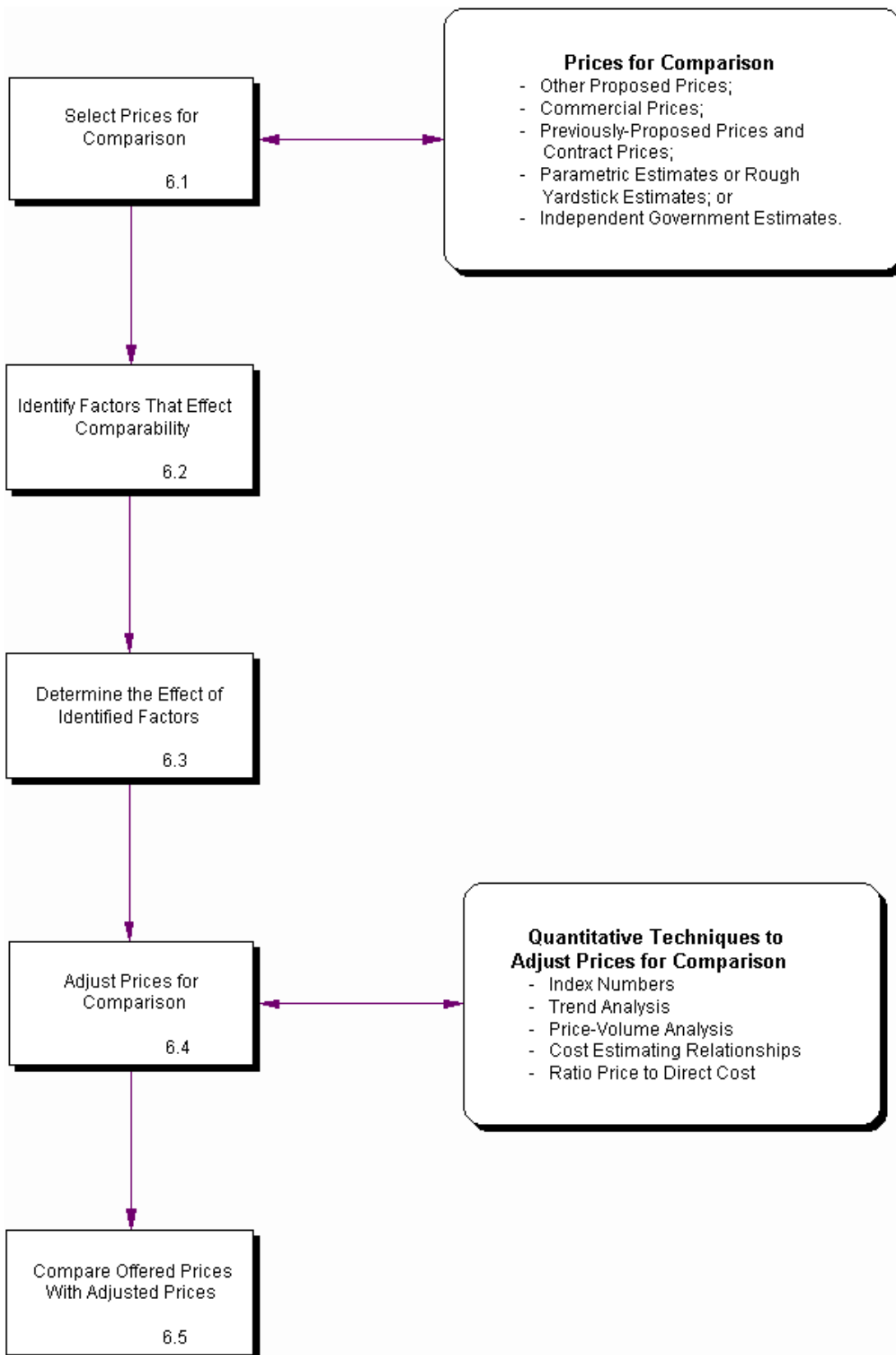


Ch 6 - Comparing Prices

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6.0 Chapter Introduction

The figure below depicts the process involved in making price comparisons for price analysis.



Comparisons in Price Analysis ([FAR 15.404-1\(b\)\(1\)](#)). Price analysis:

- Is the process of examining and evaluating a proposed price to determine if it is fair and reasonable without evaluating its separate cost elements and proposed profit. Price analysis may, however, be supported by analysis of some cost elements and/or profit.
- Always involves some form of comparison with other prices.

Hence, you compare prices to determine whether the price from the apparent successful offer is fair and reasonable. The base for your comparison should be a price that you feel is a reasonable estimate of the price that you should pay -- the "should-pay" price.

