

# UNIT 36: PRICE ANALYSIS (NEGOTIATED ACQUISITIONS)

*October 2003*

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<b>Duty</b>	Establish prenegotiation positions on price including: the need to cancel and resolicit for price related reasons; the need for communications; the need for cost information; and the need to negotiate.
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<b>Conditions</b>	Given acquisition planning, a solicitation including evaluation criteria, offer(s), and any pricing information submitted by offerors.
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<b>Overall Standard</b>	Correctly complete a price analysis and make the price analysis decisions necessary to assure that any contract award is made at a fair and reasonable price.
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## Policies

<i>FAR</i>	<i>Agency Suppl.</i>	<i>Subject</i>
2.101		Definition of “information other than cost or pricing data”.
12.209		Determination of price reasonableness for commercial items.
13.101(b)		Consider multiple awards. Maximum effort to obtain discounts. Never consider prompt payment discounts in evaluating quotes.
13.106-2		Evaluation of offers, including consideration of transportation cost as a factor.
13.106-3(a)		Basis for award – price must be fair and reasonable.
15.305(a)(1)		Cost or price evaluation.
15.306(a)		Clarifications and award without discussions.
15.306(c)		Competitive range.
15.401		Definition of “price” and “subcontract”.
15.402		Pricing policy – order of precedence in requesting information to support price and cost analysis.
15.403-3		Requiring submission of information other than cost or pricing data to support price analysis.
15.404-1(a)		Purpose and role of price analysis.
15.404-1(b)		Price analysis.
15.404-1(f)		Unit prices – policies on establishing.
15.404-1(g)		Unbalanced pricing.
15.405		Price negotiation.
15.406-1		Prenegotiation price objectives, including fact-finding results.
17.106-2(b) & (c)		Evaluating offers for multi-year contracts.
17.206		Evaluating options.
19.202-6		Determination of a fair market price.
19.11		Price evaluation adjustment for small disadvantaged business concerns.
19.1307		Price evaluation preference for HUBZone small business concerns.
22.103-3		Pricing consideration of overtime and shift premiums.
25.105		Determining reasonableness of cost.
25.4		Trade agreements, including their affect on pricing.
25.5		Evaluating foreign offers – supply contracts.
27.204		Reducing or eliminating excessive or improper royalties.
47.306		Transportation factors in the evaluation of offers.
52.215-1(f)(6)		Evaluation of offers for multiple awards.
52.215-14		Integrity of unit prices.

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<i>FAR</i>	<i>Agency Suppl.</i>	<i>Subject</i>
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.
52.227-6		Royalty information.
52.227-7		Patents – notice of Government licensee.
52.227-8 52.227-9		Refund of royalties.
52.247-45, 46, 47, 49, 50, 51, 56, 57, 59, 60 & 62).		Price-related evaluation factors for transportation cost.

## Other KSAs

1. Knowledge of price decisions of business entities, including goals (e.g., profit maximization, market-share, market skimming, current revenue, target-profit pricing and promotional pricing) and bases (e.g., cost or competition), in terms of analyzing the reasonableness of proposed prices.
2. Knowledge of mathematical techniques for adjusting and comparing prices.
3. Knowledge of the fundamentals of supply and demand, in terms of analyzing the reasonableness of proposed prices.
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 competitive negotiations and skill at applying each such factor in computing evaluated prices.
6. Knowledge of typical pitfalls and errors in evaluating prices.
7. Knowledge of potential risks to the Government if the price is unreasonably low or high.
8. Ability to communicate with the requiring activity to discover the validity of the Government's price estimate and obtaining additional data to support pricing.

