



Approaches to Performing Subcontractor Price Analysis

JEFFREY A. WHITE, C.P.M.

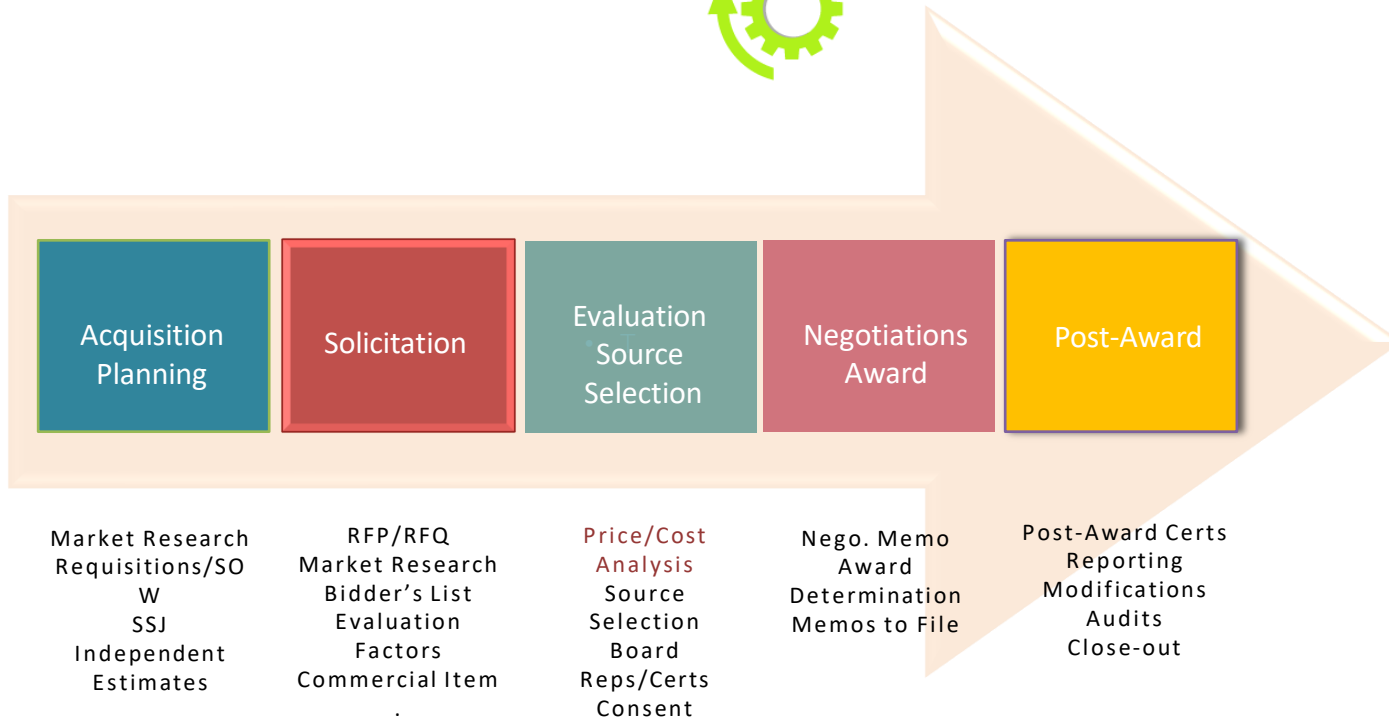


“Price is what you pay; Value is what you get”

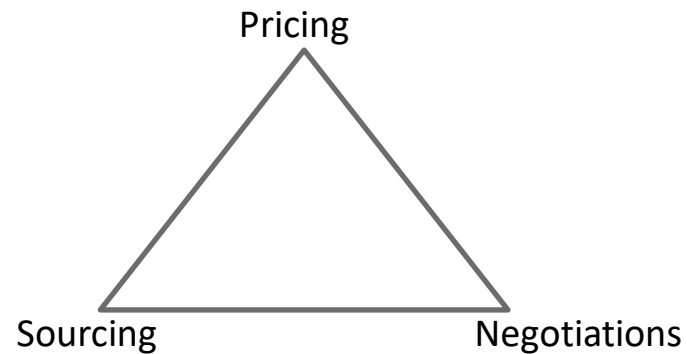
- Warren Buffett



Procurement Process



Procurement Compliance Framework



What is a Price?



