PRICE ANALYSIS

INSTRUCTOR GUIDE

GENERAL SERVICES
ADMINISTRATION

FEDERAL ACQUISITION INSTITUTE
OFFICE OF ACQUISITION POLICY
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1. Replace Pages I-9 and I-10

The original answers were wrong. The new pages bear the correct answers.

Also, some instructors requested more information on "Margin On Direct Cost" pricing. This approach is often used by commercial firms which deal with the Federal Supply Service. These firms prefer to negotiate "margin rates" rather than "markup rates." Margin rates are a percentage of the **sales or list price**; markup rates are a percentage of **cost**. Among the reasons that these firms prefer "margin rates" as a basis for negotiation:

(1) Sellers typically prefer to negotiate discounts from list prices and recalculate profit margins on the same basis as the discounts.

(2) Consistent with generally accepted accounting practices, the firm can deduct negotiated discounts from the list price on an equivalent basis to its per unit impact on the income statement.

(3) Most importantly, this pricing method is consistent with the calculation of commission (which is based on price) and with the way that prices are adjusted for additional discounts (e.g., prompt payment discounts).

The formula in the text/reference for "Margin on Direct Cost Pricing" is employed by such firms to calculate "Price", given (1) an estimate of direct per unit cost at the expected total sales volume and (2) the **desired** margin rate (expressed as a percentage of the sales price).

To factor in commissions and discounts, firms add those percentages to MR in the equation. For example, Firm A has a product that cost $100 to make. The firm wants a profit of 20% on the sale price. It pays marketing agents a sales commission of 10% of the price. Standard commercial terms are 1%/20 net 30. What per unit price will firm A offer?

$100 ÷ (1 - (.2+.1+.01) = $100 ÷ (1 - .31) = $100 ÷ .69 = $144.93

Commission (@ 10%)	=	$14.49
Discount (@ 1%)	=	$1.45
Margin (@ 20%)	=	$28.99
Cost	=	$100.00
Price	=	$144.93

If you have additional questions about "Margin On Direct Cost" pricing, write to Patrick Conley, Commodity Management Center (FCO), Federal Supply Service, CM 4, Rm. 712, Washington DC 20406.

2. Discard Lesson 7 in its entirety; replace with the enclosed new version of the Lesson.

The primary purpose of the revision is to streamline the presentation of price/volume analysis and add a brief introduction to "line-of-best-fit". Corresponding changes will be made to the text/reference and classroom exercises when they are next reprinted.

TOPIC: INSTRUCTOR PREPARATION

TIME: Prior To Class

COURSE LENGTH

Five days.

TARGET AUDIENCE

Federal Contract Specialists (GS-1102) and other Federal personnel who participate in analyzing prices for sealed bidding or negotiations under Parts 14 and 15 of the FAR.

PREREQUISITES

Completion of the following courses (or such equivalents as MDAC — Basic):

- Introduction to Contracting.
- Procurement Planning
- Sealed Bidding

STUDENT MATERIALS

A Text/Reference and a separate volume of Classroom Materials.

METHODS OF INSTRUCTION

The principal method of instruction is a series of 37 exercises which provide the students with an opportunity to develop skill at analyzing prices and making price-related decisions. It is important that students be provided sufficient time to complete all 37 exercises.

The knowledge necessary to perform these exercises comes from readings, lecture, and interactive discussion.

**FORMAT OF THE INSTRUCTOR GUIDE **

See next page.

❶ **TOPIC: .c. 7.1.1.5 BONDS**

❷ **Ref:** Pages 7-12 to 7-14

❸ **Objective:** When you finish Section 7.1.1.5, your students must be able to:

- Define "bond" and describe types of bonds.
- Identify situations in which a bond might be necessary.

❹ **Time: 9:40 —** 10 Minutes

❺ **Method:** Lecture/Discussion.

LESSON PLAN

Ref.	❼ Steps In Presenting The Topic	Instructor Notes
CM 7-10 ❻	a. Define "bond" and lead students through the sample bond (CM 7-10). "A bond is a written instrument executed by an offeror or contractor (the "principal") and a second party (the "surety") to assure fulfillment of the principal's obligations to the Government). If the principal fails to meet a covered obligation, the surety has to cover the Government's loss to the extent stipulated in the bond." Bonds protect the Government against such risks as: 1. Withdrawal of a bid by the apparent winning bidder 2. Failure to complete the work of the contract. 3. Failure by the contractor to pay subcontractors. b. Describe conditions under which COs require offerors to submit bonds.❾ Bonds are required for construction contracts in the U.S. over $25,000. For other contracts, bonds are used only when deemed necessary by the CO. ❿ c. **Question** : Should Jones require offerors to submit bonds for the Smoketown upgrades? [Solicit answers from the class before providing your own] **Answer: No.** The question is whether the risk of default is high enough to make bonds a worthwhile investment. Jones has decided against any bonding requirement because firms in this market have generally had a good track record for honoring their obligations.	❽

TOPIC: INSTRUCTOR PREPARATION (CONTINUED)

❶ Each lesson begins with a topic.

