

Chapter 2

Procurement Planning

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Chapter 2 Procurement Planning

SECTION 1 POLICY

2.1.1 General

2.1.1.a *Definition.* Procurement planning is the process by which the efforts of the requirements and purchasing organizations are coordinated and integrated in a comprehensive plan to fulfill needs of the Postal Service in a timely manner and at a reasonable cost.

2.1.1.b Responsibilities

1. Requirements organization responsibilities include:
 - (a) Determining the supply or service required;
 - (b) Identifying potential sources;
 - (c) Ensuring funds availability and authorization;
 - (d) Preparing and providing adequate purchase descriptions;
 - (e) Preparing the Postal Service price or cost estimate;
 - (f) Defining the period of performance or delivery;
 - (g) Establishing any contractor reporting requirements;
 - (h) Assisting in the development of evaluation criteria, and
 - (i) Participating in evaluation panels when requested;
 - (j) Providing justification for noncompetitive purchases.
2. Purchasing organization responsibilities include:
 - (a) Providing planning, advice and assistance;
 - (b) Consulting with assigned counsel as needed;
 - (c) Assisting the requirements organization in identifying new or competitive sources;
 - (d) Maintaining source lists;
 - (e) Preparing source selection plans;
 - (f) Establishing evaluation panels as needed;
 - (g) Determining appropriate contract type; and
 - (h) Identifying suitable purchases for competition among minority-owned and woman-owned businesses.

2.1.1.c *Benefits.* Among the benefits of procurement planning are:

1. Allowing better workload planning;
2. Consolidating requirements for greater economy;
3. Providing lead time to select customer-responsive contract types or to develop innovative contracting methods;

4. Providing sufficient time to obtain required approvals before submission of requisitions;
5. Allowing for early identification and resolution of potential problems;
6. Ensuring the adequacy of specifications or statements of work;
7. Identifying sources to ensure adequate competition;
8. Providing lead time for approval of sources if competition will be limited to approved sources (see 3.1.6.b);
9. Preventing unrealistic delivery or performance schedules; and
10. Identifying necessary reviews and approvals.

2.1.2 Market Research

2.1.2.a *Importance.* Market research is central to any sound procurement plan. It should be addressed by both requisitioners and purchasers. Market research is performed to determine:

1. Which supplies or services are available to meet a requirement;
2. Which sources are available to furnish the supplies or perform the services;
3. How requirements can best be stated; and
4. Whether cost estimates are realistic.

2.1.2.b *Methods.* Market research methods may include:

1. Assessing the suitability and adaptability of commercially available products to Postal Service requirements;
2. Determining the status of applicable technology and the extent and success of its commercial application;
3. Conducting industry briefings or presolicitation conferences with potential contractors to discuss requirements and to obtain recommendations;
4. Publicizing new specifications and, when appropriate, issuing solicitations for informational or planning purposes (see A.1.3) far enough in advance to permit consideration of industry comments;
5. Checking with potential sources that did not respond to solicitations to determine their rationale for not submitting a proposal;
6. Attending industry and scientific conferences, and acquiring literature about commercial products, industry trends, product availability, reliability, and prices;
7. Testing and evaluating commercial products in a Postal Service operating environment to develop reliable performance data, determine any necessary modifications, and develop operational cost information;
8. Analyzing the purchase history of requirements to determine the level of competition, prices, and performance results; or
9. Publishing sources-sought notices in the *Commerce Business Daily* and other appropriate publications, especially for research and development projects (see 8.4.3).

2.1.3 Advance Planning

2.1.3.a Normally, requisitioners should plan their purchasing requirements on a fiscal year basis as part of their budget development process. This planning includes

the development of annual procurement summary plans and individual procurement plans, as required.

- 2.1.3.b Procurement planning involves all the individuals responsible for significant aspects of the procurement, such as purchasing, budget, legal, and technical personnel. When developing procurement plans, requisitioners should involve purchasing personnel as early as possible. For procurements estimated over \$5,000,000, advance planning should begin early in the concept development phase. Procurement plans should be reviewed periodically and revised when appropriate.

2.1.4 **Annual Procurement Summary Plans**

- 2.1.4.a Requisitioners develop annual procurement plans when they plan their organization's budget. The plans must briefly describe purchasing requirements estimated to cost over \$100,000, and they should be given to the purchasing organization by the end of the third quarter preceding the fiscal year covered by the plan. These plans are used by the purchasing organization to forecast workload.
- 2.1.4.b Annual procurement summary plans should include:
1. Date requirement is needed, and if possible, when the requirement can be expected in the purchasing office;
 2. Description of the requirement.

2.1.5 **Individual Procurement Plans**

- 2.1.5.a Except for unanticipated requirements, the requirements organization, with assistance from the purchasing organization, must develop an individual procurement plan for each requirement estimated over \$250,000. The plan should be submitted to the purchasing organization with the requisition.
- 2.1.5.b Individual procurement plans must include:
1. The rationale for the requirement;
 2. The statement of work which may include specifications or product description (see 2.3.1);
 3. The purchase history, including previous contract numbers;
 4. Pertinent considerations such as requirements for compatibility with other equipment; cost, schedule, or performance constraints; or environmental issues;
 5. The cost estimate and availability of funds;
 6. Suitability of purchases for using simplified procedures (see 4.2.1.b.2);
 7. The estimated lifecycle cost (total cost of purchasing, operating, supporting, and — if applicable — disposal of the item);
 8. Delivery or performance schedule requirements to include F.O.B destination/origin consideration (see 2.2.5);
 9. Any potential risks (such as technical, cost and schedule), and any plans to reduce these risks, including contingency plans and alternatives, and bonds and performance guarantees;
 10. Potential sources (see chapter 3);
 11. Justification and approval for noncompetitive purchase (see 4.3.2);

12. Suggested evaluation factors and their order of importance (see 2.1.7.c);
13. Quality assurance and control requirements, including warranties (see 2.2);
14. Test and acceptance procedures and criteria;
15. Contractor reporting requirements;
16. Requirements for contractor data and data rights, their estimated cost, and the use to be made of the data (see chapter 9);
17. Potential for alternate agreements on intellectual property (see 9.2.1.c);
18. Postal Service property or facilities to be furnished to the contractor; and
19. Possible conflicts of interest (see 1.7.6).