The difference between what it costs the Supplier to produce or make the item and the price they sell the item for

What is a Price Analysis?

Price analysis is the process of examining and evaluating a proposed price without evaluating its separate cost elements and proposed profit.

Regulatory guidance can be found at: FAR 15.404-1(b)



Subcontract Pricing Considerations per FAR 15.404-3

Contracting Officer (CO) is responsible for the determination of a fair and reasonable price for the prime contract, including subcontracting costs.

CO's should consider whether:

- A contractor or subcontractor has an **approved purchasing system**.
- Has performed **cost or price analysis** of proposed subcontractor prices.
- Has **negotiated the subcontract prices** before negotiation of the prime contract, in determining the reasonableness of the prime contract price.

The **Prime Contractor** or **Subcontractor** shall

- Conduct appropriate cost or price analyses to establish the reasonableness of proposed subcontract prices.



Regulatory Requirement for Price Analysis

The requirement to perform Price Analysis on Subcontractor prices applies to all subcontracting/purchasing transactions, including initial procurements, modifications that impact changes in prices, change orders, etc.

Regulatory guidance can be found at: FAR 15.404-3(b)(1) and
DFARS 252.244-7001 (c)(7), (8), (9), (10), and (15)



Price Analysis

Necessary to determine if pricing is **fair and reasonable** or the extent to which **negotiations** are required in order to reach an agreement of a **fair and reasonable price**

Required prior to agreeing to a supplier's price.

Buyer is responsible for performing the price analysis.

Required to be conducted for all procurements.

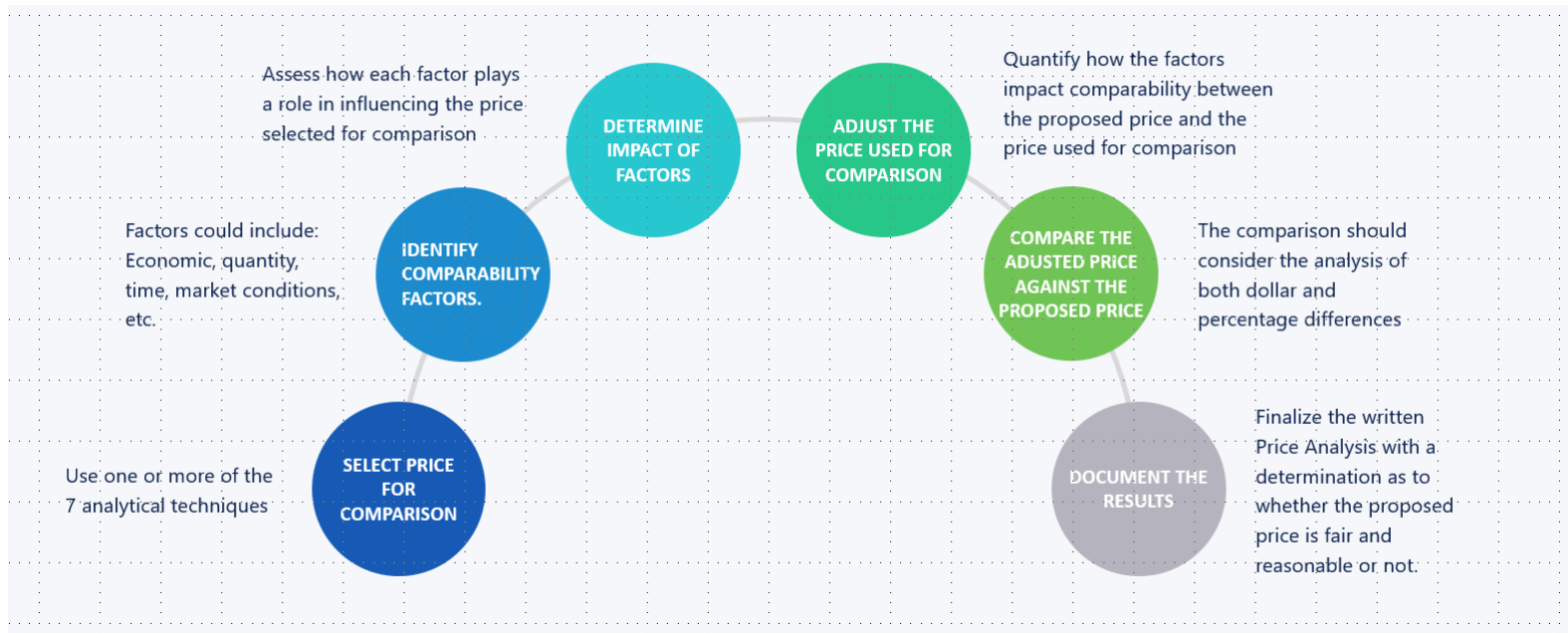
Multiple techniques to apply depending on situation.



