



DEFENSE LOGISTICS AGENCY

THE NATION'S COMBAT LOGISTICS SUPPORT AGENCY



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(DoD) class deviation and remains in effect until it is incorporated in the FAR (Federal Acquisition Regulations) or is rescinded.



Fair and Reasonable Prices



- 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.



Fair and Reasonable Prices



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.