2.1.5.c If any significant element is missing from the procurement plan, a delay in implementation of the associated requisition may result.

2.1.6 Implementation Plans

The contracting officer will use the information provided in the individual procurement plan to develop an implementation plan. Except for purchases to be made using simplified procedures (see 4.2), the contracting officer must furnish an implementation plan to the requirements organization within 15 days after receiving a requisition. The implementation plan should cover all matters leading to contract award, including milestone dates for publicizing the requirement, issuance of a solicitation, receipt of proposals, evaluation, negotiations, and reviews and approvals. The contracting officer must inform the requirements organization when significant changes to the implementation plan occur.

2.1.7 Source Selection Plans

2.1.7.a General

1. The contracting officer must develop a source selection plan for each procurement subject to competitive procedures (see 4.1) whenever price and price-related factors will not be the sole basis for proposal evaluation and contractor selection.
2. The source selection plan is developed with the assistance of the evaluation panel, requirements organization, and other advisors as needed. The plan must focus on obtaining the best value for the Postal Service. It must outline the objective of the procurement, and must address operational requirements, the potential cost, and any special requirements for quality and reliability. The plan must also contain the evaluation factors, their order of importance, and the evaluation method and procedures that will be used. Factors must be tailored to the specific needs of each procurement, and must address all areas that will be considered in determining the best value.

2.1.7.b Evaluation Panels

1. For each procurement requiring a source selection plan, the contracting officer must establish an evaluation panel. Its size and membership depends upon the scope and complexity of the purchase. When necessary, persons from outside the Postal Service may be named to the evaluation panel or as advisors to the panel. Caution must be exercised when appointing persons outside the Postal Service to evaluation panels in order to prevent conflicts of interest.

2. The evaluation panel must efficiently and impartially evaluate the proposals received, in accordance with the source selection plan.
3. The evaluation panel's effort may be limited to review of proposals, with cost or price evaluated separately, or subpanels may be established for separate evaluation of the proposal and proposed price.
4. The evaluation panel must present its findings to the contracting officer in a written report containing narrative statements identifying the major strengths and weaknesses of the various proposals (see 4.1.5.b). This report will be used by the contracting officer to hold discussions, to select the contractor and to conduct any final negotiations.
5. In addition to evaluating proposals, the panel may be called upon by the contracting officer to assist in developing a source selection plan.

2.1.7.c *Evaluation Factors*

1. Sound evaluation factors and their proper weighting are essential to effective proposal evaluation. They should be established thoughtfully and in accordance with the objectives of the purchase. Use of too many factors should be avoided, as it can lead to an unintended leveling of the evaluation scores. This can occur when high scores in a less significant factor offset low scores in more important factors. Examples of factors that may apply in various situations are:
 - (a) Understanding of the requirement;
 - (b) Management plan;
 - (c) Commitment to quality;
 - (d) Key personnel (qualifications and experience);
 - (e) Resources;
 - (f) Experience;
 - (g) Past performance; and
 - (h) Excellence of design.
2. Subfactors may be established under any evaluation factor, for example, under "management plan," there could be subfactors for "organization" and "operational concepts."
3. Evaluation factors may cover areas which are also considered in determining an offeror's responsibility, such as experience, when the needs of the procurement warrant their comparative evaluation. When there is such an overlap, the evaluation of proposals in accordance with chapter 4 must be kept separate from the determination of contractor responsibility in accordance with 3.3.
4. Cost or price related factors must be treated separately and apart from the other evaluation factors, and they may *not* be weighted. Their use must be placed in proper perspective in the solicitation. They must be thoroughly examined and analyzed, particularly in cost-reimbursement contracting. At the same time, they can and should be used to assist in the evaluation of the weighted factors; for example, the makeup of a cost proposal can give added insight into an "understanding of the requirement" factor, by showing the numbers and caliber of people to be assigned to the various aspects of the proposed contract work.
5. Many forms of scoring systems are suitable for evaluation purposes, from adjectival ratings to various forms of numerical scoring. Depending on the specific procurement, one form of system may be preferable to another. However, the scoring system used should be both simple and practical.

6. Quality as an evaluation factor is appropriate for a best value analysis. Factors such as past performance, on-time deliveries, product enhancements, engineering savings, etc. are examples of quality considerations.
7. So that offerors may prepare proposals responsive to Postal Service needs, solicitations must indicate the relative importance of the evaluation factors and their overall relation to price. All evaluation factors must be clearly stated and in enough detail to provide offerors with a reasonable opportunity to understand the evaluation method. When there are known sources capable of meeting the Postal Service's requirements with products of sufficient quality, price will normally be the determining factor. When the requirement is such that factors other than price must be evaluated, these factors should be given importance corresponding to their value to the Postal Service. For example, when factors must be established to ensure technical acceptability, but technical superiority at additional cost would be of no benefit, the solicitation should provide for selection based on price from those proposals evaluated as technically acceptable.

2.1.7.d *Decisional Logic*

1. Use of a sound decisional logic helps ensure that the supplier offering the best value to the Postal Service is awarded the contract. In establishing this logic, the relative importance of the evaluation factors and their interrelationships in various combinations must be determined.
2. When evaluation factors other than price are used, the decisional logic must require that price differences be compared with the value of other differences to determine which proposal offers the best value to the Postal Service.

SECTION 2 PLANNING CONSIDERATIONS

2.2.1 **Quality Requirements**

2.2.1.a *General*

1. The contracting officer must include the appropriate quality requirements in all solicitations and contracts. The type and extent of contract quality requirements needed depend on the particular purchase, and may range from inspection at time of acceptance to a requirement for the contractor's implementation of a comprehensive program for controlling quality.
2. Solicitations and contracts may provide for alternate inspection methods to promote competition and lower costs. The solicitation may also permit contractor-recommended alternatives.
3. Although contractors are normally responsible for performing inspection before delivering supplies, some contracts should provide for specialized inspections performed by the Postal Service, or by a third party on its behalf, such as when:
 - (a) Tests require use of specialized test equipment or facilities not ordinarily available in suppliers' plants or commercial laboratories (for instance, mailhandling simulations and unusual environmental tests); or
 - (b) Postal Service testing is required for first article approval (see 2.2.2).