Steps Leading to a Fair and Reasonable Price



The Price Analysis Process



J.A. White & Associates, Inc. Proprietary

Importance of the Solicitation

- Fact-finding does not have to start after the proposal is received.
- Effective RFP's/RFQ's are written so that potential suppliers are required to provide the information that the Buyer will need in order to conduct a complete analysis of prices.
- Plan your solicitation by including:
 - Pricing Templates
 - Questions for the Potential Supplier



Fact-Finding - Understanding the Supplier's Proposal

- Determine what is being supplied and any conditions or constraints that apply, including market conditions observed via marketing research
- Be prepared to ask questions
- Seek information from several sources
 - Supplier
 - Technical Staff
 - Marketplace
 - Outside resources



Price Justification

- Starting with the price and then working backwards to find evidence to substantiate it
- NOT an appropriate approach for determining if a price is “fair and reasonable”
- Buyer responsibility is to ANALYZE and recommend, not JUSTIFY

This is NOT the appropriate approach!!!

Tip: Remember the Price Analysis Objective

The objective of proposal (price, cost, technical) analysis is to ensure that the final agreed-to price is fair and reasonable.

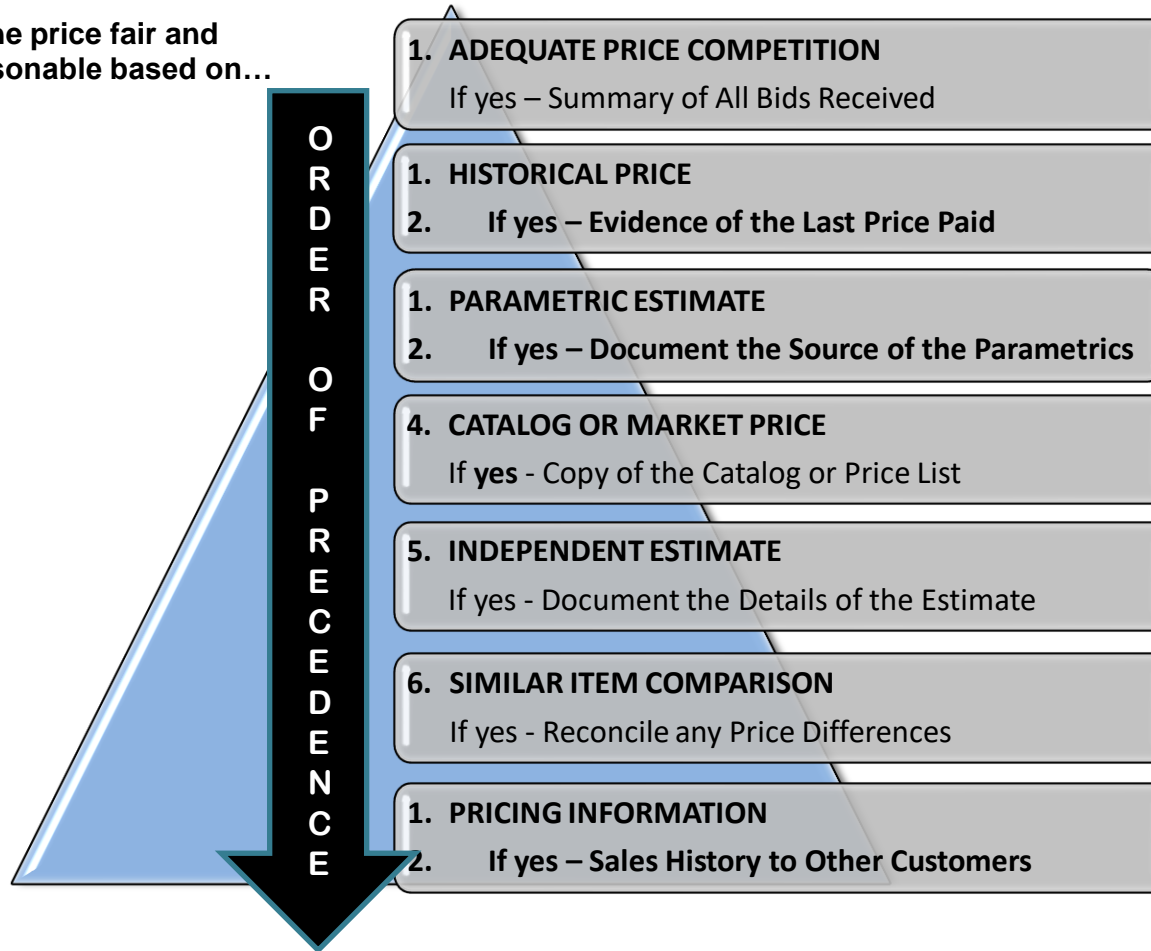
The Buyer is responsible for evaluating the reasonableness of the offered prices.

