Cost and Pricing Overview
Topics of Discussion

• Warfighter Support
• Changes (Thresholds)
• Fair and Reasonableness; the Pricing Concept
  – Price Analysis
  – Cost Analysis
• Certified Cost or Pricing Data
• Commercial Items
Warfighter Support

• Warfighter Support is a Team Sport
  – It takes effort and support from all parties.
  – The Government and Industry are on the same team.
    • Granted, we each have different responsibility chains!

• Improving Warfighter Readiness by Improving Industry Alliances and Reforming Business Process
  – The procurement world is constantly faced with new challenges, needs, and changes.
  – Working together to get the mission done of Warfighter Support.
Warfighter Support

• We need to work together as partners to:
  – Lower costs and deliver value to the Warfighter.
  – Ensure that with every dollar we spend, that dollar is increasing the capability of the Warfighter.
  – Ensure that a Fair and Reasonable price is made on procurements on behalf of the taxpayer and Warfighter!
Changes

• Threshold Changes
  – Micro-Purchase Threshold (MPT) increased to $5,000.00
  – Simplified Acquisition Threshold (SAT) increased to $250,000.00
  – Certified Cost or Pricing Data (CCPD) or known as the Truth in Negotiations Act (TINA) Threshold increased to $2,000,000.00 effective July 1, 2018

• The threshold changes are done by a Department of Defense (DoD) class deviation and remains in effect until it is incorporated in the FAR (Federal Acquisition Regulations) or is rescinded.
• Contracting Officers have the following responsibility to the Taxpayer and Warfighter:
  – To conduct procurements in accordance to the applicable polices and procedures.
  – Obligate the Taxpayer’s money in an efficient manner to meet the needs of the Warfighter.
  – Ensure that the price they are obligating is Fair and Reasonable.
FAR 15.402

Contracting Officers shall –

(a) Purchase supplies and services from responsible sources at Fair and Reasonable prices.

(1) Shall obtain certified cost or pricing data when required…

(2) When certified cost or pricing data are not required, shall obtain data other than certified cost or pricing data as necessary…

(3) Obtain the type and quantity of data necessary to establish a fair and reasonable price… Use techniques such as, but not limited to, price analysis, cost analysis, and/or cost realism analysis to establish a fair and reasonable price…
Fair and Reasonable Prices

• 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
Fair and Reasonable Prices

• 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.
Fair and Reasonable Prices

• The determination of a Fair and Reasonable price is probably one of the most important determinations a Contracting Officer makes.

• The Contracting Officer’s primary objective in pricing a contract is to balance the contract type, cost and profit/fee negotiated to achieve a total result – a price that is fair and reasonable to both the Government and contractor.
Fair and Reasonable Prices

• The roles we play:
  – 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 the basis for their cost/price position.
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.
Price Analysis

• 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 ($2,000,000 after July 1, 2018)
  – 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.
Certified Cost or Pricing Data Threshold

- Certified Cost or Pricing data /Truth in Negotiations Act Threshold is increasing from $750,000.00 to $2,000,000.00 effective July 1, 2018
  - CCPD is required for procurements above the threshold that do not meet the following exceptions (FAR 15.403):
    - Adequate competition
    - Prices set by law or regulation
    - Commercial Item
Certified Cost or Pricing Data

• As noted, Certified Cost or Pricing data is a more in-depth proposal where it would be required to provide:
  – A detailed basis of estimates concerning:
    • Labor
    • Materials
    • Overhead rates
    • Profit
• A certification is required at the conclusion of negotiations.
• However, a lot of delays are due to inadequate Certified Cost or Pricing data packages.
Certified Cost or Pricing Data

• When submitting Certified Cost or Pricing data. Be sure to:
  – Sign and date the cover sheet
  – Have the correct total amount on the cover sheet (to include all option years)
  – Include a summary sheet with all applicable cost elements for all NSN(s)
  – The summary sheets (and sub-summary sheets, if required) do not reference all applicable schedules (e.g., G&A, overheads, etc.). The details concerning the rate calculation should be provided.
Certified Cost or Pricing Data

• Continued:
  – Budgetary forecasts for the all years of contract performance will need to be provided.
  – There are insufficient explanatory notes where needed.
  – The proposal figures do not track through the provided data.
  – The most current rates are not being provided.
  – The cost data does not include a Bill of Materials (BOM) or labor breakout by labor category, rate and hours.
Commerciality

• New DoD guidelines concerning 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 market place
    • 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
Opportunities for Improvement

• Preproposal Conferences
  – Contractor, DLA L&M, DCMA and/or DCAA

• Respond timely to requests for information

• Submit complete cost data package
  – Proposal Adequacy Checklist
  – Make contact as needed

• Submit adequate supporting data for commerciality (i.e. Invoices)
Recommendations

• Review the solicitation and the requirements
• Review the history listed on the solicitation
  – Has anything changed in the market place for the item?
  – Are 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
Recommendations

• 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

- 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.