

Government Cost or Prices are often a good measure of reasonableness.
The Contracting Officer is responsible for evaluating reasonableness of offered

Evaluating Price Reasonableness with Price

Price analysis always involves the CO who selects the method of comparison for

- Prices received in response to a solicitation
- Commercial prices such as published price lists or rebates
- Previously proposed prices and contract prices for the same or similar end item
- Parametric estimates or estimates developed using rough yardsticks
- Independent Government Estimates
- Market research for same or similar items

Price Analysis includes:

- Validating the basis of a prior determination of fair and reasonable price
- Competitive, sole source, commercial?
- Prior award date
- Quantity
- Price
- Analysis should include applicable variances such as quantity, escalation, etc.

Questions to Answer:

1. Is the proposed price reasonable?
2. What is the basis of price reasonableness? i.e. competition, established cost

Cost Analysis

certified cost or pricing data are required. Price analysis should be used to verify if the price is reasonable.

Per FAR 15.404-1(c), Cost analysis is the review and evaluation of separate cost

Government many use various cost analysis techniques and procedures to ensure
Cost techniques includes:

- Verify cost and pricing data
- Evaluate the effect of current price on future cost
- Compare proposed cost for individual cost elements
- Verify cost submission in accordance with FAR 31 and Cost Accounting Standards

See FAR 15.404 for the following cost analysis techniques:

- Technical Analysis
- Unbalance pricing

See FAR 15.404-2 Data to support proposal analysis

See FAR 15.404-3-Subcontract Pricing Consideration

See FAR 15.404-4 Profit

See FAR 15.405 Price Negotiation

See FAR 15.406-1 Documentation

During the evaluation, consider cost allowability, allocability, and reasonableness and determined by the Office of Management and Budget (OMB) and FAR 31.201-6.

l prices

e Analysis

or determining fair and reasonable price, such as:

is and comparison and the reasonableness of the proposed prices

atalog prices, IGCE, historical, etc.

y that the overall price offered is fair and

st element and profit or fee in an offeror's proposal.

sure a fair and reasonable price.

ards (if applicable)

s are defined
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Sole Source Pricing

	Propose Price	Historical Price	Commercial/Catalog Price
Prices	\$18,800	\$16,789	\$20,500
Difference		\$2,011	\$1,700
Escalation		11.98%	
Percentage Difference			8.29%

Competition - Single Quote

	Propose Price	Historical Price	Commercial/Catalog Price
Prices	\$95,000.00	\$89,880.00	\$91,500.00
Difference		\$5,120.00	\$3,500.00
Escalation		5.70%	
Percentage Difference			3.83%

Competition: Multiple Quote

	Proposed Price		
	Vendor ABC	Vendor 123	Vendor XYZ
Prices	\$256,000.00	\$255,008.00	\$260,552.00

Contractor Proposed

*** Formulas are included in the Cost Column

Labor Categories	Cost	Labor Categories	Rates	Labor
Direct Material	\$90,000.00	Direct Manufacturing Labor Rate	\$100.00	Direct Material
Direct Manufacturing Labor Hours	1500	Direct Engineering Labor Rate	\$74.00	Direct Manufacturing Labor Hours
Direct Manufacturing Labor	\$150,000.00	Material Overhead Rate	5.00%	Direct Manufacturing Labor Rate
				Direct Manufacturing Labor
Direct Engineering Labor Hours	1000			
Direct Engineering Labor	\$74,000.00	Engineering Labor Overhead Rate	50.00%	Direct Engineering Labor Hours
				Direct Engineering Labor Rate
Other Direct Cost	\$22,000.00	Manufacturing Labor Overhead Rate	215.00%	Direct Engineering Labor
Material Overhead	\$4,500.00	G&A Rate	6.00%	Other Direct Cost
Engineering Labor Overhead	\$37,000.00	Profit Rate	20.00%	Material Overhead Rate
				Material Overhead
Manufacturing Labor Overhead	\$322,500.00	Facilities Capital Cost of Money		
		Material	0.005	Engineering Labor Overhead Rate
Total Manufacturing Input Cost	\$700,000.00	Engineering	0.015	Engineering Labor Overhead
		Manufacturing	0.11	
G&A	\$42,000.00	G&A	0.00124	Manufacturing Labor Overhead Rate
Total Cost	\$742,000.00			Manufacturing Labor Overhead
Profit	\$148,400.00			Total Manufacturing Input Cost
Facilities Capital Cost of Money				G&A Rate
Material	\$450.00			G&A
Engineering	\$1,110.00			Total Cost
G&A	\$52.08			Profit Rate
Total FCCM	\$18,928.00			Profit
Total Price	\$908,512.08			Facilities Capital Cost of Money
				Material
				Engineering
				Manufacturing
				G&A
				Total