Any of the analytical techniques and procedures described in (subsections of) FAR 15.404 may be used, singly or in combination with others, to ensure that the final price is fair and reasonable

The complexity and circumstances of each acquisition should determine the level of detail of the analysis required.”



Is the price fair and reasonable based on...



Price Analysis Techniques

Competitive Price Analysis - Comparison of proposed prices received in response to the solicitation. Normally, adequate price competition establishes a fair and reasonable price (see [15.403-1\(c\)\(1\)\(i\)](#)).

TIPS:

- Most favored and best price analysis technique.
- Easiest technique to perform and document.
- Establish evaluation factors and used them during competitive analysis.
- You can still negotiate price and price-related factors.
- Competition **may or may not** exist when only one offer responds to Competitive RFQ/P.



Adequate Price Competition

FAR 15.403-1(c)(i)

A) Two or more responsible offerors, competing independently, submit priced offers that satisfy the Government's expressed requirement;

(B) Award will be made to the offeror whose proposal represents the best value (see [2.101](#)) where price is a substantial factor in source selection; and

(C) There is no finding that the price of the otherwise successful offeror is unreasonable. Any finding that the price is unreasonable must be supported by a statement of the facts and approved at a level above the contracting officer.

Adequate Price Competition

FAR 15.403-1(c)(ii)(A)

For agencies *other than* DoD, NASA, and the Coast Guard, a price is also based on adequate price competition when—

(A) There was a reasonable expectation, based on market research or other assessment, that two or more responsible offerors, competing independently, would submit priced offers in response to the solicitation's expressed requirement, even though only one offer is received from a responsible offeror and if—

(1) Based on the offer received, the contracting officer can reasonably conclude that the offer was submitted with the expectation of competition, e.g., circumstances indicate that—

(i) The offeror believed that at least one other offeror was capable of submitting a meaningful offer; and

(ii) The offeror had no reason to believe that other potential offerors did not intend to submit an offer; and

(2) The determination that the proposed price is based on adequate price competition and is reasonable has been approved at a level above the contracting officer; or

Adequate Price Competition

FAR 15.403-1(c)(ii)(B)

For agencies other than DoD, NASA, and the Coast Guard, a price is also based on adequate price competition when—

Price analysis clearly demonstrates that the proposed price is reasonable in comparison with current or recent prices for the same or similar items, adjusted to reflect changes in market conditions, economic conditions, quantities, or terms and conditions under contracts that resulted from adequate price competition.



Price Analysis Techniques

Historical Pricing: Comparison of the proposed prices to historical prices paid, whether by the Government or other than the Government, for the same or similar items. **[FAR 15.404-1(b)(2)(ii)].**

Must establish **validity (apples to apples)** and **reasonableness (via previous price analysis)** of comparison.

