engineering (304) | <input type="checkbox"/> Construction and Installation (178) |

[+ View 8 more category choices](#)

Choose Salary+Bonus from the top tabs

This is an example of a distribution curve which denotes salary for PM I in the 10th percentile, 25th percentile, 50th percentile, 75th percentile, and 90th percentile.



Cost Analysis

- **Scenario:**

Project Manager (PM) levels II & III were already incorporated into the Master Contract either through a previous modification or as part of the contract award. Supplier has provided new price proposal for additional levels of labor categories, e.g., PM I, IV, & V. These labor categories need to be authorized and incorporated into the Master Contract.

Supplier's Price Proposal for Labor Categories

Levels II & III were already incorporated into the Master Contract which establishes the starting point for any subsequent price negotiations resulting from the incorporation of additional labor categories.

Table 1

| Labor Category | Rate/Hr. | Salary | Percentile Plot |
|---------------------|----------|-------------|-----------------|
| Project Manager II | \$37.31 | \$77,604.80 | 1st Quartile |
| Project Manager III | \$42.50 | \$88,400.00 | 2nd Quartile |

$$\text{Salary} = \text{Rate/Hr.} * 2080$$

Direct Compensation Labor Categories

Salary.com (Range)

Project Manager 2 - Existing

Project Manager 3 - Existing

Project Manager 1 - New

Project Manager 4 - New

Project Manager 5 - New

Supplier's Price Proposal for additional labor categories

Table 1 depicts the price proposal submitted by the supplier for PM Levels I, IV, and V (highlighted in green). Levels II & III were already incorporated into the Master Contract (highlighted in yellow), which establishes the starting point for any subsequent price negotiations resulting from the incorporation of additional labor categories. Bid Salary, Total Billable, and Bill Rates/HR for Base and Option Periods 1-4 are to be calculated based on this information.

Table 1

| | Bid Position | Bid Salary |
|---------------------|--------------|---------------|
| Project Manager I | \$ 33.90 | \$ 70,511.36 |
| Project Manager II | \$ 37.31 | \$ 77,604.80 |
| Project Manager III | \$ 42.50 | \$ 88,400.00 |
| Project Manager IV | \$ 52.39 | \$ 108,978.00 |
| Project Manager V | \$ 57.44 | \$ 119,485.00 |

Bill Salary = Bid Position*2080

Project Manager I (PM – I)

- Calculation for one Labor Category’s bill rate, i.e., PM – I is explained in the next two slides.
- Supplier’s Bid Position for PM – I is \$33.90
- Bid Salary for PM – I is \$70,511.36 which falls between 25th (\$66,564.00) and 50th (\$78,104.00) percentile on the Salary.com distribution curve. - 2nd quartile.

| Labor Category | Bid Position | Bid Salary | 10th | 25th | 50th | 75th | 90th |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Project Manager I | \$ 33.90 | \$ 70,511.36 | \$ 57,825.00 | \$ 66,564.00 | \$ 78,104.00 | \$ 92,232.00 | \$ 108,146.00 |

- At the time of contract award in 2012, Master Contract price position aggregated around the 25th percentile of the prevailing market rate compensation for these labor categories in the locality.
- Since that time the average CPI-U for 2012 and 2013 is 2.1 and 1.5 respectively
- Application of the resultant of these indices upon the original prices shows a CPI-U increase of 3.63% from the original price position to a price position that could be expected
- Which means, the previously incorporated PM Levels II price position would move towards the 25th percentile and PM Level III price position would move towards the 50th percentile
- Here PM I salary lies between 25th and 50th percentile
- Since supplier’s price position for the new labor categories is consistent with its original price proposal methodology, it is hereby determined to be fair and reasonable.

This example is from 2014, so the CPI-U and calculations are based on 2012 and 2013.

- Review the distribution curve for each of the proposed PM Levels I, IV & V on Payscale.com/Salary.com
- Table 3 shows where the proposed Bid Salary levels of PM Levels I, IV, and V distributed on the curve and their comparative positions on the 10th, 25th, 50th, 75th, and 90th percentile graph.
- Master Contract price position aggregated around the 25th percentile (yellow) of the prevailing market rate compensation for these labor categories in the locality at the time of contract award/when these labor categories are incorporated into the contract (2012).
- Since that time the average CPI-U for 2012 and 2013 is 2.1 and 1.5 respectively
- Application of the resultant of this index upon the original prices shows a CPI-U average increase of 3.6% from the original price position to a price position that could be expected when the new bill rates are proposed
- Which means, the PM Level II price position would move past the 25th percentile (CPI-U adjusted rate of \$80,422=\$77,604.80*1.036) . PM Level III price position would also move past the 25th percentile (CPI-U adjusted rate of \$91,609=\$88,400*1.036)
- Suppliers proposed price position for PM Levels I, IV, & V are highlighted in green below and are around the 50th percentile of the Payscale.com
- Since supplier's price position is consistent with its original price proposal methodology for the new labor categories, it is hereby determined to be fair and reasonable.