Total Price

		Objectives					
		Contractor Proposed			Government Objective		
Rate	**Cost	Labor Categories	Rate	Cost	Rates	Costs	Difference
	\$90,000.00	Direct Material		\$90,000.00		\$85,000.00	(\$5,000.00)
1500		Direct Manufacturing Labor Hours	1500		1600		
\$100.00		Direct Manufacturing Labor Rate	\$100.00		\$95.00		
	\$150,000.00	Direct Manufacturing Labor		\$150,000.00		\$152,000.00	\$2,000.00
1000		Direct Engineering Labor Hours	1000		900		
\$74.00		Direct Engineering Labor Rate	\$74.00		\$70.00		
	\$74,000.00	Direct Engineering Labor		\$74,000.00		\$63,000.00	(\$11,000.00)
	\$22,000.00	Other Direct Cost		\$22,000.00		\$20,000.00	(\$2,000.00)
5.00%		Material Overhead Rate	5.00%		5.00%		
	\$4,500.00	Material Overhead		\$4,500.00		\$4,250.00	(\$250.00)
50.00%		Engineering Labor Overhead Rate	50.00%		45.00%		
	\$37,000.00	Engineering Labor Overhead		\$37,000.00		\$28,350.00	(\$8,650.00)
215.00%		Manufacturing Labor Overhead Rate	215.00%		200.00%		
	\$322,500.00	Manufacturing Labor Overhead		\$322,500.00		\$304,000.00	(\$18,500.00)
	\$700,000.00	Total Manufacturing Input Cost		\$700,000.00		\$656,600.00	(\$43,400.00)
6.00%		G&A Rate	6.00%		5.50%		
	\$42,000.00	G&A		\$42,000.00		\$36,113.00	(\$5,887.00)
	\$742,000.00	Total Cost		\$742,000.00		\$692,713.00	(\$49,287.00)
20.00%		Profit Rate	20.00%		18.00%		
	\$148,400.00	Profit		\$148,400.00		\$124,688.34	(\$23,711.66)
		Facilities Capital Cost of Money					
0.005	\$450.00	Material	0.005	\$450.00	0.005	\$425.00	(\$25.00)
0.015	\$1,110.00	Engineering	0.015	\$1,110.00	0.015	\$945.00	(\$165.00)
0.11	\$16,500.00	Manufacturing	0.11	\$16,500.00	0.11	\$16,720.00	\$220.00
0.00124	\$52.08	G&A	0.00124	\$52.08	0.00124	\$44.78	(\$7.30)
	\$18,112.08	Total		<u>\$18,112.08</u>		<u>\$18,134.78</u>	\$22.70

\$908,512.08 Total Price

\$908,512.08 |

\$835,536.12 **(\$72,975.96)**

Negotiated					
Contractor Proposed			Government Objective		
Direct Material		\$90,000.00		\$85,000.00	\$5,000.00
Direct Manufacturing Labor Hours	1500		1500		
Direct Manufacturing Labor Rate	\$100.00		\$95.00		
Direct Manufacturing Labor		\$150,000.00		\$142,500.00	\$7,500.00
Direct Engineering Labor Hours	1000		900		
Direct Engineering Labor Rate	\$74.00		\$70.00		
Direct Engineering Labor		\$74,000.00		\$63,000.00	\$11,000.00
Other Direct Cost		\$22,000.00		\$20,000.00	
Material Overhead Rate	5.00%		5.00%		
Material Overhead		\$4,500.00		\$4,250.00	\$250.00
Engineering Labor Overhead Rate	50.00%		48.00%		
Engineering Labor Overhead		\$37,000.00		\$30,240.00	\$6,760.00
Manufacturing Labor Overhead Rate	215.00%		205.00%		
Manufacturing Labor Overhead		\$322,500.00		\$292,125.00	\$30,375.00
Total Manufacturing Input Cost		\$700,000.00		\$637,115.00	\$62,885.00
G&A Rate	6.00%		5.75%		
G&A		\$42,000.00		\$36,634.11	\$5,365.89
Total Cost		\$742,000.00		\$673,749.11	\$68,250.89
Profit Rate	20.00%		19.00%		
Profit		\$148,400.00		\$128,012.33	\$20,387.67
Facilities Capital Cost of Money					
Material	0.005	\$450.00	0.005	\$425.00	\$25.00
Engineering	0.015	\$1,110.00	0.015	\$945.00	\$165.00
Manufacturing	0.11	\$16,500.00	0.11	\$15,675.00	\$825.00
G&A	0.00124	\$52.08	0.00124	\$45.43	\$6.65
Total		\$18,112.08		\$17,090.43	\$1,021.65

Total Price

\$908,512.08 | \$818,851.87 \$89,660.21

Welcome to the Simplified Acquisition Procedures Historical Pricing W

Market conditions and Government requirements change over time. Past prices for a similar item may not always be a good indicator of fair and reasonableness, if the current requirement is based on products commonly traded in the commercial market place. Before using this workbook, make sure that the item you are purchasing and the item you are comparing it to are similar enough to warrant the analysis.