- 2.2.1.b *Types of Quality Assurance Requirements.* Quality assurance requirements fall into three general categories:
1. *Postal Service Reliance on Inspection by Contractor*
 - (a) The Postal Service usually relies on the contractor to accomplish all inspection and testing needed to ensure that supplies or services purchased using simplified procedures (see 4.2) conform to contract quality requirements before they are delivered.
 - (b) The Postal Service does not rely on inspection by the contractor if the contracting officer determines that the Postal Service needs to test the supplies or services before delivery, or to decide whether the contractor's internal work processes are adequate. In making these determinations, the contracting officer should consider:
 - (1) The nature of the supplies and services being purchased and their intended use;
 - (2) The potential losses in the event of defects;
 - (3) The likelihood of uncontested replacement or correction of defective work; and
 - (4) The cost of detailed inspection.
 2. *Standard Inspection Requirements.* Clause 2-1, *Inspection-Fixed-Price*, or Clause 2-2, *Inspection-Non-Fixed-Price*, must be included in all contracts except those awarded using simplified procedures. These clauses:
 - (a) Require the contractor to provide and maintain an inspection system that is acceptable to the Postal Service;
 - (b) Give the Postal Service the right to make inspections and tests while work is in process; and
 - (c) Require the contractor to keep and make available to the Postal Service complete records of its inspections.
 3. *Higher-Level Quality Requirements.* If it is in the Postal Service's interest to require that higher-level quality requirements be maintained, the solicitation and contract must include Clause 2-3, *Quality Assurance*. This clause requires the contractor to maintain an inspection system in accordance with specification MIL-I-45208, *Inspection System Requirements*. Use of this clause is appropriate in solicitations and contracts for complex and critical items or when the technical requirements of the contract are such as to require:
 - (a) Control of such things as work operations, in-process controls, and inspection; or
 - (b) Attention to such factors as organization, planning, work instructions, and documentation control.
- 2.2.1.c *Quality Assurance at Origin.* Solicitations and contracts must require that quality assurance, including inspection, be performed at origin (supplier's site) if:
1. Performance at any other place would require uneconomical disassembly or destructive testing;
 2. Considerable loss would result from the manufacture and shipment of unacceptable supplies, or from a delay in making necessary corrections;
 3. Special required instruments, gauges, or facilities are available only at origin;
 4. Performance at any other place would destroy or require the replacement of costly packing and packaging;

5. A higher-level contract quality requirement is included in the contract;
6. Postal inspection during contract performance is essential; or
7. It is determined to be in the Postal Service's interest.

2.2.1.d *Quality Assurance at Destination.* Quality assurance performed at destination is normally limited to inspection of the supplies or services. Inspection should be performed at destination if:

1. Supplies are purchased off-the-shelf and require no technical inspection;
2. Necessary testing equipment is located only at destination;
3. Products are purchased for authorized resale;
4. The contract is for services performed at destination; or
5. It is determined to be in the Postal Service's interest.

2.2.1.e *Simplified Purchasing*

1. Normally the procedures in 2.2.1.b.1(a) are followed, however, there may be special situations that require detailed quality assurance and the use of the standard inspection requirement, or where the higher-level quality requirement may be appropriate.
2. Detailed quality requirements should be limited to those characteristics that are special or likely to cause harm to personnel or property. When repetitive purchases of the same item are made from the same manufacturer with a history of defect-free work, inspection may be reduced to a periodic check of occasional purchases.

2.2.2 **First Article Approval**

2.2.2.a *Definitions*

1. A *first article* may include:
 - (a) preproduction models;
 - (b) initial production samples;
 - (c) test samples;
 - (d) first lots;
 - (e) pilot models; and
 - (f) pilot lots.
2. *Approval* means testing and evaluating the first article for conformance with specified contract requirements before or in the initial stage of production under a contract.

2.2.2.b *General*

1. Requiring first article approval ensures that the contractor furnishes a product satisfactory for its intended use, minimizing the risks for both the contractor and the Postal Service. In determining whether first article approval will be required, the contracting officer should consider the increased costs and time of delivery as a result of the tests, the risk to the Postal Service of foregoing the tests, and the availability to the Postal Service of other, less costly methods of achieving the desired quality. A first article approval requirement is particularly appropriate when an approved first article will serve as a manufacturing standard, or when a complex product:
 - (a) Has not been previously furnished by the contractor to the Postal Service;

- (b) Has been previously furnished by the contractor to the Postal Service, but subsequent changes in processes or specifications have been made, or production has been discontinued for a long period of time; or
 - (c) Is described by a performance specification.
 - 2. Normally, first article approval should not be required in contracts for:
 - (a) Research or development;
 - (b) Prequalified products;
 - (c) Standard commercial products; or
 - (d) Products covered by complete and detailed technical specifications, unless the requirements are unique or exacting.
 - 3. Before first article approval, purchase of materials or components and commencement of production is normally the contractor's sole risk. Therefore, the delivery schedule must allow enough time for purchase of materials and components and for production after first article approval. However, when a production delivery schedule does not allow for enough time, the contracting officer may authorize the contractor to purchase specific materials or components before first article approval to the extent essential to meet the schedule.
- 2.2.2.c *Waiver.* First article approval may be waived for fixed-price contracts if the required supplies are identical or similar to those previously provided by a supplier. When the contracting officer considers waiving first article approval, to ensure proper evaluation of the proposals, the solicitation may permit submission of alternate proposals — one with and one without first article testing. The delivery schedule for the production quantity may be the same whether or not approval is waived, or the solicitation may provide for a shorter delivery schedule when approval is waived and earlier delivery is in the best interest of the Postal Service.
- 2.2.2.d *Solicitation and Contract Requirements*
- 1. When the contractor is responsible for first article approval testing, the solicitation and resulting contract must contain or reference:
 - (a) The performance factors or other characteristics that the first article must meet;
 - (b) The detailed technical requirements for first article approval tests, including the necessary data to be submitted to the Postal Service in the first article approval test report; and
 - (c) Clause 2-4, *First Article Approval-Contractor Testing*.
 - 2. When the Postal Service is responsible for first article approval testing, the solicitation and resulting contract must contain or reference:
 - (a) The performance factors or other characteristics that the first article must meet;
 - (b) The test(s) to which the first article will be subjected; and
 - (c) Clause 2-5, *First Article Approval-Postal Service Testing*.