Should-Pay Price. The should-pay price is the price that, in your best judgment, the Government should reasonably expect to pay for the deliverable based on available information concerning competitive offers, historical prices, commercial prices, pricing yardsticks, and Independent Government Estimates.

Bear in mind that your should-pay price is an estimate. Being an estimate, it is by definition inexact. If you have done a good job of price analysis, your should-pay price will probably be close to the mark. Still, don't be dogmatic about your estimate - to the point of rejecting offers that are close to, but not exactly at, your should-pay price estimate.

If the apparent successful offer is significantly higher or lower than your estimate:

- Determine why there is a significant variance between the should-pay price and that offer and then

Make the critical price-related decisions in awarding contracts through sealed bidding or negotiations.

Comparability. Comparability is the quality or state of being comparable. Products do not have to be alike to be compared. Any two things can be compared, but the comparison may show that they have no characteristics in common. However, if you are attempting to evaluate price

reasonableness, the comparison will not be of any value if the items are unlike in every way.

For price analysis, the items being compared must have enough similar characteristics or qualities to make the comparison useful. The more similar the items are, the easier the comparison. If your examination discloses significant differences, you may need to quantify the effect of those differences (e.g., acquisition of different products, at different times, or in different places) and make adjustments before you can reach valid conclusions about price reasonableness. The greater the dissimilarities and the more subjective your adjustment, the greater the possibility for doubts about your conclusions and the less likely that your analysis will be persuasive.

Multiple Comparisons. Use the information gathered during your market research to make multiple comparisons in determining price reasonableness and increase confidence in your pricing decision.

For example, adequate price competition is normally considered one of the best bases for price analysis.

However, you can have apparent competition and still have prices that are unreasonably high. How would you know? You must consider other bases for price analysis (e.g., historical prices, catalog prices, or market prices).

The number of comparisons that you consider should depend on the availability of information and the pricing risk involved in the acquisition.

- If the information is readily available in a form that can be used for price analysis, why not consider it? A quick comparison will increase your confidence of price reasonableness.

If the price is large or you still have concerns about price reasonableness after your initial comparison, the risk involved makes it particularly important to consider other comparisons.

Comparison Steps. Each different comparison will involve different information and some bases will require substantial adjustment prior to making your analysis. However, the comparison process is described in five steps outlined below.

Step	Action	Questions to Consider
1	Select prices for comparison: <ul style="list-style-type: none"> • Other proposed prices; • Commercial prices; • Previously-proposed prices and contract prices; • Parametric estimates or rough yardstick estimates; or • Independent Government Estimates 	Would this comparison be valid? Are more comparable prices available?
2	Identify factors that affect comparability.	Have I considered all potentially significant factors, including differences in: <ul style="list-style-type: none"> • Market conditions; • Quantity or size; • Geographic location; • Purchasing power of the dollar; • Extent of competition; • Technology; or • Terms and conditions (e.g., differences in features or capabilities, delivery lead-times, one-time costs, etc.).
3	Determine the potential impact of these factors on prices selected for	How substantial is the impact? In view of these factors and their impact, will the contemplated comparison have any credibility?

	comparison.	
4	Adjust prices selected for comparison.	<p>Have I accounted for all factors that can be dollarized?</p> <p>What techniques should be applied in making the adjustment?</p> <p>How much reliance can I place on the resulting estimate?</p>
5	Compare adjusted prices to the offer in line for award.	<p>How much weight should I place on each comparison?</p> <p>If adjusted prices differ substantially from the apparent successful offer, what price should the Government reasonably expect to pay?</p>

6.1 Selecting Prices For Comparison

This section identifies and defines five potential bases for price analysis. After defining each base, special considerations for using each base are outlined.

- 6.1.1 - [Other Proposed Prices](#)
- 6.1.2 - [Commercial Prices](#)
- 6.1.3 - [Previously-Proposed Prices And Contract Prices](#)
- 6.1.4 - [Parametric And Rough Yardsticks Estimates](#)
- 6.1.5 - [Independent Government Estimates](#)

Potential Bases ([FAR 15.404-1\(b\)](#)). You may select any of the following bases for price analysis:

- Other proposed prices received in response to the solicitation;
- Commercial prices including competitive published price lists, published commodity market prices, similar indexes, and discount or rebate arrangements;
- Previously-proposed prices and contract prices for the same or similar end items, if you can establish both the validity of the comparison and the reasonableness of the proposed price;
- Parametric estimates or estimates developed using rough yardsticks; or

- Independent Government Estimates.