TIPS:

- Use historical prices paid by the Government
- Maintain a database of prices previously paid by your firm
- Use economic tools to research escalation/de-escalation
- Apply tools such as Volume/Price models and Learning Curves to address differences in quantities

Price Analysis Techniques

Historical Pricing: DFARS 215.403-3

215.403-3 Requiring data other than certified cost or pricing data.

(a) In accordance with [10 U.S.C. 3705](#) —

(1) Contracting officers shall not determine the price of a contract or subcontract to be fair and reasonable based solely on historical prices paid by the Government.



Price Analysis Techniques

Parametric Estimating: Use of parametric estimating methods/application of rough yardsticks (such as dollars per pound or per horsepower, or other units) to highlight significant inconsistencies that warrant additional pricing inquiry [FAR 15.404-1(b)(2)(iii)]

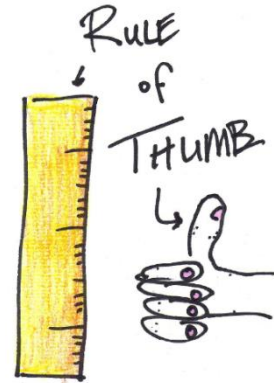
Tips

- Not every purchase lends itself to this type of analysis; Items or Services that lend themselves to this type of analyses: Fuel, materials, natural resources, training, labor services, repair services.
- Consider using the smallest, customarily unit of measurement.
- Can be used to create apples to apples comparative models based on prices quoted or other source of pricing
- Seek Technical Evaluation when required.



Parametric Estimates

Rules of Thumb
Cost Estimating Relationships



Price Analysis Techniques

Competitive Published Price Lists: Comparison with competitive published price lists, published market prices of commodities, similar indexes, and discount or rebate arrangements [FAR 15.404-1(b)(2)(iv)]

Tips:

- Make sure that the source document meets the definitions of Catalog Pricings or Market Prices (See FAR 2.101, Commercial Items)
- Online Pricing could be catalog pricing or could be market pricing
- A GSA Schedule can not be used as the sole basis of price comparison under DoD contracts unless multiple GSA schedule or another price technique are used and management approval is obtained.

PRICE LIST

VICTOR V386A
Combining the flexibility and security of the Victor Add-pak removable 3.5" drive with the power and performance of an 80286 microprocessor, and running on 100MHz.

1 x 1.2GB floppy disk drive and 1 x 200MB hard disk drive and 1 x 386 Add-pak	Including power monitor including EISA monitor	AS2580C AS2580C	\$1,300 \$1,400
1 x 1.0GB floppy disk drive and 1 x 200MB hard disk drive and 1 x 386 Add-pak	Including power monitor including EISA monitor	AS2580B AS2580B	\$1,200 \$1,300

VICTOR V386S
A powerful 80286-based processor, the V386S runs at 100MHz and offers 130MHz average capacity (as well as extensive expansion facilities).

1 x 1.2GB floppy disk drive and 1 x 200MB hard disk drive	Including power monitor including EISA monitor	AS2730B AS2730B	\$1,300 \$1,400
1 x 1.0GB floppy disk drive and 1 x 200MB hard disk drive	Including power monitor including EISA monitor	AS2730A AS2730A	\$1,200 \$1,300
1 x 1.0GB floppy disk drive and 1 x 200MB hard disk drive	Including power monitor including EISA monitor	AS2510B AS2510B	\$1,100 \$1,200

VICTOR V286P
Light and compact, the Victor laptop is 80286-based and runs at 10MHz, offering the perfect solution to state portability.

1 x 100MB 5 1/4" floppy disk drive and 1 x 200MB hard disk drive		AS2510C	\$1,400
---	--	---------	---------

Victor removable floppy disks 005

All in the range of Victor microcomputers, are delivered with the MS-DOS 3.2 operating system, VMSICA language, and MS-Windows V2.0 on all hard disk models.

Victor microcomputers are covered with a 12-month on-site warranty, completely free of charge.

