Cost and Pricing Overview
Agenda

- Better Buying Power
- Fair and Reasonable Price
- Price Analysis
- Cost Analysis
- Commercial Items
- What DLA Land and Maritime is Doing
- DLA Land and Maritime Recommendations
Better Buying Power

- Better Buyer Power is the implementation of best practices to strengthen the Department of Defense’s buying power, improve productivity, and provide an affordable, sustainable capability to the Warfighter.

- It’s main objective is to deliver better value to the taxpayer and Warfighter by improving the way the Department does business.

- Each iteration of Better Buying Power has built upon the previous (Currently at 3.0).

- http://bbp.dau.mil/
Better Buying Power

• The Better Buying Power Ideals and Goals:

  – How can we lower costs and deliver greater value to the Warfighter?

  – How can we extract additional combat capability from every taxpayer dollar spent?

  – Ensuring we get a Fair and Reasonable price for the taxpayer and Warfighter!
Buyer and Contracting Officer’s Responsibility

• Conduct procurements in accordance with the applicable policies and procedures.

• Purchase supplies and services from responsible sources at fair and reasonable prices. (FAR 15.402(a))
  – Obtain the necessary data, when needed; to establish a fair and reasonable price.
  – Often Buyers and Contracting Officers will fact find and negotiate to obtain a fair and reasonable price.
What is a Fair and Reasonable Price?

• There is not a specific definition for “Fair and Reasonable Price” in the FAR, but it is mentioned a lot!
  – Generally we view it as:
    • **Reasonable**: A price that a prudent and competent buyer would be willing to pay, given knowledge of
      – Market Conditions
      – Supply and Demand
      – General Economic Conditions
      – Competition
      – Market Definition
      – Relative Pricing
    • **Fair**: Fair to both the seller and buyer
What is a Fair and Reasonable Price?

• As mentioned, a Fair and Reasonable price is a price that is acceptable to both the Buyer and Seller (i.e., win-win outcome).
  
  – DLA Land and Maritime is always interested in getting the best deal for the Warfighter and taxpayer!
  
  – However, “Profit” is not a dirty word and is necessary for companies to operate. We understand… But it should be reasonable.
Why is a Fair and Reasonable Price Important?

- As stewards of the taxpayer’s dollars, the Contracting Officer has a responsibility to ensure that it is spent wisely.

- FAR 15.406 requires the Contracting Officer to document their fair and reasonable price determination. This includes:
  - The analysis performed and their basis;
  - Negotiations, if needed; and
  - The overall determination
Fair and Reasonable Takeaway

• The Contracting Officer/Buyer is responsible on ALL procurements to determine whether the price is fair and reasonable

• The contractor is responsible for justifying their price as being fair and reasonable by providing adequate support or basis for their cost/price position.
Fair and Reasonable Takeaway

• When a Contracting Officer does not have sufficient information they need to make a fair and reasonable price determination:
  – *The award is often delayed, due to the need to obtain the necessary information or to perform additional analysis.*
  or
  – *The award can not be made.*

• Both impact Warfighter support!
Methods to Determine a Price Fair and Reasonable

• For DLA Land and Maritime the most common analysis techniques used are:
  – Price Analysis (FAR 15.404-1 (a)(2))
  – Cost Analysis (FAR 15.404-1 (a) (3) and (4))

• We will go over this…
Price Analysis

• 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.
  – *It may, when necessary be supplemented by evaluation of cost elements.*

• Price analysis is always performed on every procurement.

• Price analysis is a subjective evaluation. However, it is the Contracting Officer who must be satisfied that the price of an item/service is fair and reasonable.
Price Analysis

• It’s a comparison!

• A comparison of the proposed price to any of the following:
  – Other offered prices for the procurement
  – Previous/historic contract prices
  – Similar items
  – Independent Government Estimate
  – Market Research
  – Catalog or Price Lists that have been in themselves determined fair and reasonable
Price Analysis

• Two most common types of price analysis used at DLA Land and Maritime:
  – *Comparison with other quotes/bids received*
  – *Comparison with past procurement(s) that were determined fair and reasonable*

• We will take into account quantity, inflationary factors, solicitation changes, economic conditions and any other factors that can affect the price.
• Contracting Officers are to use bases and information in price analysis that are recent, reliable and valid.

• They must gather the necessary information to make an informed decision in regards to make a fair and reasonable price determination.
Cost Analysis

• Cost Analysis is the review and evaluation of the separate cost elements and proposed profit/fee of:
  – An offeror’s or contractor’s cost or pricing data information
  – The judgmental factors applied in projecting from the data to the estimated costs.

• This can be in the form of:
  – Certified Cost or Pricing data
    • Procurements where certification is required
    • Generally for values over $750,000
  – Other than Certified Cost or Pricing data
    • Procurements not requiring certification
Cost Analysis

- Cost Analysis refers to review of the individual cost elements. Such as:
  - *Direct costs*
    - Materials
    - Labor
  - *Indirect costs*
    - Overheads
    - General and Administrative (G&A)
  - *Profit*
- We will review these cost elements to see if it will support a fair and reasonable price determination.
Cost Analysis

• Cost Analysis supplements Price Analysis

• It should provide insight into what it will cost a company to complete the contract using the methods proposed.

• Contracting Officers will use Cost Analysis in their fair and reasonable price determinations, where necessary.
Commerciality

• **If the item/product being offered is Commercial:**
  
  – *Submit adequate supporting data for the commerciality.*
  
  – *Demonstrate that the item/product being offered is sold in the commercial marketplace.*
    
    • Provide non-redacted invoices of sales to non-Government customers for commercial purposes.
    
    • Similar item(s) that are sold commercially
    
    • Catalog or published prices – Commercial offerings with actual sales history.
What DLA Land and Maritime is Doing

• Market Research Group
  – DLA Land and Maritime established this group to aid in the Market Research of items before a Large (>150,000) solicitation is issued.
  – The goal of this group is to obtain information concerning the item before the solicitation is issued to assist the Contracting Officer and reduce lead times.

• Conducting Prepropositional Conferences
  – Contractor, DLA Land and Maritime, DCMA and/or DCAA.
  – The goal is to obtain timely Certified Cost or Pricing data packages and reduce lead times.
Recommendations from DLA Land and Maritime

• Review the solicitation and the requirements
• Review the history listed on the solicitation
  – Has anything changed in the market place for the item?
  – Is there any extenuating economic factors?
  – Time or Quantity variances
• Provide your best offer, since you never know what your competition is doing. Providing the best offer upfront, can help reduce lead times
• Be responsive to our Market Research Group and Contracting Officers
Recommendations from DLA Land and Maritime

- Be advised that Buyers and Contracting Officers may contact you to obtain additional information concerning your offer or negotiate.
- When requested for an informal cost breakdown, we are looking for the key drivers to the cost of the item such as material, labor, overheads, profit, etc.
- The quicker you can get the information to the Buyers and Contracting Officers, the quicker they can make their decision concerning the procurement.
Recommendations from DLA Land and Maritime

- DLA Land and Maritime takes contract pricing very seriously.
- When our Contracting Officers don’t have sufficient information needed to make a fair and reasonable price determination, it can delay or stop an award from being made.
- DLA Land and Maritime relies on its vendors in our efforts to be good stewards of the taxpayers’ dollars and in support of the Warfighter.