One of the bases for price analysis identified in the FAR is "prices for the same or similar items obtained through market research." Because market research can span commercial prices, previously-proposed prices, contract prices, parametric or rough yardstick estimates, and Independent Government Estimates, this base for price analysis will not be considered separately.

Types of comparisons used in price analysis typically vary with the estimated dollar value of the contract.

Micro-purchases. ([FAR 13.2](#)) You may solicit only one quote, if you consider the quoted price is reasonable. Your decision on price reasonableness should be based on information such as:

- Previous prices paid for the same or similar items purchased competitively; or
- Knowledge of the supply or service gained from published prices in catalogs, newspapers, and other sources of market information.

If you suspect that the quoted price is not reasonable or you do not have comparable pricing information readily available, take more aggressive action to collect the information necessary to determine price reasonableness. Normally, you should solicit additional quotes by phone or fax.

Other Simplified Acquisitions ([FAR 13.1](#)). Whenever possible, base price analysis on competitive quotes.

- Promote competition to the maximum extent practicable.
- Synopsise any contract action that exceeds \$25,000 in the Commerce Business Daily unless an exemption applies.
- If the contract action does not exceed \$25,000 and you do not use FACNET or another method providing access to the notice of proposed contract action through the single Government-wide point of entry, you can normally obtain the maximum practicable competition without soliciting sources from outside the local trading area. You should obtain competition from at least three sources, if three sources are reasonably

available. Consider the following factors when determining the number of sources to solicit:

- The nature of the article or service to be purchased and whether it is highly competitive and readily available in several makes or brands, or is relatively noncompetitive;
 - The availability of an electronic commerce method that employs widespread public notice of the requirement;
 - The urgency of the proposed purchase;
 - The dollar value of the proposed purchase; and
 - Past experience concerning specific dealers' prices.
- If you only receive one quote, consider the following bases for price analysis:
 - Prices identified during market research;
 - Prices found reasonable for previous purchases;
 - Current price list, catalog, or advertised prices;
 - Prices for similar items in a related industry;
 - Price estimates developed during value analysis;
 - Personal knowledge of item prices;
 - The Independent Government Estimate; or
 - Any other reasonable base for price analysis.

Contracts over the Simplified Acquisition Threshold.

Consider every type of comparison which you believe provides a valid should-pay price.

- For example, if you have data on previous contract prices and have reason to believe that these data reflect good prior decisions on price reasonableness, then compare the apparent successful offer to those prices. If you have reason to believe that previous contract prices were not reasonable, then give little or no weight to those prices as you perform your price analysis. If you have no price history, you must rely on other comparison bases for your price analysis.

6.1.1 Other Proposed Prices

Proposed Prices ([FAR 15.404-1\(b\)\(2\)](#)). Comparison of a proposed price with other proposed prices received in response to the same solicitation is generally considered one of the best bases for price analysis, because all

offers were submitted to meet the same requirement during the same time period.

Using Proposed Prices ([FAR 15.403-1\(c\)\(1\)](#)). Any proposed price used as a base for prices analysis must meet the following general requirements:

- The price must be submitted by a firm competing independently for contract award.
- The price must be part of an offer that meets Government requirements.
- Award must be made to the offeror whose proposal represents the best value to the Government.

If you have more than one competitive offer, you could use more than one offer in your analysis.

Do not use the price from any offer that you would not consider for contract award as a basis for price analysis.

- Never use an offer from a firm that you have determined is nonresponsible.
- In sealed bidding, never use a nonresponsive bid.

In negotiations, never use a price from a proposal that is technically unacceptable.

Special Concerns (CGEN B-176217, December 14, 1972 and CGEN B-189884, March 29, 1979).

You should normally place less reliance on comparisons with other proposed prices when:

- The solicitation was made under conditions that unreasonably denied one or more known and qualified offerors an opportunity to compete.
- The apparent successful offeror has such a decided advantage that it is practically immune from competition.
- Another price comparison, cost analysis, or a cost realism analysis indicates that the apparent successful offer may be unreasonable (too high or too low).
- Government requirements permit offerors to propose widely different technical approaches to contract performance. For example, a ceramic mug and a paper cup may both meet a requirement to hold 8 ounces of

- coffee, but that does not mean that \$1.00 price for a paper cup is reasonable because it is less than a \$5 price for a ceramic mug. Even if no other offeror is proposing to provide a paper cup, the key element of your price analysis should be to compare the paper cup offer with prices paid for similar paper cups.
- Price is not a substantial factor in the evaluation of offers for contract award. However, the Comptroller General (CGEN) has found adequate price competition in cases where price was assigned a weight of only 20 percent in the award decision.
 - All offerors are expected receive contract awards. In such cases, there may not be sufficient competitive pressure to foster fair and reasonable pricing.
-

6.1.2 Commercial Prices

Definition ([FAR 15.404-1\(b\)\(2\)](#)). Commercial prices are prices being paid by the general public for a product. The circumstances of your purchase may be different from the commercial sales, but data on commercial sales can provide valuable information for use in contract pricing.