When ordering any of the range of Victor products please quote product code number. (eg AB0001A)

Prices effective from 2nd February 1988

Price Analysis Techniques

Competitive Published Price Lists: [FAR 15.404-1(b)(2)(iv)] and FAR Part 2

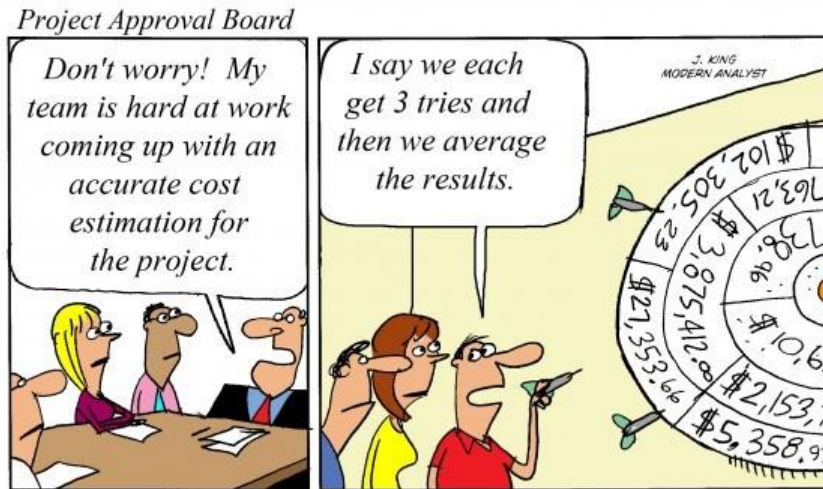
Catalog price means a price included in a catalog, price list, schedule, or other form that is regularly maintained by the manufacturer or vendor, is either published or otherwise available for inspection by customers, and states prices at which sales are currently, or were last, made to a significant number of buyers constituting the general public.

Market prices means current prices that are established in the course of ordinary trade between buyers and sellers free to bargain and that can be substantiated through competition or from sources independent of the offerors.

PRICE LIST			
VICTOR V386A			
Combining the flexibility and security of the Victor Add-pak removable 3.5" drive with the power and performance of an 80286 microprocessor, and running in DOS/PC.			
1 x 1200 floppy disk drive and			
1 x 3000 hard disk drive and	including system monitor	ADD386A	\$1,895
1 x 3000 Add-pak	including 3.5" monitor	ADD386A	\$1,495
1 x 1200 floppy disk drive and			
1 x 3000 hard disk drive and	including system monitor	ADD386B	\$2,795
1 x 3000 Add-pak	including 3.5" monitor	ADD386B	\$1,795
VICTOR V386S			
A powerful 80386-based processor, the V386S runs at 10MHz and offers 130KB storage capacity as well as extensive expansion facilities.			
1 x 1200 floppy disk drive and	including system monitor	ADD390A	\$1,595
1 x 3000 hard disk drive	including 3.5" monitor	ADD390A	\$1,495
1 x 1200 floppy disk drive and	including system monitor	ADD390B	\$1,495
1 x 3000 hard disk drive	including 3.5" monitor	ADD390B	\$1,395
1 x 1200 floppy disk drive and	including system monitor	ADD392A	\$1,495
1 x 3000 hard disk drive	including 3.5" monitor	ADD392A	\$1,495
VICTOR V286P			
Light and compact, the Victor laptop is 80286-based and runs at 10MHz, offering the perfect solution to data portability.			
1 x 3000 floppy disk drive and			\$2,095
1 x 3000 hard disk drive			\$2,095
Victor network compatible mouse			
			\$5
All in the range of Victor microcomputers, are delivered with the MS-DOS 3.3 operating system, BASIC-A language, and MS-Office V2.03 as standard equipment.			
Victor microcomputers are covered with a 12-month on-site warranty, completely free of charge.			
When ordering any in the range of Victor products please quote product code number, eg. ADD386A.			
Prices effective from 2nd February 1988			

Price Analysis Techniques

Independent Estimates



Price Analysis Techniques

Independent Estimates: Comparison of proposed prices with independent Government/Contractor cost estimates [**FAR 15.404-1(b)(2)(v)**]

Tips:

- Must be developed without the influence of the potential subcontractors/suppliers
- Develop an Independent Estimate Form or Template
- Ensure that IE's include assumptions/basis of estimates
- IE's must be easily understood and verifiable by third party reviewer



Price Analysis Techniques

Market Research (Same or Similar Analysis): Comparison of proposed prices with prices obtained through market research for the same or similar items. **[FAR 15.404-1(b)(2)(vi)]**

Tips

- Establish “Same or Similar Nature” of the Basis of Comparison via Technical Evaluation
- Current and historical pricing information obtained through third party sources
- FAR Part 10 lists a number of market research techniques including conducting Requests for Information.