This is a simple guide to help assess the fair and reasonableness of simplified acquisition purchases (SAP). It contains the following:

1. A simple difference and percentage calculator
2. A calculator that includes spaces for inflation and a sample write-up.
 - This calculator requires that you have inputs from the Consumer Price Index or another inflation calculator.
3. A calculator that includes formulas for escalators, price lists, catalogs, or another source of published prices.
 - If your purchase uses a periodic assessment of the economic market such as the above, you likely should use this workbook. After you input your escalators and offered prices, the calculator will tabulate the difference and percentage difference.

Input your data into the tabs listed in grey. The calculators will return the difference and percentage difference.

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2019 Contract

Offered Price

\$3.000000

Difference

\$0.100000

% Difference

3.33%

2020 Solicitation Offer

\$3.100000

Able Corp was awarded 1,000,000 gallons of Jet Fuel from their New M submitted the only offer evaluated against 8 line items, which were de comparison to historical prices paid for the same or similar item. Price proposed price to its current Jet Fuel contract price out of New Mexico current contract price was escalated to the solicitation base reference valid comparison. Able Corp's escalated price on their current contract per gallon higher than their proposed price of \$2.800000 received in re increase over the 2019 contract. Able Corp's final proposed price for JI U.S Annual Inflation Rate of 2.29%. The remaining percentage increase on any number of common factors affecting fuel production. The Cont analysis was performed to determine the prior price fair and reasonable for quantities consistent with the current solicitation. The previous price pursuant to FAR 15.404-1(b)(2)(i) on the basis of adequate price comparison price for Jet Fuel out of New Mexico is fair and reasonable on the basis the same items pursuant to FAR 15.404-1(b)(2)(ii).

2020 Solicitation Offer

\$2.800000

PLATTS: JET KERO LA PIPE 3 DAY W (1-1-1)

\$2.800000

\$1.970667

12/10/2019

\$0.829333

-

\$2.800000

\$1.970667

%

lexico refinery as FOB Origin. Able Corp
terminated fair and reasonable on the basis of
reasonableness was determined Able Corp's
from their previous contract. Able Corp's
date of December 10, 2019 to allow for a
is \$2.735100 per gallon, which is \$0.064900
response to this solicitation. This is a 2.37%
2018 has increased slightly more than the 2019
2018, 0.08%, is negligible and can be explained
Contracting Officer has verified that sufficient
and that the prices previously paid were
prices were determined fair and reasonable
competition. Therefore, Able Corp's proposed
of comparison to historical prices paid for

Inflation Calculator	
Start Date	End Date
Dec '18	Dec '19
251.233	256.974
Inflation: 2.28513%	

Populate the fields with data
from the Consumer Price
Index or a pricing indicator for
what you are specifically
purchasing

	2019 Contract
Price per gallon	\$2.750000
Escalator	Pipeline Jet Fuel / Average of LA/SF/SEA
Unit Price	\$2.750000
BRP	\$1.947220
BRP Date	2/12/2019
Differential	\$0.802780
BRP Diff	(\$0.023447)
Esc. Unit Price	\$2.773447
Esc. BRP	\$1.970667
Price increase	(\$0.013447)
% increase	-0.48%

Hero Inc. was awarded a contract for 25,000 gallons of diesel fuel, FOB Buren, ME. Hero Inc. submitted the only offer, which was determined by comparison to historical prices paid for the same or similar item. Price comparison to Hero Inc.'s current contract for the same requirements. Hero Inc.'s current solicitation base reference date of December 10, 2019 to allow for a variation on their current contract is \$2.773447 per gallon, which is less than the current price on their current contract. Therefore, the price has decreased from year to year. The Contracting Officer was performed to determine the prior price fair and reasonable and the same quantity as the current solicitation. The previous prices were determined pursuant to FAR 15.404-1(b)(2)(i) on the basis of adequate price competition. Therefore, the requirement is found to be fair and reasonable on the basis of comparison to items pursuant to FAR 15.404-1(b)(2)(ii).

2020 Solicitation Offer

\$2.760000

Pipeline Jet Fuel / Average of LA/SF/SEA

\$2.760000

\$1.970667

12/10/2019

\$0.789333

-

\$2.760000

\$1.970667

Origin by pipeline, from Houlton, ME to Van
to be fair and reasonable on the basis of
reasonableness was determined based on
rent contract price was escalated to the
lid comparison. Hero Inc.'s escalated price
air offer in response to this solicitation.
Officer has verified that sufficient analysis
at the prices previously paid were for the
etermined fair and reasonable pursuant to FAR
e, Hero Inc.'s proposed price for this
son to historical prices paid for the same