"Horror stories" about overpricing of Government contracts seem to occur every few years. Most could have been avoided if contracting officers had considered the price that the general public would be willing to pay for the product. Contractors might have logical reasons for charging \$435 to provide a common hammer as part of a major systems contract. But, as the Government's agent, could you explain to the general public why you paid \$435 for a hammer that anyone could buy in any hardware store for less than \$35?

Using Commercial Prices ([FAR 15.404-1\(b\)\(2\)](#)). You can classify the sources of commercial pricing information into three categories:

- **Published price list** -- prices taken from a catalog, price list, schedule, or other verifiable and established record that is regularly maintained by a manufacturer or vendor and is published or otherwise available for customer inspection. For pricing purposes (but not cost or pricing data exception purposes), you can consider published pricing

information from the firm submitting the offer and/or published pricing information from other firms offering similar products.

- **Published market prices** -- prices established in the course of ordinary and usual trade between buyers and sellers free to bargain that can be substantiated from sources independent of the offeror. Normally, market pricing information is taken from independent market reports, but a market price could be established by surveying the firms in a particular industry or market.
- **Similar indexes** -- commercial item prices established using a means other than those described above. For example, an offeror might provide information on the prices charged commercial customers over a period of time. Such a record would not qualify as published price list or market price, but it would provide a good record of the firm's commercial pricing practices.

Discounts. Commercial sales typically include discounts for different types of customers. Discount amounts typically depend on the product and the marketing strategy of the firm. Common factors affecting discounts include, services provided by the seller (e.g., wholesale and retail sales) and the importance of the sale (e.g., dollars involved or the relationship to other sales).

Rebates. Rebates are often offered to various customers based on the customer's total purchases over a specific period of time. For example, automobile manufacturers typically offer dealers rebates, based on total sales. That is one reason why dealers can advertise sales "at invoice." Dealer profit is based on the rebate amount.

Contracting Situation Differences. Remember that your contracting situation may be different than the situation in the commercial market. For example, the offeror may provide services to commercial customers that are not required by the Government. If the Government is receiving less, you should expect to pay less.

6.1.3 Previously-Proposed Prices And Contract Prices

Historical Prices ([FAR 15.404-1\(b\)\(2\)](#)). Previously-proposed prices and contract prices are historical prices - prices related to past purchasing activity. The purchase associated with a particular price may have been made by your office or another office with similar requirements.

Using Historical Prices. Whenever you consider using historical prices to analyze price reasonableness, ask the following questions:

- ***Has the product been purchased before?***

The purchase may have been made by your office or by another purchasing office.

- ***What was the historical price?***

You can obtain price information from purchase files, computer data files, or manual inventory item records.

- ***Was the historical price fair and reasonable?***

For a historical price to be useful in determining the reasonableness of an offered price, you must know that the historical price was fair and reasonable. Be careful! It is not uncommon to review an item purchase history and find that no base other than the last price paid has been used for years to determine price reasonableness. In one study, the entire pricing histories for several items were reviewed and analysts found that for every acquisition except the first, the determination of price reasonableness was based on the last price paid. Analysts also found that the first acquisition was a multiple-item acquisition and while there was an analysis of the reasonableness of the overall acquisition price, no one ever examined the reasonableness of individual item prices. In other words, for years contracting officers found prices reasonable based on an arbitrary decision made during the first acquisition.

- ***Is the comparison valid?***

For the comparison to be valid, you must be able to identify and consider any item or market differences that might significantly affect contract price.

6.1.4 Parametric And Rough Yardsticks Estimates

Cost Estimating Relationships ([FAR 15.404-1\(b\)\(2\)](#)). Cost estimating relationships (CERs) are used to develop parametric estimates or rough yardstick estimates. A CER is a formula for estimating prices based on the relationship of past prices with one or more product physical or performance characteristics (e.g., dollars per pound or dollars per horsepower). Whenever you can relate item price with the value of one or more physical or performance characteristics, you can use the relationship to estimate the price of a similar product. For example, builders commonly estimate the price of a planned building by multiplying the number of square feet in the building by an estimated cost per square foot.

Using Cost Estimating Relationships.