2.2.3 **Acceptance**

- 2.2.3.a *Place of Acceptance.* The solicitation and contract must specify the place of acceptance. Contracts providing for quality assurance at origin ordinarily provide for acceptance at origin. Those providing for quality assurance at destination ordinarily provide for acceptance at destination.

- 2.2.3.b *Delayed Acceptance.* Contracting officers should consider using a special testing requirement after delivery and before acceptance (such as a preacceptance test) for purchases of complex equipment (such as computer, telecommunications and mail-handling equipment and building systems). Such a testing requirement should be designed to thoroughly test the equipment, and should be described in the solicitation. When a preacceptance test program is specified, the contract must include Clause 2-6, *Delayed Acceptance*.

2.2.4 Warranties

- 2.2.4.a A warranty clause should be used when it is in the Postal Service's interest to have the right to assert claims regarding defective supplies or services after acceptance. A warranty clause gives the Postal Service additional time following acceptance to require correction of deficiencies or defects, reperformance, an equitable adjustment in the contract price, or other remedies. Warranty coverage may begin with delivery or at the occurrence of a specified event. This coverage may continue for a given number of days or months or until the occurrence of another specified event. The value of a warranty clause depends upon the particular supplies or services procured. The clause, its use, terms, and conditions are influenced by many factors and should be tailored to fit the individual purchase or a specific class of purchase. It is important to remember that warranty clauses usually increase the purchase price. This potential increase in cost should be carefully weighed before using a warranty clause (see 2.2.4.c).
- 2.2.4.b A warranty clause does not limit any rights of the Postal Service under Clause 2-1, *Inspection–Fixed Price*, or Clause 2-2, *Inspection–Nonfixed-Price*. Because Clause 2-2 allows the Postal Service to have deficiencies corrected during and after contract performance, warranty clauses other than those related to computer software, technical data, and copyright (see chapter 9) should not be included in nonfixed-price contracts.
- 2.2.4.c The contracting officer decides whether to use a warranty clause or to include a warranty provision. The clause or provision may be used either for individual purchases or for classes of purchases. Before making this decision the contracting officer considers the following:
1. Cost of the warranty (including the effect of a warranty on price competition and the administrative cost and difficulty of enforcing the warranty);
 2. Criticality of meeting specifications;
 3. Potential damage to the Postal Service in the event of defective performance;
 4. Cost of correction or replacement, either by the contractor or another source, in the absence of a warranty;
 5. Ability to take advantage of the warranty, considering shipping time, distance of the user from the source, and other factors;
 6. The effect of the warranty as a deterrent against deficiencies;
 7. The extent to which acceptance is to be based upon contractor inspection or quality control;
 8. Whether the inspection and acceptance system provides adequate protection against deficiencies;
 9. Reliance on brand-name integrity;
 10. Whether a warranty is regularly given for a commercial component of a more complex end item;

11. Whether the item or service is intended for the safety or protection of employees;
 12. The stage of development of the item and the state of the art; and
 13. Customary trade practices.
- 2.2.4.d Offerors normally include a price estimate for warranty work in their proposals. Because the cost charged for warranty work might not equal the benefits obtained, contracting officers should carefully evaluate the cost of a warranty by:
1. Requiring alternate price proposals with and without a warranty;
 2. Comparing the cost of a separate service contract that provides similar protection against defects; and
 3. Requiring separate pricing for warranties, when feasible.
- 2.2.4.e When a warranty clause is used, the contracting officer should consider requiring the warranted items to be marked or to furnish a warranty notice with the items. This informs those who store, stock, and use the items that they are warranted and encourages them to advise the contracting officer of any defects. The marking or notice need not state the complete warranty; a short statement that a warranty exists, its duration, and whom to notify if an item is found to be defective is usually sufficient. In deciding whether to require marking or a notice, the contracting officer should consider:
1. The feasibility of marking the items; and
 2. The added cost of the marking or the notice in relation to probable benefit in the enforcement of the warranty.
- 2.2.4.f The terms of a warranty clause can vary with the particular item or service being purchased, but the following factors must be considered:
1. The Schedule must state the warranty's duration. It may provide that the contractor will be liable for defects or nonconformance with contract requirements (a) existing at the time of delivery or, (b) that develop before the expiration of a specified period or before the occurrence of a specified event.
 2. The schedule must state the specified period during which a notice of any defects or nonconformance may be given to the contractor. Normally, the Postal Service will be protected if this "warranty period" starts at the time of delivery or upon acceptance of the service. However, in some cases, it may be necessary to start the warranty period at a later date. For example, if conformance of supplies cannot be determined until they are used, the warranty period should not begin until the items are actually used; or if supplies are purchased in lots under sampling procedures and delivered in increments for storage, the warranty period may begin when the supplies are actually used or from the date of the last delivery.
 3. If the Postal Service specifies the item's design and precise measurements, tolerances, materials, tests, or inspection requirements, the contractor's liability for defects or nonconformance is usually limited to those in existence at the time of delivery.
 4. If a contract contains performance specifications, and design is of minor importance, a contractor's liability may extend to defects that arise after delivery of the supplies or acceptance of the services. When appropriate, the warranty may be limited to defects or nonconformance existing at the time of delivery or acceptance.
 5. The right to return nonconforming supplies for correction or replacement normally satisfies the Postal Service need under a warranty. However, when

the supplies are of such a nature (for example, perishable items) that correction or replacement is not possible, the clause should provide that:

- (a) The contracting officer may return the supplies to the contractor, dispose of them in a reasonable manner, or replace them with similar supplies; and
- (b) The contractor is liable for any costs incurred by the Postal Service.

6. When it is foreseen that, due to the nature of its use, or the cost of return, it would be impracticable to return an article for correction or replacement, the clause should provide that the Postal Service, at the contractor's expense, may correct or require the contractor to correct the article in its place.
7. If a warranty for an entire item is not necessary, a warranty may be required for a particular aspect of the item that may need special protection (for example, components, accessories, parts, or packaging).