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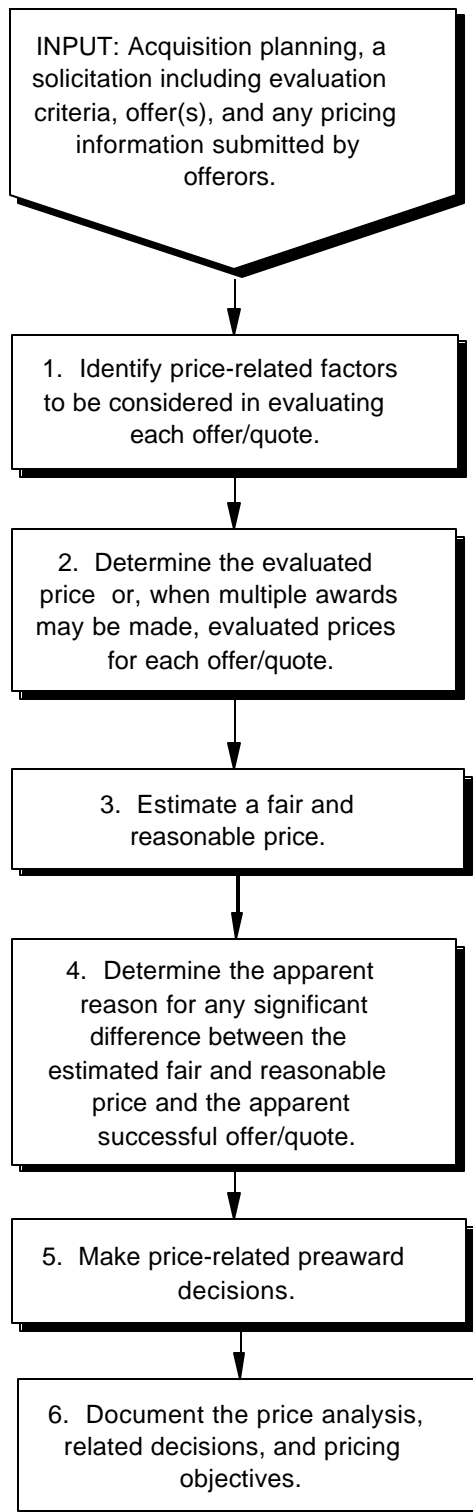
9. Ability to exercise the attention to detail required to identify information relevant to price analysis.
10. Ability to gather, organize, and retain the information required for price analysis.
11. Ability to communicate orally and in writing about pricing issues.
12. Ability to relate to both Government and offeror concerns in the price analysis process.
13. Ability to use arithmetic in price analysis calculations.
14. Ability to apply math reasoning to the choice of appropriate price analysis techniques for each acquisition.
15. Ability to appropriately consider price analysis in making business decisions.
16. Ability to maintain the honesty and integrity of the acquisition process.

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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 offer/quote.</p>	<p>Identify the price-related factors included in the solicitation. Examples of factors that may be identified 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 offer/quote.</p>	<p>Accurately compute the evaluated price or prices of each offer/quote using the criteria established in the solicitation.</p> <ul style="list-style-type: none"> <li>• Identify any relevant data. Consider data provided by each offeror/quoter 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 offers/quotes 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 offer evaluation comparisons. For example, the solicitation may require each offeror/quoter to submit price(s) f.o.b. origin. To reasonably evaluate offers/quotes, add the appropriate transportation cost to each offer/quote. The sum of offered/quoted price and transportation cost is the evaluated price considering price and transportation cost.

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## Tasks

## Related Standards

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 practicable, 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 offeror.</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 offer(s)/quote(s) in line for contract award.</li> </ol>

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## Tasks

## Related Standards

Tasks	Related Standards
<p>4. Determine the apparent reason for any significant difference between the estimated fair and reasonable price and the apparent successful offer/quote.</p>	<p>Given market research and other available information correctly explain any significant differences between the estimated fair and reasonable price and the apparent successful offer/quote.</p> <p>An unexpectedly high offer/quote could result for a variety of reasons, including:</p> <ul style="list-style-type: none"> <li>• Offeror/quoter 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 offer/quote could result for a variety of reasons, including an offeror's/quoter's:</p> <ul style="list-style-type: none"> <li>• Edge in efficiency or technology.</li> <li>• Attempt to buy-in (i.e., offer 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).</li> <li>• Lack of responsibility necessary to understand and meet contract requirements.</li> </ul>



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## Tasks

## Related Standards

5. Make price-related preaward decisions.	After analysis of the information available, make common price-related preaward decisions such as: <ul style="list-style-type: none"><li>• Determining the need of additional price or cost information other than cost or pricing data to support price analysis.</li><li>• Determining the need for cost or pricing data for evaluation of price reasonableness or cost realism analysis.</li><li>• Determining the need for clarifications to resolve apparent minor or clerical errors related to contract pricing.</li><li>• Determining the need for communications to address issues relating to contract pricing that must be resolved before determination of the competitive range.</li><li>• Determining the need for discussions to establish a fair and reasonable price when the solicitation provides for award without discussions.</li><li>• Establishing prenegotiation positions on price (e.g., lowest reasonable price, the highest reasonable price).</li><li>• Determining the need to cancel and resolicit.</li><li>• Determining the need to withdraw or modify a set-aside.</li></ul>
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## Tasks

## Related Standards

<p>6. Document the price analysis, related decisions, and pricing objectives.</p>	<p>For simplified acquisitions using:</p> <ul style="list-style-type: none"><li>• An oral solicitation, show the names of the quoters, the prices quoted, and other terms quoted.</li><li>• A written solicitation, document the names of the quoters, prices, delivery, references to quoted price lists used, and other pertinent data.</li></ul> <p>For other acquisitions document price analysis as part of overall offer analysis and negotiation (e.g., in the price negotiation memorandum (PNM)).</p> <p>Price analysis documentation must include:</p> <ul style="list-style-type: none"><li>• A summary of the contractor's proposal,</li><li>• Any field pricing assistance recommendations, including the reasons for any pertinent variances from them;</li><li>• The Government's negotiation objective; and</li><li>• The source and type of data used to support analysis of overall price reasonableness.</li></ul>
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