Whenever you consider using a CER to determine price reasonableness, ask the following questions:

- ***Has the CER been widely accepted in the market place?***

Determine whether both buyers and sellers agree on the validity of a particular relationship/yardstick and the reasonableness of values used in estimating. Sellers may use a relationship/yardstick that produces an estimate higher than that normally accepted by buyers.

- ***Does the CER produce reasonable results?***

The user of the relationship/yardstick has the burden of demonstrating that the relationship/yardstick produces reasonable estimates. The user should be able to demonstrate the data and calculations used to develop the relationship/yardstick.

- ***How accurate is the CER?***

Validate the using known product data and prices. Examine the accuracy of the results. Remember that even a properly developed pricing relationship/yardstick will not always predict price exactly. Some relationship/yardsticks are very accurate others will only give you a rough approximation of the proper price. As relationship/yardstick accuracy decreases, the weight that

you place on the relationship/yardstick in your pricing decision should also decrease.

6.1.5 Independent Government Estimates

Independent Government Estimates. As the name implies, an Independent Government Estimate is an estimate made by the Government. This section will define and consider three types of Independent Government Estimate.

- The most common is the Independent Government Estimate that accompanies the **purchase request**.
- A **value analysis estimate** results from a specialized analysis of the function of a product and its related price. It may literally involve taking the item apart to determine how it is made and why it costs what it does.
- A **visual analysis estimate** results from a visual inspection of an item, or drawing of an item, to estimate its probable value.

General Guidelines on Using Independent Government Estimates. [Earlier in this text](#), you learned five questions to ask when analyzing the reliability and validity of Government purchase request estimates. Ask the same questions of any Independent Government Estimate before using it as a basis for comparison with offered prices.

- **How was the estimate made?**
- **What assumptions were made?**
- **What information and tools were used?**
- **Where was the information obtained?**
- **How did previous estimates compare with prices paid?**

Special Considerations for Using Value Analysis. You may apply the techniques of value analysis to any product, regardless of its complexity. However, generally consider only those products offering potential cost reductions that merit the time and cost of the analysis required.

Value analysis provides information on product value in comparison with possible substitutes. It is particularly useful when:

- The Independent Government Estimate is the only price analysis base available; or
- The product does not seem to be worth the price quoted.

To be effective, value analysis must be performed by individuals familiar with the product and its use by the Government. Actual analysis should follow a 5-step process:

1. Determine acquisition costs based on current proposal or other estimates.
2. Assure Government requirement documents reflect the minimum needs of the Government.
3. Identify alternative products or methods of meeting the minimum needs of the Government. This is typically the key step in the analysis. The following are examples of questions you should consider:
 - *Can any part of the product be eliminated?*
 - *Can a standard part replace a special part?*
 - *Can a lower cost material or method be used?*
 - *Can paperwork requirements be reduced?*
 - *Can the product be packaged more economically?*
4. Estimate the costs associated with alternative products or methods that would meet the minimum needs of the Government.
5. Document the reasonableness of the current prices or recommend appropriate changes. Assure that the process and results of the value analysis are clearly documented and include a copy of the documentation in the contract file. When you are satisfied that the value received supports the offered price, use that information to support your determination of price reasonableness. When you are not satisfied, use the information to document efforts to bring price in line with perceived value.

For example: Suppose you are purchasing a pair of shoes. Shoes are used to walk in, to protect the feet, to keep the feet warm, and to enhance appearance. If shoes are to be attractive, they must be made of certain types and quality of material. If appearance is not important to the Government, a less attractive, less expensive, but possibly more durable material can be used. By changing the quality of material required, price will change.

Special Considerations for Using Visual Analysis. In visual analysis, the analyst examines obvious external features of the product to determine value and related price. This technique is nothing more than technical experts comparing the product with other products by sight.

Consider using visual analysis as a pricing tool:

- In place of value analysis for products that do not offer potential cost reductions that merit the time and cost of analysis required for detailed value analysis.
- To review large numbers of products to identify any that appear to offer potential cost reductions that merit the time and cost associated with detailed value analysis.

6.2 Identifying Factors That Affect Comparability

Introduction. When comparing prices, you must attempt to account for any factors that affect comparability. The following factors deserve special consideration because they affect many price analysis comparisons:

- Market conditions;
- Quantity or size;
- Geographic location;
- Purchasing power of the dollar;
- Extent of competition;
- Technology; and
- Government unique requirements.

Market Conditions. Market conditions change. The passage of time usually is accompanied by changes in supply, demand, technology, product designs, pricing strategies, laws and regulations that affect supplier costs, and other such factors. An effort to equate two prices, separated by five years, through a simple inflation adjustment may not be successful. Too many characteristics of the market are likely to have changed. Do not stretch data beyond their limits.

