

# UNIT 28: PRICE ANALYSIS (SEALED BIDDING)

*October 2003*

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<b>Duty</b>	Calculate the evaluated price for each bid and determine whether the lowest price is reasonable.
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<b>Conditions</b>	Given acquisition planning, an invitation for bids (IFB) that identifies price-related factors for bid evaluation (e.g., Buy American Act, transportation cost, options, small disadvantaged business price evaluation adjustment, or HUBZone price evaluation preference), and bids.
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<b>Overall Standard</b>	Consider all price-related factors and accurately calculate evaluated prices. Identify all comparative data, select the best price comparison and analysis techniques for the procurement, and accurately adjust the data for equitable comparison with bids. Correctly determine whether the lowest evaluated bid is reasonable.
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## Policies

<i>FAR</i>	<i>Agency Suppl.</i>	<i>Subject</i>
14.201-8		Price-related factors.
14.404-2(f)		Rejection of bids with unreasonable price(s).
14.404-2(g)		Rejection of bids with unbalanced prices.
14.407-3		Other mistakes disclosed before award.
14.408-2		Responsible bidder – reasonableness of price.
14.408-3		Prompt payment discounts.
14.408-4		Economic price adjustments.
14.408-6		Equal low bids.
15.404-1(g)		Unbalanced pricing.
17.206		Evaluation of options.
19.202-6		Determination of fair market price.
19.202-3		Equal low bids.
19.501(h)		Small business set-aside price may not exceed fair market price unless authorized by law.
19.506(a)		Small business set-aside may be withdrawn if price exceeds the fair market price.
19.11		Price evaluation adjustment for small disadvantaged business concerns.
19.1307		Price evaluation preference for HUBZone small business concerns.
25.1		Buy American act – supplies.
25.4		Trade Agreements.
45.2		Government furnished property price-related evaluation factor(s).
47.306		Transportation factors in the evaluation of offers.
52.214-10		Contract award – sealed bidding.
52.214-22		Evaluation of bids for multiple awards.
52.217-3		Evaluation exclusive of options.
52.217-4		Evaluation of options exercised at time of award.
52.217-5		Evaluation of options.
52.219-4		Notice of price evaluation preference for HUBZone small business concerns.
52.219-23		Notice of price evaluation adjustment for small disadvantaged business concerns.
52.247-45, 46, 47, 49, 50, 51, 56, 57, 59, 60, & 62		Price-related evaluation factors for transportation cost.

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## **Other KSAs**

1. Knowledge of common strategies used by business entities to price their goods and services, including goals (e.g., profit maximization, market-share, market skimming, current revenue, target-profit pricing and promotional pricing) and bases (e.g., cost, demand, or competition).
2. Knowledge of mathematical techniques for adjusting prices for comparison and estimating a fair and reasonable price.
3. Knowledge of the fundamentals of supply and demand (e.g., mechanics of individual prices; economic choices; demand, supply, market prices, and elasticity of demand).
4. Knowledge of logistic support requirements (e.g., technical documentation, supplies, spares and component provisioning, and support facilities) as potential price-related factors.
5. Knowledge of price-related factors that typically apply in sealed bidding and skill at applying each such factor in computing evaluated price(s).
6. Knowledge of typical pitfalls and errors in evaluating data on prices.
7. Knowledge of techniques for analyzing prices and the advantages and disadvantages of each.
8. Ability to exercise the attention to detail required to identify information relevant to price analysis.
9. Ability to gather, organize, and retain the information required for price analysis.
10. Ability to communicate orally and in writing about pricing issues.
11. Ability to relate to both Government and bidder concerns in the price analysis process.
12. Ability to use arithmetic in price analysis calculations.
13. Ability to apply math reasoning to the choice of appropriate price analysis techniques for each acquisition.
14. Ability to appropriately consider price analysis in making business decisions.
15. Ability to maintain the honesty and integrity of the acquisition process.