2.2.4.g For purchases of commercial supplies or services, or construction, the solicitation may include a warranty clause that is standard or customary in the trade, or one that is substantially similar to and not in excess of a standard or customary trade warranty, or may accept the contractor's standard warranty. If offerors are permitted to quote their own standard warranty, the solicitation may provide that the warranty's terms and conditions will be considered as an evaluation factor. When commercial supplies or services are purchased for a special Postal Service use (a use to which they would not normally be put), the contracting officer should consider them not to be commercial, but obtained according to performance specifications. The use of an item for a purpose other than the manufacturer had intended will normally void a standard warranty.

2.2.4.h Solicitations and contracts must include the following provisions and clauses:

1. When commercial supplies or services are being purchased and warranties are customary in the trade, the solicitation must include Provision 2-1, *Warranty Information*, and the contract must include Clause 2-7, *Incorporation of Warranty*.
2. When a warranty is to be required for noncommercial supplies or services, the contract must include Clause 2-8, *Warranty*, modified as needed (see, for instance, subparagraph f.6 above).

2.2.5 Delivery or Performance Schedule

- 2.2.5.a A realistic delivery or performance schedule is an essential element of a contract and must be clearly stated in the solicitation.
- 2.2.5.b If the Postal Service will suffer damage from late delivery or performance, liquidated damages may be included in the solicitation or contract (see 2.2.6).
- 2.2.5.c When the delivery or performance schedule is in terms of specific calendar dates, the solicitation must state that the schedule is based upon the contractor's receipt of notice of award or notice to proceed by a specific date. It must further state that the schedule will be extended by the number of days after that date that the contractor receives notice of award or notice to proceed.
- 2.2.5.d Include Provision 2-2, *Time of Delivery*, in all solicitations when:
 1. Delivery is required by a certain date;
 2. Delivery is required within a specified number of days after the date of award.
- 2.2.5.e Modify Provision 2-2 in solicitations when:

3. Delivery is desired, but not required, by a certain time; or
 4. Delivery is desired earlier than the required delivery date.
- 2.2.5.f Delivery instructions will specify an f.o.b. (free on board) point, as follows:
1. *F.o.b. destination* means delivery, free of expense to the Postal Service, to a destination specified in the purchase document. Title to the goods passes to the Postal Service when they arrive at the contract's stated destination. The contractor pays the carrier and assumes the risk for loss or damage until delivery to the specified destination.
 2. *F.o.b. origin* means that the Postal Service makes the arrangements for the pick-up, transportation and delivery to the required destination. Title passes to the Postal Service when delivery is made to the carrier. The contractor's risk is limited to loss or damage caused by improper marking or packing of the goods. The Postal Service normally uses Government Bills of Lading (GBL) to obtain and pay for transportation and related services from commercial carriers.
- 2.2.5.g The f.o.b. point is determined on the basis of overall cost. The contracting officer should consider that lower freight rates may be available to the Postal Service, and that Postal Service-controlled transportation may be available. Assistance in determining transportation costs is available by contacting Materials Management, Purchasing and Materials, Postal Service Headquarters, Washington, D.C.
- 2.2.5.h When acceptance of goods is at destination, the purchase document delivery terms must specify f.o.b. destination.
- 2.2.5.i Unless the delivery will be made by the contractor's own personnel/equipment, it is the policy of the Postal Service to require the delivery of contracted goods to postal facilities by the United States Postal Service, when such goods meet prescribed size, weight and physical properties (mailable), as indicated in the *Domestic Mail Manual*. A waiver of this requirement may be granted by the contracting officer. The waiver must clearly document why using other delivery services is considered to be in the best interest of the Postal Service.
- 2.2.5.j Large mailings that exceed 500 pieces must be coordinated with the area distribution network office. This must be done by the contracting officer or contracting officer's representative at least 30 days prior to the date of shipment. This coordination will ensure that potential problems will be minimized during receipt and processing of large mailings.
- 2.2.5.k Except for purchases made using simplified procedures, contracts specifying an f.o.b. point must include Clause 2-9, *Definition of Delivery Terms and Contractor's Responsibilities*.

2.2.6 Liquidated Damages

- 2.2.6.a Liquidated damages are a contractual remedy the Postal Service may use when there are delays in delivery or performance. They are estimates based on the anticipated amount of daily Postal Service losses directly resulting from delay in delivery or performance. It is important to remember that liquidated damages usually increase the contract price; therefore, their use should be carefully considered.
- 2.2.6.b Liquidated damages must be included in all construction contracts over \$100,000. At the contracting officer's discretion, they may be included in new lease construction contracts, or in contracts in which the lessor performs construction under the terms of a lease.

- 2.2.6.c Liquidated damages should be included in other contracts when:
1. Due to a delay in delivery or performance, the Postal Service may suffer disruption of mail service or substantial financial loss;
 2. Delivery or performance is so critical that the probable increase in contract price is warranted; and
 3. The amount of actual damages would be difficult or impossible to prove.
- 2.2.6.d Liquidated damages may not be used as a penalty for failure to deliver or perform on time.
- 2.2.6.e The rate of liquidated damages must represent the best estimate of the daily damages that will result from delay in delivery or performance. A rate lower than the actual estimated rate may be used to avoid excessive price contingencies in proposals. The contracting officer must determine and document in each case that the rate is reasonable and is not punitive. The rate should, as a minimum, cover the estimated cost of inspection and superintendence for each day of delay. Whenever the Postal Service will suffer other specific damages due to a contractor delay, the rate should also include an amount for these damages. Examples of specific damages are:
1. The cost of substitute facilities;
 2. The cost of lost workhours/productivity; or
 3. The rental of buildings or equipment.
- 2.2.6.f If appropriate to reflect the probable damages, considering that the Postal Service may terminate for default or take other appropriate action, the assessment of liquidated damages may be in two or more increments with a declining rate as the delay continues. To prevent an unreasonable assessment of liquidated damages, the contract may also include an overall maximum dollar amount, a period of time during which liquidated damages may be assessed, or both.
- 2.2.6.g Whenever liquidated damages are to be assessed for contractor delay, the contract must include Clause 2-10, *Liquidated Damages*, modified as necessary.

