

# COST AND PRICE ANALYSIS

## ONE PRINCIPLE

*“In many instances, procurements do not yield effective price competition. An agency must ensure that what it is buying is fairly and reasonably priced. This is so because an agency must spend public funds wisely, the supply of government funds is limited, and there is a varying degree of price competition in nearly all procurements. In addition, an offerors’ cost and pricing information demonstrates their understanding of the work to be done and their commitment of the needed resources to do that work.”*

## TWO TECHNIQUES

### Price Analysis

(Comparative Price Analysis)

*“Process of examining and evaluating price without looking at the estimated cost elements and proposed profit of the offeror.”*

Completed thru the use of primary and secondary comparisons.

#### Primary:

- Comparison of competitive price quotes

#### Secondary:

- Comparison of prior quotes for same or similar services
- Comparison of prices on published lists
- Comparison of proposed prices from independent estimates
- Use of yardsticks or parametric relationships (i.e., sq. ft. cost, price per/hour, daily cost)

Not conducive for negotiated procurements where technical factors are most important.

### Cost Analysis

(Technical Analysis)

*“Cost analysis is **always** done in conjunction with, not independently of, a price analysis.”*

- Used to determine whether the offeror’s total cost estimates approximate the dollars it **should** cost to perform the contract if operating with reasonable economy and efficiency
- It is the review and evaluation, element by element, of the cost estimate supporting a company’s proposal
- Used to establish the basis for negotiation of contract prices where price competition is not adequate or lacking altogether, and where price analysis, by itself, does not ensure the reasonableness of prices

Completed thru the use of analyzing documentation and ratings instruments.

- Price analysis is a price comparison concerned with the “bottom line”.
- Cost analysis is a technical analysis of cost elements focusing on what the work “should” cost.

## THREE BASIC TOOLS

### Independent Agency Estimate

(In-House Estimate)

Costs are classified into three basic categories:

- 1) Training
- 2) Administration
- 3) Supportive services

Further delineation of cost elements under each category are customized to specific proposals.

Sources of information are:

- past and current contracts for the same or similar services
- contractor financial reports

### Price Analysis Tool

(Format for documenting the price analysis)

Utilizes the Independent Agency Estimate for reference and review

Consists of five primary parts:

- 1) General
- 2) Primary Comparison
- 3) Secondary Comparison
- 4) Narrative
- 5) Signatures

### Cost/Price Analysis

12 steps for performing cost analysis:

1. Check offeror computations
2. Ensure all necessary costs are included in proposal
3. Review justification for costs
4. Ensure allocation of costs is correct and reasonable
5. Review cost elements for consistency
6. Determine price of cost elements is fair and reasonable
7. Identify questionable cost elements
8. Review subcontracts if applicable
9. Review second year option if applicable
10. Review profit or fee if applicable
11. Make a “bottom line” judgment on proposal price
12. Document all findings

## OTHER CONSIDERATIONS

**Direct and Indirect Costs:** Allowability of costs through allocability via cost principles, ensure non-duplication of cost items

**Profit or Fee:** Four factors in determining profit levels:

- (1) Contractor Effort
- (2) Contract Cost Risk
- (3) Federal Socioeconomic Programs
- (4) Past Performance

**Training Packages and Market-Price Tuition:** “Federal rule states that no cost or price data need be submitted when prices are established catalog or established market prices for a commercial item sold in substantial quantities to the general public.”

**Defective Cost or Pricing:** Mitigated through the use of model clause for Pricing Reduction for Defective Cost or Pricing Data and model Certificate of Current Cost or Pricing Data.