| Labor Category | Table 3 | | Salary.com - Total Cash Compensation | | | | |
|-------------------|--------------|------------|--------------------------------------|-----------|------------|------------|------------|
| | Bid Position | Bid Salary | 10th | 25th | 50th | 75th | 90th |
| Project Manager 1 | \$ 33.90 | \$ 70,512 | \$57,825 | \$ 66,564 | \$ 78,104 | \$ 92,232 | \$ 108,146 |
| Project Manager 2 | \$ 37.31 | \$ 77,605 | \$68,794 | \$ 79,331 | \$ 93,298 | \$ 110,482 | \$ 129,977 |
| Project Manager 3 | \$ 42.50 | \$ 88,400 | \$73,290 | \$ 84,495 | \$ 99,364 | \$ 113,794 | \$ 137,219 |
| Project Manager 4 | \$ 52.39 | \$ 108,971 | \$75,344 | \$ 86,893 | \$ 102,239 | \$ 121,212 | \$ 142,911 |
| Project Manager 5 | \$ 57.44 | \$ 119,475 | \$82,146 | \$ 94,808 | \$ 111,705 | \$ 132,759 | \$ 157,142 |

Plotting Quartiles

| Labor Category | | | Salary.com - Total Cash Compensation | | | | |
|-------------------|--------------|------------|--------------------------------------|----------|------------|------------|------------|
| | Bid Position | Bid Salary | 10th | 25th | 50th | 75th | 90th |
| Project Manager 1 | \$ 33.90 | \$ 70,512 | \$ 57,825 | \$66,564 | \$ 78,104 | \$ 92,232 | \$ 108,146 |
| Project Manager 2 | \$ 37.31 | \$ 77,605 | \$ 68,794 | \$79,331 | \$ 93,298 | \$ 110,482 | \$ 129,977 |
| Project Manager 3 | \$ 42.50 | \$ 88,400 | \$ 73,290 | \$84,495 | \$ 99,364 | \$ 113,794 | \$ 137,219 |
| Project Manager 4 | \$ 52.39 | \$ 108,971 | \$ 75,344 | \$86,893 | \$ 102,239 | \$ 121,212 | \$ 142,911 |
| Project Manager 5 | \$ 57.44 | \$ 119,475 | \$ 82,146 | \$94,808 | \$ 111,705 | \$ 132,759 | \$ 157,142 |

Direct Compensation Labor Categories

Salary.com (Range) – Spectrum Plot

Project Manager 2 – 1st quartile

Project Manager 3 – 2nd quartile

Project Manager 1 – 2nd quartile

Project Manager 4 – 3rd quartile

Project Manager 5 – 3rd quartile

Cost Analysis

For the scenario at hand

- Review the pricing methodology previously incorporated in the Master Contract
- Review the agreed upon Multiplier and Option Escalation Rate
- Determine annual proposed salary for the new labor categories and how that compare to the market using:
 - Salary.com and/or
 - Payscale.com

Total Billable & Option Period Bill Rates for PM - I

- Total Billable for PM – I (Full-Time) is calculated by multiplying Bid Salary with the FT Multiplier. $\$70,511.36 * 1.4655 = \$103,334.40$ and Total Billable for PM – I (Part-Time) is calculated by multiplying Bid Salary with the PT Multiplier. $\$70,511.36 * 1.2363$
- Bill Rate for Base Period = Total Billable \div 2080 = $\$103,334.40 \div 2080 = 49.68$
- Bill Rate for Option Period (Full-Time) is calculated by multiplying Bill Rate for Base Period with Option Escalation Rate 2.34% = $(\$49.68 * 2.34\%) + \$49.68 = \$50.84$
- Bill Rate for Option Period (Part-Time) is calculated by multiplying Bill Rate for Base Period Option Escalation Rate 2.34% = $(\$41.91 * 2.34\%) + \$41.91 = \$42.89$

| Labor Category | Frequency | Multiplier | Total Billable | Bill Rate /HR | Base Period | Option Period 1 | Option Period 2 | Option Period 3 | Option Period 4 |
|-------------------|-----------|------------|----------------|---------------|-------------|-----------------|-----------------|-----------------|-----------------|
| Project Manager I | FT | 1.4655 | \$103,334.40 | \$ 49.68 | \$ 49.68 | \$ 50.84 | \$ 52.03 | \$ 53.25 | \$ 54.50 |
| Project Manager I | PT | 1.2363 | \$ 87,173.20 | \$ 41.91 | \$ 41.91 | \$ 42.89 | \$ 43.89 | \$ 44.92 | \$ 45.97 |