2.2.7 Postal Service Property

- 2.2.7.a *Policy.* The Postal Service may provide materials or other property to contractors when doing so will result in significant economies, standardization, or expedited production, or when it is otherwise in the Postal Service's interest.
- 2.2.7.b *Solicitations.* Postal Service furnished property must be specified in the solicitation in sufficient detail (including requisitioning procedures) to enable offerors to evaluate it accurately.
- 2.2.7.c *Special Tooling and Test Equipment*
1. The contracting officer may provide Postal Service special tooling and test equipment to contractors for use in contract work, if doing so will not disrupt programs of equal or higher priority, or is otherwise in the Postal Service's interest.
 2. Contracts authorizing the furnishing of special tooling or test equipment must contain:
 - (a) A complete description of the tooling or equipment;
 - (b) The terms and conditions of shipment; and
 - (c) The terms covering the cost of adaptation and installation.

3. In competitive procurements when Postal Service special tooling or test equipment is not available, contractors ordinarily provide and retain title to special tooling and test equipment required for contract performance. Competition generally results in fair charges for amortizing the costs of such tooling and equipment. In noncompetitive situations, the Postal Service should obtain the special tooling or test equipment, or the rights to it, because it may facilitate competition in future procurements.
4. In deciding whether to purchase special tooling or test equipment, or the rights to it, when the tooling or equipment is provided by the contractor, the contracting officer must consider:
 - (a) The Postal Service's future needs for the items (including in-house use);
 - (b) The estimated residual value of the items;
 - (c) The administrative burden incident to reporting, record-keeping, preparation, handling, transportation, and storage;
 - (d) The feasibility and probable cost of making the items available to other offerors in future procurements;
 - (e) The amount, if any, offered by the contractor for the right to keep the items; and
 - (f) The effect on future competition and contract pricing;
5. When the Postal Service obtains identifiable special tooling or test equipment under a contract, the solicitation must specify each item or category as a contract line item. A category of items costing less than \$1,000 may be grouped as a single contract line item.
6. When there is a possibility of future procurements for the same item and the contracting officer has determined not to obtain rights or title, the solicitation must indicate current estimates of such future requirements, in the interest of reducing amortization charges. Offerors must be cautioned that these are only estimates and not a guarantee to purchase future quantities.

2.2.7.d *Clauses*

1. When the Postal Service will furnish property for use under a contract, the contract must include one of the following clauses:
 - (a) Clause 2-11, *Postal Service Property—Fixed-Price*, if a fixed-price contract will be awarded and the total value of Postal Service property is \$50,000 or more. If the contract provides for reimbursement of costs for certain materials, use the clause with its alternate paragraph c.
 - (b) Clause 2-12, *Postal Service Property—Short Form*, if a fixed-price, time-and-materials, or labor-hour contract will be awarded and the total value of Postal Service property is less than \$50,000.
 - (c) Clause 2-13, *Postal Service Property—Non-Fixed-Price*, if a cost-reimbursement, time-and-materials, or labor-hour contract will be awarded with Postal Service property valued at \$50,000 or more. If the contract is for basic or applied research at a nonprofit institution of higher education or nonprofit organization whose primary purpose is to conduct scientific research, use the clause with its alternate paragraph c.
2. When Postal Service property will be furnished "as is," the contract must also include Clause 2-14, *Postal Service Property Furnished "As Is"*.
3. Clause 2-15, *Special Tooling*, or Clause 2-16, *Special Test Equipment*, must be included in solicitations for fixed-price contracts when the rights or title to

special tooling or test equipment will be required but cannot be identified as a specific contract line item. Rights or title to special tooling or test equipment in a cost-reimbursement contract is obtained using Clause 2-13, *Postal Service Property–Non-Fixed-Price*.

4. When a contract is for repair of Postal Service property, and the property is valued under \$10,000 no Postal Service property clause is required.

2.2.8 Options

- 2.2.8.a Option clauses may be included in contracts when increased requirements during the contract performance period are foreseeable, or when continuing performance past the original performance period is in the best interest of the Postal Service. Option clauses may require that additional quantities be priced the same as the basic quantities or at a different price. The clauses may also allow for unpriced options at the time of award. The price for these options are subject to negotiation at the time the option is exercised. Priced options may require offerors to guarantee prices for definite periods of time, with no guarantee that the option will be exercised. Therefore, their improper use may result in unfair prices to the Postal Service or the contractor. When additional requirements are foreseeable and subsequent competition would be impracticable because of such factors as production lead time and delivery requirements, the use of priced options may be preferable to later negotiating a price with the contractor at a time when it is the only practicable source.
- 2.2.8.b Option provisions and clauses may not be included in contracts when:
 1. The contractor would be required to incur undue risks (as when the price or availability of necessary materials or labor is not reasonably foreseeable);
 2. An indefinite quantity or requirements contract is appropriate, except that options for continuing performance may be used;
 3. Market prices for the supplies or services involved are likely to change substantially; or
 4. The option quantities represent known firm requirements for which funds have been budgeted and approved, unless (a) the basic quantity is a learning or testing quantity and there is some uncertainty as to contractor or equipment performance, and (b) realistic competition for the option quantity is impracticable once the initial contract is awarded.
- 2.2.8.c When options are evaluated for purposes of contract award (see Provision 2-3, *Evaluation of Options*), the total of the basic and option periods may not exceed five years in the case of services, and the total of the basic and option quantities may not exceed the requirements for five years in the case of supplies.
- 2.2.8.d The contract must limit the additional quantities of supplies or services that may be purchased or the duration of the period for which performance of the contract may be extended under the option, and must fix the period within which the option may be exercised. This period should be set to give the contractor adequate notice for performance under the option. In fixing the period, consideration should be given to the necessary lead time to ensure continuous production and the time required for additional funding and other approvals. The period for exercising the option should always be kept to a minimum. When a solicitation contains an option for additional quantities of supplies at prices no higher than those for the initial quantities, care should be taken to ensure that the option quantities are reasonable and do not cause the contractor financial hardship. The quantities or the period under option and the period during which

the option may be exercised must be justified and documented in the contract file by the contracting officer.