Generally select the most recent prices available. The greater the time difference, the greater the likelihood and impact of differences in market conditions. If you are

comparing a current offer with a prior price, the ideal comparison would be with a contract price agreed to yesterday. That comparison would limit the effects of time on market conditions.

However, do not select a price for comparison merely because it is the most recent. **Look instead for prices that were established under similar market conditions.** For instance, if you are buying potatoes in October, offers from the previous October may be more comparable to current offers than prices paid last February, given the cyclical pattern of supply and demand in the market for potatoes.

Consider the most current available data on trends and patterns in market conditions. Remember that lags often occur between data collection and contract award. Changes in market conditions over that period can reduce the usefulness of the data assembled.

Quantity or Size. Variations in quantity can have a significant impact on unit price. A change in quantity can have an upward effect, a downward effect, or no effect at all.

In **supply and equipment** acquisitions, we usually assume that larger supply acquisitions command lower unit prices. Where economies of scale are involved, that should be the case. However, economies of scale do not always apply.

- Increases in order size beyond a certain point may tax a supplier's capacity and result in higher prices.
- Market forces may impose opportunity costs on a supplier which result in higher unit costs for greater volumes. For example, if the price of oil is expected to increase 20 percent over a 12-month period, a supplier may choose to withhold a portion for a sale at a later date when the price is higher. In such a market, the effect of purchase quantity on price may not be as expected; at some point, increases in volume will result in higher unit prices as the supply of the lower priced oil is exhausted.
- Finally, if a price comparison is based on standard commercial items that are produced at a regular rate, variations in quantity may have no effect at all.

A meaningful comparison of prices requires that the effect of volume on price be accounted for. The best way to

do this is to select prices for comparison based on equal volumes. If that is not possible, examine the specific suppliers and the nature of the market at the time of the purchase.

In **service acquisitions**, the problems are different. Variations in size can sometimes be neutralized by reducing the comparison to price per square foot or price per productive labor hour. Because these approaches are not always effective, try to factor out size or quantity variations as much as possible. If you don't succeed, the price comparison will have little value.

Geographic Location. Geography can have a range of effects on comparability. Prices for many nationally advertised products will not vary much from place to place. Nevertheless, because geographic location can affect comparability, you should first try to compare offered prices with prices obtained from the same area. In major metropolitan centers, you should generally be able to identify comparable bases for price analysis in the region. In more remote, less urban areas, you must often get pricing information from beyond the immediate area.

When you must compare prices across geographic boundaries, take the following actions to enhance comparability.

- Check for differences in the level competition that may affect price comparisons.
- Identify labor rate differences that must be neutralized for valid price comparisons.
- Check freight requirements and accompanying costs. These can vary considerably, especially for chemicals and other hazardous materials.

Identify geographic anomalies or trends. For example, an item may be more expensive on the West Coast than in the East.

Purchasing Power of the Dollar. Inflation undermines comparability by eroding the real value of money. Because prices over time are expressed in the same currency (dollars and cents), the denominations must have comparable purchasing power if comparison is to be meaningful. You can normally use price index numbers to adjust for the changing value of the dollar over time.

Extent of Competition. When comparing one price with another, assess the competitive environment shaping the prices. For example, you can compare last year's competitive price with a current offer for the same item. However, if last year's procurement was made without competition, you may not have a good price with which to compare the current offer. A poorly written specification and an urgent need may have combined to make competition impossible last year, but now the specifications have been rewritten and the delivery is not urgent. Given these circumstances, a current offer could be the same as (or less than) last year's best price and still not be reasonable.

Technology. Prices from dying industries can rise because the technologies don't keep pace with rising costs. Conversely, technological advances in growth industries can drive prices down. The computer industry is an example. Technological advances have been made so fast that a comparison of prices separated by only a few weeks must account for these advances if the comparison is to have any value.

Engineering or design changes must also be taken into account. This means you must identify the new or modified features and estimate their effect on price.

Government-Unique Requirements. Often, the Government's requirements vary to some degree from the commercial requirements for similar products. The question is the impact these variations have on price. For example, the Government may require that the carpet in a Navy ship be fireproof to a far greater extent than any commercial carpet. That may justify a substantial difference in price over otherwise comparable commercial carpets.

Similarly, you must often incorporate clauses in contracts that are not required in commercial market transactions. For example, contracts between buyers and sellers in the private sector do not include provisions relating to the Davis-Bacon Act, the Service Contract Act, clean air and water, and many other special conditions. Consequently, comparison of an offer with commercial prices may be difficult. Unique terms and conditions affect prices, but it is often extremely difficult to assign a dollar value to their effects.