❷ The Ref (i.e., reference) is to the corresponding chapter or pages from the text/reference.

❸ This identifies learning objective(s) related to the topic.

❹ This identifies the starting time for each Lesson (e.g., 9:40 AM) and the amount of time budgeted for the Lesson (e.g., 10 minutes). The figure for time budgeted excludes time for any breaks scheduled during the lesson.

❺ This is the method for instructing this lesson.

œ This column provides occasional references to pages from the text/reference and from Classroom Materials (for the benefit of the students). Pages from the Classroom Materials always have the prefix CM-. Note that the Classroom Materials have been incorporated in this Instructor Guide--as the instructor, you will therefore only have to work with the Instructor Guide and the Text/Reference. This column also contains icons (see the following page for a catalog of icons and the definition of each).

❼ This column presents the teaching points, information to support the teaching points, and transitions.

❽ This column for the most part is blank. Please feel free to add your own personal notes to your copy of the Instructor Guide.

❾ This is a teaching point. You are responsible for covering all such points.

❿ This is information to support the teaching point. We have tried to provide all the information necessary for each teaching point, so that you will not have to do additional research to teach this course. However, you should try to convey this information in your own words. More importantly, we strongly encourage you to weave in your own examples and draw on your own experience in presenting the teaching point.

TOPIC: INSTRUCTOR PREPARATION (CONTINUED)

ICONS

Viewgraph

Instructor note of special significance

Use chalkboard/flipchart

Case Study

Question/Answer Sessions

PREPARING TO TEACH

- To teach this course for the first time, you should plan 40 to 80 hours of preparation. You will not need this time to research and build your own detailed lecture notes, case studies, or the like. This Instructor Guide is complete with all the instructional materials necessary to deliver the course. Rather, you will need the time to become thoroughly familiar with the Text/Reference and this Instructor Guide.
- Feel free to annotate and otherwise mark up the Instructor Guide.
- Build your own examples for teaching points.
- Draw on any supplementary materials available to you. For example, bring a copy of an RFP for the class to peruse.

TOPIC: INSTRUCTOR PREPARATION (CONTINUED)

PREPARING TO TEACH (CONT.)

- Review the attendance roster prior to class to evaluate the makeup of the group (i.e., organization unit, grade level, etc.). Continue to evaluate for experience and ability level throughout the course. Use this information to form study/work groups as needed.
- Arrange for the necessary training aids:
  - Viewgraphs and overhead projector
  - Viewgraph markers
  - Flipchart and markers
  - Chalk for the chalkboard

INSTRUCTOR ACTIONS A FEW WORKDAYS BEFORE CLASS

- Call your contact at the training site to verify that all course materials and equipment requirements have been or will be furnished and available. In particular, verify that (1) all training aids will be ready, (2) that sufficient copies of the student Text/Reference and Classroom Materials have been received, and (3) that the facility has all other supplies and materials required to conduct the class.
- If this is your first time teaching at this location, check on local parking, eating facilities, access to publish transportation, and hotels. If this is a return visit, ask your point of contact if there is anything new that you should be aware of.
- Examine the classroom before the students arrive, preferably no later than the day before.

TOPIC: INSTRUCTOR PREPARATION (CONTINUED)

PRE-CLASS ACTIONS THE FIRST DAY OF CLASS

On the morning of the first day of class, plan to arrive early enough to sign-in with your point of contact and then check and/or verify the following:

- Check the classroom location and arrangement. Is the layout reasonable? Make certain there is a table upon which you can place all your materials. Make sure the location of your table and/or podium is visible by all students. Make certain there is sufficient room for you to move easily among the several tables to assist individuals as needed. If there is a problem, notify the local point of contact **immediately**.
- Ensure that student materials are in place (perform an inventory—count all required student items and communicate any shortages to the local point of contact **immediately)**. This includes any special handouts for this site — such as maps or rules and regulations.
- Ensure that a supply of pencils is available to students for the test.
- Ensure that instructional materials are in place (perform an inventory — communicate any missing items, such as missing viewgraphs, to the local point of contact **immediately)**.
- Ensure required equipment is in place (perform an inventory — communicate the missing items, such as a missing overhead projector, o the local point of contact **immediately**.
- Check the classroom environment (e.g., heating, lighting, and air conditioning); determine where the controls are and how to operate them.
- Verify location of rest rooms.
- Verify location of designated smoking areas.