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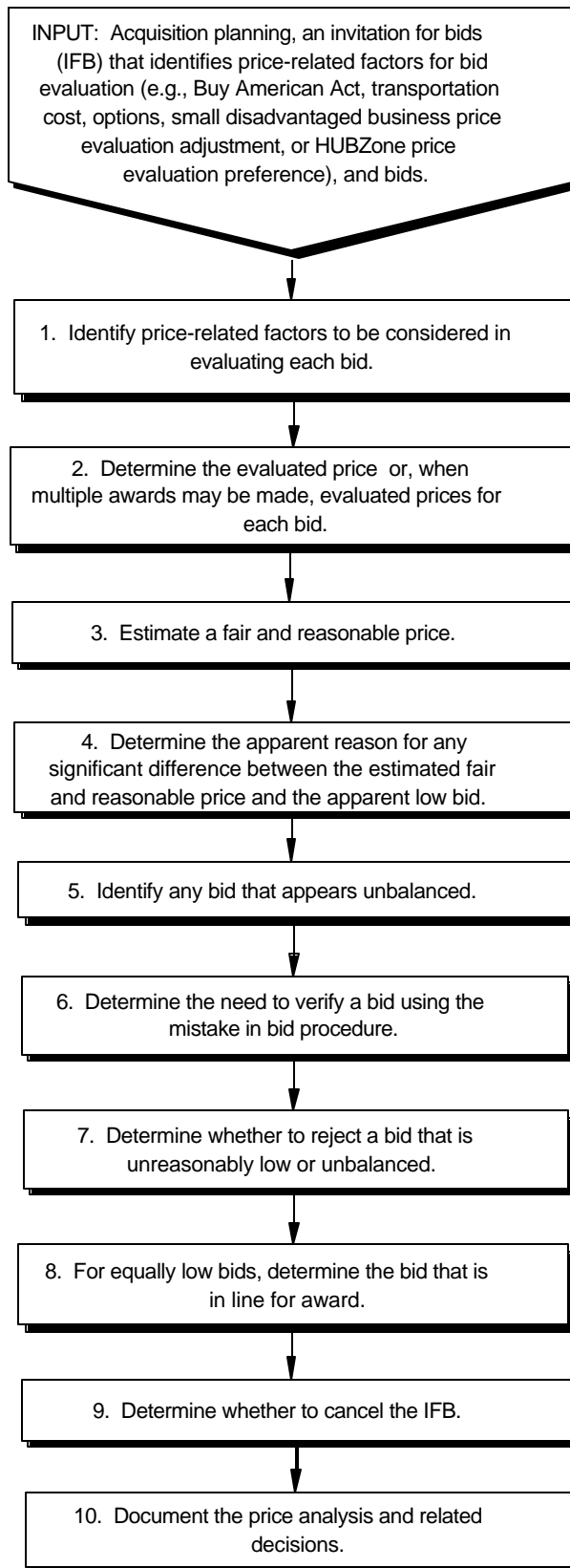
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**Other Policies and References (Annotate As Necessary):**

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Tasks	Related Standards
<p>1. Identify price-related factors to be considered in evaluating each bid.</p>	<p>Identify the price-related factors identified in the invitation for bids (IFB). Examples of factors that may be identified in the IFB include:</p> <ul style="list-style-type: none"> <li>• Transportation costs;</li> <li>• Administrative costs of multiple awards;</li> <li>• Federal, state, and local taxes;</li> <li>• Buy American Act factors;</li> <li>• Price adjustment factors for small disadvantaged business concerns;</li> <li>• Price evaluation preference for HUBZone small business concerns;</li> <li>• Life cycle costs (e.g., maintenance, warranty protection or repair, training, installation, technical manuals, spare parts, and supplemental supplies);</li> <li>• Assumed economic price adjustments;</li> <li>• Government furnished property costs and savings;</li> <li>• Option and/or multi-year prices;</li> <li>• Incremental pricing or related item quantity discounts;</li> <li>• Energy conservation and efficiency; and</li> <li>• Estimated quantities.</li> </ul>
<p>2. Determine the evaluated price<sup>1</sup> or, when multiple awards may be made, evaluated prices for each bid.</p>	<p>Accurately compute the evaluated price or prices of each bid using the criteria established in the IFB.</p> <ul style="list-style-type: none"> <li>• Identify any relevant data. Consider data provided by each bidder and other available information.</li> <li>• Apply identified price-related factors.</li> <li>• Identify the lowest evaluated price or, if multiple awards may be made, the bids that collectively represent the lowest evaluated price.</li> </ul>

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<sup>1</sup> The evaluated price is the price that will actually be used in bid evaluation comparisons. For example, the IFB may require each bidder to submit price(s) f.o.b. origin. To reasonably evaluate bids, add the appropriate transportation cost to each bid. The sum of bid price and transportation cost is the evaluated price considering price and transportation cost.