Just as Government requirements may be different from commercial requirements, Government requirements at a specific time and place may be different than requirements at another time and place. These differences will also affect price comparisons.

6.3 Determining The Effect Of Identified Factors

Introduction. Once you have identified the factors that may affect comparability, you must determine the effect on each specific comparison with the offered price. As you determine the effect of various factors on price comparisons, you must ask yourself the following questions:

- **What factors affect this specific comparison?**
- **How do these factors affect the comparison?**
- **Does this comparison, even with its limitations, contribute to the price analysis?**

Other Proposed Prices ([FAR 15.206](#)). In sealed bidding, all bids are priced against the contract requirements. Comparison with competitive prices is a straight forward comparison that normally requires no adjustments unless the evaluation process involves the use of price-related factors.

Comparing proposals may not be as simple as comparing bids, when:

- The offer in line for award departs from the stated solicitation requirements. If the departure does not meet stated contract requirements, but is acceptable to the Government, provide other offerors the opportunity to submit a revised proposal based on the revised requirements. However, you must not reveal any information about the proposed solution or any other offeror information entitled to protection.
- Offers differ in their basic approaches to meeting performance or functional requirements. Remember, the price of a ceramic mug is little help in determining if the price of a paper cup is reasonable, even though both can satisfy a requirement for a container that will hold eight ounces of coffee.

Commercial Prices. Any of the general factors identified earlier in this chapter could affect the comparability of commercial prices (i.e., market conditions may have changed since the effective date of published prices; the purchasing power of the dollar may have changed; the published prices may have been based on different terms and conditions than solicited by the Government).

During your analysis, you should give special consideration to asking how the following have affected price analysis comparisons:

- Is there a difference between the services provided commercial and Government customers? Are published prices retail, wholesale, or distributor prices?
- Is there a difference between the catalog (or suggested price) and the price paid by commercial customers with requirements similar to the Government's requirements?
- Are there different prices for different customer classes (e.g., are there different prices for different classes of customers-public vs. brokers vs. retailers?)
- What special rebates or discounts are offered commercial customers?

What is the value of extras provided commercial customers for promotional purposes (e.g., free packaging, free transportation, free insurance, etc.) without extra charge?

Previously Proposed Prices and Contract Prices. Consider all general factors identified earlier in the chapter. At minimum, ask the following:

- ***How have the specific changes in the contracting situation affected contract price?***

You need to understand the acquisition situation as it existed in the previous situation and how the current acquisition situation differs. Important data elements include:

- Sources
- Quantities
- Production/Delivery Rates
- Start-up Costs

- o Terms of Purchase
- ***How have changes in the general economic situation affected contract price?***

Economic changes are reflected in the general level of inflation or deflation related to the product that you are acquiring. Have prices gone up or down. If they have, how much have they changed?

Parametric and Rough Yardstick Estimates. Consider all general factors identified earlier in the chapter. In particular consider the questions above that apply to historical prices. After all pricing yardsticks are based on historical pricing information.

In addition, you must ask if the historical relationship remains valid. As a minimum, consider the following questions:

- ***How have changes in market conditions affected the estimating relationship?***
- ***How have changes in technology affected the estimating relationship?***
- ***How have changes in production efficiency affected the estimating relationship?***
- ***How have changes in the purchasing power of the dollar affected the estimating relationship?***

Independent Government Estimates. Consider all general factors identified earlier in the chapter for possible effects on comparability.

Independent Government Estimates, especially those developed previously for such purposes as preparing budgets, may no longer be valid. Budget optimism or pessimism can have a significant effect on budget estimates. In addition, many estimates are developed years before the actual contract action is initiated.

6.4 Adjusting The Prices Selected For Comparison

Introduction. If you have a price analysis comparison base that does not require adjustment, use it! If you must make an adjustment, try to make the adjustment as objectively as

possible. You may need to use statistical techniques or algebraic formulas to establish a common basis for comparison.

You must complete two basic tasks in order to establish comparability:

- Identify and document price-related differences, taking into account the factors affecting comparability.
- Factor out price-related differences.

Restoring comparability by establishing a common basis for comparison requires that you assign a dollar value to each identified difference. However, you cannot always do this. The cost of terms and conditions peculiar to Government contracts is hard to estimate, so exercise discretion in such cases.

Other Proposed Prices. Apply any price-related factors established in the solicitation, to adjust the offered prices for comparison with one another.

Other Information. The challenge is to use the available information and to estimate the price that the Government should pay.

Use available information to estimate the effect of each factor on contract price. In this effort use appropriate quantitative analysis techniques.