- 2.2.8.e The solicitation may allow varying prices to be offered for the option quantities depending on the quantities actually ordered and the date(s) when ordered. If so, the solicitation must specify the price at which the options will be evaluated (for example, highest option price offered or option price for specified quantities or dates).
- 2.2.8.f An option for increased quantities may be expressed as (1) a percentage of specific contract line items; (2) a number of additional units of specific contract line items; or (3) additional numbered line items (identified as the option quantity) with the same nomenclature as the items initially included in the contract. An option for increased services (including construction) may similarly be expressed in terms of (1) percentages; (2) increases in specific line items; or (3) additional numbered line items expressed in the units of work initially used in the contract (for example labor hours, square feet, or pounds or tons handled). When exercise of the option would result in an extension of duration in the contract, the option may be expressed in terms of an extended completion date or an additional time period, such as days, weeks or months.
- 2.2.8.g When an option will be used, the solicitation must include Provision 2-3, *Evaluation of Options*, and the contract must include one of the following clauses, as applicable:
1. Clause 2-17, *Option for Increased Quantity*, must be used when the contract expresses the option quantity as a percentage of the basic contract quantity or as an additional quantity of a specific line item.
 2. Clause 2-18, *Option Item*, must be used when the contract identifies the option quantity as a separately priced line item having the same nomenclature as a corresponding basic contract line item.
 3. Clause 2-19, *Option to Extend Services*, must be used when it is intended to extend the services to be performed.
 4. Clause 2-20, *Option to Extend the Term of the Contract*, must be used to provide for continuing performance of the contract beyond its original term.
- 2.2.8.h For information concerning the exercise of options, see 6.5.1.f.

2.2.9 Multiyear Procurement

- 2.2.9.a For procurements over \$50,000, the contracting officer should analyze the marketplace and the Postal Service's recurring needs to determine whether benefits can be obtained from purchasing quantities greater than one year's needs. Savings may be obtained if the contractor can reduce overall prices by spreading start-up costs over the multiyear quantity or making similar commitments with major subcontractors. There is no limit on the duration of a multiyear contract, except that it must reflect reasonably foreseeable requirements.
- 2.2.9.b When the contracting officer determines multiyear savings are possible and recurring needs reasonably certain, the solicitation should include both a single and a multiyear quantity to see which price is most advantageous to the Postal Service. However, award must be made to the offeror proposing the best value to the Postal Service.
- 2.2.9.c Types of multiyear contracts are described in 5.1.10.

2.2.10 Value Engineering

2.2.10.a *General.* Value engineering is a method by which contractors are encouraged to independently develop and propose changes to improve either a contract end item or the way it is produced or performed. The change must reduce contract cost and may not impair the essential characteristics or functions of the service or product. Resultant savings are shared by both parties, and the contractor is paid allowable development and implementation costs.

2.2.10.b Definitions

1. *Value Engineering Change Proposal (VECP).* A proposal that:
 - (a) Requires a change to the instant contract;
 - (b) Results in savings to the instant contract; and
 - (c) Does not involve a change in:
 - (1) Deliverable end items only;
 - (2) Test quantities due solely to the results of previous testing under the instant contract; or
 - (3) Contract type only.
2. *Instant Contract.* The contract under which a VECP is submitted. It does not include additional contract quantities.
3. *Additional Contract Quantity.* An increase in quantity after acceptance of VECP due to contract modification, exercise of an option, or additional orders (except orders under indefinite-quantity contracts within the original maximum quantity limitations).
4. *Postal Service Costs.* Costs to the Postal Service resulting from developing and implementing a VECP, such as net increases in the cost of testing, operations, maintenance, logistics support, or property furnished. Normal administrative costs of processing the VECP are excluded.
5. *Instant Contract Savings.* The estimated cost of performing the instant contract without implementing a VECP minus the sum of (a) the estimated cost of performance after implementing the VECP and (b) Postal Service costs.
6. *Additional Contract Savings.* The estimated cost of performance or delivering additional quantities without the implementation of a VECP minus the sum of (a) the estimated cost of performance after the VECP is implemented and (b) Postal Service cost.
7. *Contractor's Development and Implementation Costs.* Contractor's cost in developing, testing, preparing, and submitting a VECP. Also included are the contractor's cost to make contractual changes resulting from the Postal Service acceptance of the VECP.

2.2.10.c *Sharing.* If a VECP is accepted, the contractor shares in the contract savings as follows:

1. *Instant Contract Savings.* The contractor and the Postal Service share equally in instant contract savings. Sharing is accomplished by a modification reducing the contract price by an amount equal to 50 percent of the instant contract savings minus the contractor's allowable VECP development and implementation costs.
2. *Additional Contract Savings.* Except for construction contracts, the contractor receives 25 percent of additional contract savings. Sharing is accomplished by negotiating a price for the additional contract quantity that reflects a reduction in price by 75 percent of additional contract savings.

3. **Construction Contracts.** Only instant contract savings are shared under construction contracts. Sharing is accomplished in accordance with subparagraph c.1 above.

2.2.10.d *Noncompetitive Purchases*

1. Subject to the requirements of Management Instruction AS-710-95-7, *Noncompetitive Purchases*, the contracting officer may negotiate a noncompetitive contract or contract modification for an additional quantity incorporating a VECP when:
 - (a) An otherwise acceptable VECP is received too late during contract performance to provide a significant benefit to the Postal Service under the instant contract;
 - (b) If additional quantities are required that are not provided for under the contract.
2. When a proposer who does not have a current contract submits an unsolicited proposal in the form of a VECP and it meets the requirements of Clause 2-22, *Value Engineering Incentive*, the contracting officer may negotiate a noncompetitive contract incorporating the VECP.
3. Sharing is accomplished in accordance with 2.2.10.c.2.