Multiplier & Option Escalation Rate

See Table 3 below:

Total Billable = Bid Salary*Multiplier (Part-Time – 1.2363 & Full-Time – 1.4655)

Bill Rate for Option Period = Bill Rate for Base Period * Option Escalation Rate

In order to establish the Bill Rate per labor category, the normalized multiplier (supplier's Indirect Costs of OH, G&A, and Fee) has been applied to the total compensation and then divided by 2080 hours to determine the Bill Rate/HR for Full-Time & Part-Time.

For the Option Period, the proposed escalation rate was used to determine the Option Period price point.

Table 3

| Labor Category | Frequency | Multiplier | Total Billable | Bill Rate /HR | Base Period | Option Period 1 | Option Period 2 | Option Period 3 | Option Period 4 |
|--------------------|-----------|------------|----------------|---------------|-------------|-----------------|-----------------|-----------------|-----------------|
| Project Manager I | FT | 1.4655 | \$ 103,334.40 | \$ 49.68 | \$ 49.68 | \$ 50.84 | \$ 52.03 | \$ 53.25 | \$ 54.50 |
| Project Manager I | PT | 1.2363 | \$ 87,173.20 | \$ 41.91 | \$ 41.91 | \$ 42.89 | \$ 43.89 | \$ 44.92 | \$ 45.97 |
| Project Manager IV | FT | 1.4655 | \$ 159,707.26 | \$ 76.78 | \$ 76.78 | \$ 78.58 | \$ 80.42 | \$ 82.30 | \$ 84.23 |
| Project Manager IV | PT | 1.2363 | \$ 134,729.50 | \$ 64.77 | \$ 64.77 | \$ 66.29 | \$ 67.84 | \$ 69.43 | \$ 71.05 |
| Project Manager V | FT | 1.4655 | \$ 175,105.27 | \$ 84.19 | \$ 84.19 | \$ 86.16 | \$ 88.17 | \$ 90.23 | \$ 92.35 |
| Project Manager V | PT | 1.2363 | \$ 147,719.31 | \$ 71.02 | \$ 71.02 | \$ 72.68 | \$ 74.38 | \$ 76.12 | \$ 77.90 |

Option Periods

| Labor Category | | Multiplier | Total Billable | Base | Opt 1 | Opt 2 | Opt 3 | Opt 4 |
|-----------------------|----|-------------------|-----------------------|-------------|--------------|--------------|--------------|--------------|
| Project Manager 1 | FT | 1.47 | \$ 103,334.40 | \$49.68 | \$50.84 | \$52.03 | \$53.25 | \$54.50 |
| Project Manager 1 | PT | 1.24 | \$ 87,173.20 | \$41.91 | \$42.89 | \$43.89 | \$44.92 | \$45.97 |
| Project Manager 4 | FT | 1.47 | \$ 159,707.26 | \$76.78 | \$78.58 | \$80.42 | \$82.30 | \$84.23 |
| Project Manager 4 | PT | 1.24 | \$ 134,729.50 | \$64.77 | \$66.29 | \$67.84 | \$69.43 | \$71.05 |
| Project Manager 5 | FT | 1.47 | \$ 175,105.27 | \$84.19 | \$86.16 | \$88.17 | \$90.23 | \$92.35 |
| Project Manager 5 | PT | 1.24 | \$ 147,719.31 | \$71.02 | \$72.68 | \$74.36 | \$76.12 | \$77.90 |

Lower Multiplier Savings

\$ 1,000,000 = 2.0

\$ X = 1.47

\$ X = \$735,000

\$50,000,000 = 2.0

\$ X = 1.47

\$ X = 36,750,000

Cost Analysis Exercise

- Spend - \$1,000,000 at Multiplier of 2.0
- Spend - \$735,000 at Multiplier of 1.47

- Spend - \$50,000,000 at Multiplier of 2.0
- Spend - \$36,750,000 at Multiplier of 1.47

- Savings is \$13,250,000
- Savings for 10 years is \$132,500,000

ANY QUESTIONS?