If you cannot objectively adjust the prices for the factor involved, you may need to make a subjective adjustment. For example, estimating the effect on price of unique Government terms and conditions.

Every acquisition situation will be different. Whatever method you use, always document the information that you used and how you used it in making the adjustment.

6.5 Comparing Adjusted Prices

Introduction. Use adjusted prices to estimate range of reasonable prices. Use the price that appears most reasonable as your should-pay price.

If the should-pay price departs significantly from the apparent successful offer, analyze the differences. You will then be ready to make the price-related decisions required to determine the successful offeror and make contract award.

Other Proposed Prices. Comparing competitive offers is normally the easiest form of price analysis. It also tends to be the most valid, because you are comparing offers prepared for the same requirement under the same market conditions. However, the weight placed on this type of comparison depends on the circumstances of the acquisition. Place less weight on competitive prices (relative to other price comparisons) when:

- Adequate price competition does not exist (regardless of the number of offers) - in which case the weight should be zero.
- Relatively few of the responsible firms in the industry submitted responsive offers (especially if the conditions of the solicitation unreasonably denied such firms a chance to compete).
- The apparent offeror appears to enjoy an unfair competitive advantage.
- Having used a performance or functional specification, the apparent successful offeror's proposed approach is less comparable to other proposed approaches than (a) to work performed under prior contracts or (b) commercial contracts.
- The deliverable in line for award is less comparable to other offered deliverables than to (a) those acquired under prior contracts or to (b) commercial contracts.
- The apparent successful offer is significantly out of line with other offers.
- The apparent successful offer is significantly out of line (either lower or higher) with estimates of the should-pay price from other types of comparisons (to the extent that other comparisons are reliable and valid indicators of the should-pay price).
- The cost of the acquisition is substantial. The larger the dollar value of the contract, the more importance you should place on sizable differences in dollars between different types of comparisons (even if the differences are modest when expressed as percentages).

Commercial Prices. Ask the following questions to determine the weight that should be placed on comparisons with commercial prices.

- ***Can the offeror explain any differences between the offered price and its own commercial prices?***

The offeror must be able to explain any differences between the offered price and commercial prices. You may base prices for a family of products on a single base product. For example, a radio transceiver may require different connectors and adapters to work with different systems. The part number may even be different for each system, but the basic component is the same. If the offeror can support the price of the various related products by using the price of the basic component, plus the cost of the additional devices, you can use that data to price the entire family of products.

- ***Is your purchase situation different from the typical commercial market situation?***

Even when you grant an exception from the submission of cost or pricing data based on commercial pricing, you do not have to accept the commercial price as the contract price. If you feel that the circumstances of your purchase are different, you should attempt to negotiate a different price.

- ***Do other price analysis bases confirm that the offered price is reasonable?***

If other bases indicate that the offered price is fair and reasonable, use that information in preparing your price negotiation objectives.

Previously Proposed Prices and Contract Prices. Ask the following questions to determine the weight that should be placed on comparisons with historical prices.

- ***How does the offered price compare with the historical price, considering changes in the contracting situation?***

You may be able to use quantitative techniques to adjust prices for changes in the contracting situation. If you cannot, you must subjectively analyze the changes.

- ***Do other types of price comparisons confirm that the offered price is reasonable?***

Because of the changes in the acquisition situation, historical prices typically do not provide a precise base for determining price reasonableness. If possible, use other bases of price analysis to confirm that the offered price is fair and reasonable.

Parametric and Rough Yardstick Estimates. Ask the following questions to determine the weight that should be placed on comparisons with parametric or rough yardstick estimates.

- ***How does the offered price compare with the price developed using the pricing relationship?***

Use the appropriate price analysis technique(s) to estimate the should-pay price. Compare the offered price with the estimated price, and carefully document the techniques and the judgment you use in your analysis.

- ***Do other types of price comparisons confirm that the offered price is reasonable?***

Because of item differences, pricing relationships typically cannot precisely confirm or refute price reasonableness. If possible, use other price comparisons to confirm that the offered price is fair and reasonable.

Independent Government Estimates. Remember that your reliance on Independent Government Estimates should always be tempered by your answers to the following questions:

- ***How Was the Estimate Made?***
- ***What Assumptions Were Made?***
- ***What Information and Tools Were Used?***
- ***Where Was the Information Obtained?***
- ***How Did Previous Estimates Compare with Prices Paid?***

Place no weight on an Independent Government Estimate that originated with an offeror or is a sheer guess. If the Independent Government Estimate turns out to be a past

contract price, analyze that price as you would any historical price.

On the other hand, you might place great confidence in Independent Government Estimates built through detailed analysis - depending on how well that analysis was done.