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## Tasks

## Related Standards

<p>3. Estimate a fair and reasonable price.</p>	<p>Consider a price fair and reasonable when it is:</p> <ul style="list-style-type: none"><li>• Fair to the buyer;</li><li>• Fair to the seller;</li><li>• Reasonable under market conditions; and</li><li>• Reasonable considering price-related factors.</li></ul> <p>Consider the following steps in estimating a fair and reasonable price:</p> <ol style="list-style-type: none"><li>1. Select price(s) for comparison. When practical, consider multiple bases, such as:<ul style="list-style-type: none"><li>- Proposed prices received in response to the solicitation. (Normally, adequate price competition establishes price reasonableness.)</li><li>- Previously proposed prices or previous Government and commercial contract prices, if both the validity of the comparison and the reasonableness of the previous price(s) can be established.</li><li>- Estimates prepared using parametric estimating methods or rough yardsticks (such as dollars per pound or per horsepower, or other units).</li><li>- Competitive published price lists, published market prices of commodities, similar indexes, and discount or rebate arrangements.</li><li>- Independent Government estimates.</li><li>- Prices obtained through market research for the same or similar items.</li><li>- Pricing information provided by the bidder.</li></ul></li><li>2. Identify factors that affect comparability.</li><li>3. Determine the probable affect of identified factors.</li><li>4. Adjust selected price(s) for comparison.</li><li>5. Compare the adjusted price(s) to the bid(s) in line for contract award.</li></ol>
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Tasks	Related Standards
<p>4. Determine the apparent reason for any significant difference between the estimated fair and reasonable price and the apparent low bid.</p>	<p>Given market research and other available information correctly explain any significant differences between the estimated price and the bid(s) in line for contract award.</p> <p>An unexpectedly high bid price could result from a variety of reasons, including:</p> <ul style="list-style-type: none"> <li>• Bidder collusion;</li> <li>• Defective specifications;</li> <li>• Unclear or unreasonable contract terms;</li> <li>• Changes in market conditions; or</li> <li>• Inadequate competition.</li> </ul> <p>An unexpectedly low bid could result for a variety of reasons, including a bidder's:</p> <ul style="list-style-type: none"> <li>• Edge in efficiency or technology;</li> <li>• Attempt to buy-in (i.e., bid a price below market price in order to attain a favorable advantage in future competition or establish a basis to negotiate higher prices through anticipated contract modifications);</li> <li>• Mistake (e.g, failure to use correct wage rates); or</li> <li>• Lack of responsibility necessary to understand and meet contract requirements.</li> </ul>
<p>5. Identify any bid that appears unbalanced.</p>	<p>A bid is mathematically unbalanced when, despite an acceptable total evaluated price, the price of one or more contract line items is significantly over or understated. It is materially unbalanced, when the mathematically unbalanced price may increase performance risk or could result in payment of unreasonably high prices.</p> <p>The greatest risks associated with unbalanced pricing occur when:</p> <ul style="list-style-type: none"> <li>• Startup work, mobilization, first articles, or first article testing are separate line items;</li> <li>• Base quantities and option quantities are separate line items; or</li> <li>• The total evaluated price is the aggregate of estimated quantities to be ordered under a multiple line item indefinite-delivery contract.</li> </ul>



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Tasks	Related Standards
6. Determine the need to verify a bid using the mistake in bid procedure.	Verify bids which appear to be: <ul style="list-style-type: none"><li>• Affected by a clerical mistake (e.g., an obviously misplaced decimal point or reversal of prices f.o.b. origin and f.o.b. destination);</li><li>• Unreasonably low; or</li><li>• Unbalanced.</li></ul>
7. Determine whether to reject a bid that is unreasonably low or unbalanced.	Where the low bidder fails or refuses to furnish evidence in support of an alleged or suspected mistake, the bid must be accepted unless the Contracting Officer determines that: <ul style="list-style-type: none"><li>• Acceptance of the bid would be unfair to the bidder or to other bona fide bidders because:<ul style="list-style-type: none"><li>- The bid is so far out of line with the amount:<ul style="list-style-type: none"><li>▪ Of other bids received, or</li><li>▪ Estimated by the agency or determined by the Contracting Officer to be reasonable; or</li></ul></li><li>- There are other indications of error so clear, as to reasonably justify the conclusion.</li></ul></li><li>• The lack of balance in pricing poses an unacceptable risk to the Government.</li></ul>

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Tasks	Related Standards
8. For equally low bids, determine the bid that is in line for award.	<p>Use the following order of priority when two or more low bids are equal in all respects:</p> <ul style="list-style-type: none"><li>• Small business concerns that are also labor surplus area concerns.</li><li>• Other small business concerns.</li><li>• Other business concerns.</li></ul> <p>If two or more bidders still remain equally eligible after application of the criteria above, make award using a drawing by lot limited to the equal low bidders. If time permits, give the bidders involved an opportunity to attend the drawing. The drawing must be witnessed by at least three persons, and the contract file must contain the names and addresses of the witnesses and the person supervising the drawing.</p> <p>When an award is made using the priorities above include a written agreement in the contract that the contractor will perform, or cause to be performed, the contract in accordance with the circumstances justifying the priority used to break the tie or select bids for a drawing by lot.</p>
9. Determine whether to cancel the IFB.	Follow the criteria for canceling an IFB presented in the unit entitled "Amending/Canceling Solicitations".

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## Tasks

## Related Standards

10. Document the price analysis and related decisions.

In addition to documenting any determinations based on price analysis, document:

- Attempts made to obtain additional information required to support price analysis.
- Any calculation used to estimate a fair and reasonable price.
- That award was made to the responsible bidder whose bid is responsive to the terms of the IFB and is most advantageous to the Government, considering only price and the price-related factors included in the invitation.
- That the accepted bid was the lowest bid received, or list all lower bids with reasons for their rejection in sufficient detail to justify the award.
- How the tie was broken, when an award is made after receipt of equal low bids.