2.2.10.e *Evaluation*

1. The contracting officer must forward for evaluation any nonconstruction VECP to the requirements organization or other appropriate engineering source. Construction VECPs must be forwarded for evaluation to the resident engineer at the worksite, who may then have the evaluation performed by the architect-engineer.
2. The requirements organization or other appropriate engineering source or resident engineer must expedite the evaluation of the VECP and provide the contracting officer a written report including:
 - (a) Recommendations as to whether the VECP should be accepted or rejected, in whole or in part;
 - (b) A draft of any changes to be made in the specifications or statement of work;
 - (c) A calculation of the estimated savings to the Postal Service from acceptance of the VECP; and
 - (d) A calculation of the estimated costs to the Postal Service that will result from developing and implementing the VECP (see subparagraph b.3 above).
3. The requirements organization or other appropriate engineering source or resident engineer must advise the contracting officer if evaluation of the VECP will require more than 60 days. The contracting officer must notify the contractor of the expected decision date.
4. If a VECP is rejected, the contracting officer must notify the contractor and explain the reason for rejection.

- 2.2.10.f *Withdrawal.* The contractor may withdraw all or part of a VECP at any time before it is accepted by the Postal Service.

- 2.2.10.g *Acceptance*
1. Acceptance of all or part of a VECP and agreement on price reductions resulting from acceptance requires the agreement of both parties. See 4.4 concerning negotiation of price. Acceptance is accomplished by supplemental agreement to the contract. If agreement on price is reserved for a later supplemental agreement, and if such agreement cannot be reached, the disagreement must be treated as a dispute under Clause B-9, *Claims and Disputes*.
 2. The contractor must perform in accordance with the existing contract until a VECP is accepted.
 3. The contracting officer's decision to accept or reject all or part of a VECP is final and not subject to Clause B-9, or to litigation under the Contract Disputes Act of 1978 (41 U.S.C. 601–613).
- 2.2.10.h *Subcontracts*. If the contracting officer foresees a potential cost reduction through value engineering under subcontracts, additional paragraph j should be added to Clause 2-22.
- 2.2.10.i *Clause*. If there is a potential for cost reduction through value engineering, Clause 2-22 may be included in firm-fixed-price contracts of \$100,000 or more, at any time during the term of the contract. However, the clause may not be used in:
1. Cost-reimbursement contracts (see 5.1.4);
 2. Fixed-price incentive contracts (see 5.1.3.b);
 3. Research and development contracts;
 4. Contracts with nonprofit or educational organizations;
 5. Contracts for professional or consultant services (see 8.2);
 6. Contracts for product or component improvement; or
 7. Contracts for standard or modified commercial products.

SECTION 3 SPECIFICATIONS AND STATEMENTS OF WORK

2.3.1 Definitions

- 2.3.1.a *Specifications*. Specifications describe the technical requirements of an end product. Specifications usually include qualitative and quantitative design and performance requirements, and the factors used to determine whether the contract requirements have been met.
- 2.3.1.b *Statements of Work*. Statements of Work (SOW) describe the work to be performed, rather than the end product. SOWs may contain specifications or other descriptions of requirements. SOWs are usually used in contracts for services or research and development.
- 2.3.1.c *Product Descriptions*. Product descriptions are usually described by a common generic description of the item. However, they are not as qualitative or quantitative as a specification, and usually describe the end product in terms of performance or standard commercial name (an example of a product description is a "copier").

2.3.2 Use

2.3.2.a Specifications

1. Specifications are normally used when purchasing an end item rather than a service. Specifications must fully and completely state the Postal Service's needs, considering the nature of the commodities being purchased.
2. Specifications may be stated in terms of:
 - (a) Function, so that a variety of commodities may be considered as qualified;
 - (b) Performance, including the range of acceptable characteristics or the minimum acceptable standards; or
 - (c) Design requirements, providing exact dimensions, materials or characteristics.

2.3.2.b Statements of Work

1. Statements of Work are normally used when purchasing a service rather than an end product. SOWs may include specifications or product descriptions. SOWs must describe the work as precisely as practicable and at a level of detail appropriate to ensure best value to the Postal Service.
2. After award SOWs are the standard for measuring performance, and are used by both parties to determine rights and obligations under the contract.

2.3.2.c Product Descriptions

1. Whenever standard or modified commercial products will meet Postal Service requirements, product descriptions must be used instead of specifications.
2. Product descriptions must include:
 - (a) A common generic identification of the item;
 - (b) Known acceptable brand-name products, identified by model or catalog number, and the commercial catalogs in which they appear;
 - (c) The name and address of the manufacturer, or distributor of each brand-name product referenced; and
 - (d) A description of any required modification.
3. If at least three acceptable brand names are specified, the solicitation may provide that only proposals for those products will be considered.
4. Except for construction specifications, if fewer than three acceptable brand-name products are specified, or if proposals for equivalent products other than those specified will be considered:
 - (a) The product description must include a description of the item's essential characteristics, such as material, size or capacity, the equipment with which the items will be used, and any restrictive operating environmental conditions;
 - (b) The brand names in the product description must be followed by the words "or equal;"
 - (c) Space must be provided for offerors to identify the manufacturer's brand names and models or catalog numbers proposed (see A.2.3.b.8);
 - (d) The solicitation must include Provision 2-4, *Brand Name or Equal*.

2.3.3 Technical Data Packages

- 2.3.3.a A Technical Data Package (TDP) is a complete set of documentation which may include a specification, engineering drawings, or associated lists required to build

and provide support of an end item. Every TDP is under the control of a design-responsible organization (such as Engineering, Research and Development or the Mail Equipment Shops) which maintains the integrity of the end item design.

2.3.3.b When a purchase will be made using a TDP, the contracting officer must ensure that the most current version of the TDP is used. Any modifications to a TDP before or during solicitation or after contract award must, before implementation, be coordinated with the design-responsible organization as well as with the requirements activity.

2.3.3.c When a TDP will be purchased, the contracting officer must ensure that the design-responsible organization reviews all contractor submittals to ensure that the final product is in accordance with the Postal Service standards contained in the contract requirements.

2.3.4 **Component Parts**

When component parts in a deliverable contract line item are described in the specifications by a brand or manufacturer's name, the contract must include Clause 2-21, *Component Parts*.

2.3.5 **Construction Specifications**

The contractor may seek the contracting officer's approval after contract award to substitute equal products or processes for those specified by brand name (see Clause 11-5, *Materials and Workmanship*). Accordingly, the solicitation should identify any products or processes that may not be substituted after award.