Price Analysis Techniques

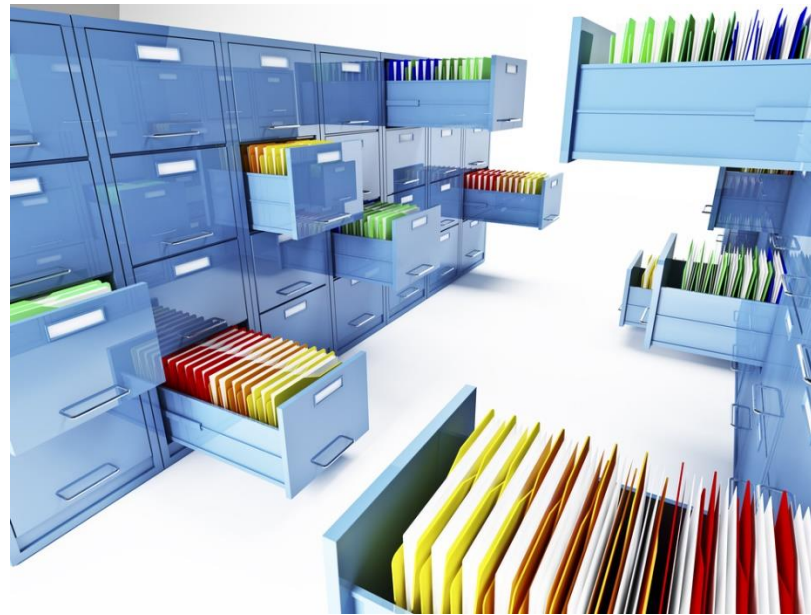
Information Obtained from Offeror: Analysis of data other than certified cost or pricing data (as defined at 2.101) provided by the offeror [**FAR 15.404-1(b)(2)(vii)**]

Tips

- Ask for info in the RFP/Q
- Most info is fair game, but may not be provided:
 - Salary information
 - “Wrap Rate” Estimates
 - Previous Quotes/PO/Invoices/Contracts
- Historical Pricing Information if the Government was the customer (or a Government prime)



Documentation Requirements



Tip: Documentation is the Key!

Price Analysis is a subjective evaluation. For any given procurement, different basis for price analysis may give you a different view of price reasonableness. Even given the same information, different Buyers and Subcontract Administrator might make different decisions about price reasonableness.

- It is the Buyer/SCA who must be satisfied that the price is fair and reasonable.
- Auditors and Reviewers will question your rationale.

Therefore, document all steps in the price analysis process.



Summary



- ✓ Price paid must be **Fair** and **Reasonable**.
- ✓ **Competition and Historical Price Comparison** are the preferred methods of establishing price fairness and reasonableness.
- ✓ **Market Research** is required when conducting and documenting price analyses.

About Us



As a leading Government Contracting, Compliance and Supply Chain Consulting firm for the last 27 years, J.A. White & Associates, Inc. combine deep functional industry experience with flexible engagement models. Our Subject Matter Experts seek to understand our client's requirements against the current legal and regulatory environment, marketplace best practices and business trends.

With countless successful Business System Reviews and implementations and an unprecedented track record, our tailored advisory services assist the GovCon Community in terms of Supply Chain compliance and risk mitigation, managing financial risks, leveraging technology, and optimize policy and procedures for effective expenditures of Government funds.

Through corporate offices in Columbia, SC, we support domestic and international clients, as well as Federal, State, and local Governments.

Procurement Automation created by JA White!



Company Benefits may include:

- Company Savings
- Improved Accuracy
- Process Time Reduction
- Compliant File Documentation

For inquiries

<https://www.jawhite.com/cpsr-inquiry-form>



Schedule Your CPSR Automated Procurement Demo Today!

CONTACT US

Visit us at:
www.jawhite.com

For inquiries:
info@jawhite.com

Jeffery A. White
President and CEO

1341 Garner Lane
Columbia, SC 29210
Office: 803.414.5409
Email: jawhite@jawhite.com