TOPIC: INSTRUCTOR PREPARATION (CONTINUED)

PRE-CLASS ACTIONS THE FIRST DAY OF CLASS (CONTINUED)

- Verify location of restaurants, vending machines, and coffee or lunch rooms.
- Verify location and procedures for use of telephones.
- Verify procedures for getting phone messages.
- Verify emergency procedures.
- Verify location of emergency exits.
- Check ecurity issues, procedures, and requirements.
- Verify location of the parking facilities.
- Test and adjust overhead projector.
- Set up and adjust screen.
- Test and adjust podium microphone, if any.
- Check writing materials (e.g., chalk) for the board, as well as for any instructions on use of same.
- Adjust room lighting — curtains, blinds, and light switches.
- Check for handicapped student access and any necessary supporting services (e.g., sign language interpreter, wheel chair access, etc.).
- Obtain class roster.
- (At the GSAITC) obtain the envelope for student evaluations.
- Refer any problems to the local point of contact prior to the start of class.

TOPIC: INSTRUCTOR PREPARATION (CONTINUED)

CONDUCTING THE COURSE

- Time management is critical. Stick to the schedule. Move the class along. If questions are asked on Monday that pertain to topics to be covered on Tuesday, defer answering the questions until Tuesday.
- At the end of each day, remind the students of their reading assignments for the night. As indicated in the text, punctuate lectures with questions that the students should be able to answer from the previous night's reading.
- Remember to get the completed course evaluation form from all students.

EVALUATING YOUR PERFORMANCE

The following are among the criteria for evaluating your performance.

- Accomplishment of the learning objectives.
- Coverage of all teaching points and case studies.
- Effectiveness in conducting the lectures, case studies, and discussions.
- Use of all Classroom Materials provided to the students.

LESSON PLAN OUTLINE

MONDAY	*Start Time*	*Minutes*
Administrative	8:00	60
Morning Break	9:00	20
Introduction	9:20	120
Lunch	11:20	60
Lesson 1 - Prepare For Price Analysis	12:20	65
Afternoon Break	1:25	20
Lesson 2 - Maximize price competition	1:45	65
Lesson 3 - Price-related data from offerors (through 3.2.3)[1]	2:50	40

TUESDAY	*Start Time*	*Minutes*
Lesson 3 - Price-related data from offerors (continued from Monday)	8:00	135
Morning Break	10:15	20
Lesson 4 - Select price related factors	10:35	60
Lunch	11:35[2]	60
Lesson 4 - Select price related factors (continued)	12:35	60
Afternoon Break	1:35	20
Lesson 5 - Apply price related factors (begin)[3]	1:55	95

WEDNESDAY	*Start Time*	*Minutes*
Lesson 5 - Apply price related factors (conclude)	8:00	25
Lesson 6 - Compare prices	8:25	60
Morning Break	9:25[4]	20
Lesson 6 - Compare prices (Continued)	8:25	90
Lunch	11:15	60
Lesson 7 - Calculate the should pay price	12:15	175
Afternoon Break	When appro-priate	20
Lesson 7 - Calculate the should pay price (continue)	N/A	N/A

[1]Up to, but not including, the case study "Certified Contracting"—begin that case on the following day.
[2]Approximate—adjust as necessary to fit into the lesson plan.
[3]Go through 5.6 up to, but not including, "Cool Window."
[4]Approximate—adjust as necessary to fit into the lesson plan.

LESSON PLAN OUTLINE

THURSDAY	*Start Time*	*Minutes*
Morning Break	When appro-priate	20
Lesson 7 - Calculate the should pay price (conclude)	8:00	160
Lunch	11:00	60
Lesson 8 - Account for differences	12:00	75
Afternoon Break	1:15	20
Lesson 9 - Price-related decisions in sealed bidding	1:35	115

FRIDAY	*Start Time*	*Minutes*
Morning Break	When appro-priate	20
Lesson 10 - Price-related decisions in negotiations	8:00	105
Lesson 11 - Documentation	11:05	70
Lunch	1:15	90
Test [5]	1:45	120

[5]Lunch before—90 minutes.

TOPIC: COURSE OVERVIEW

OBJECTIVE: Introduce the course to the students.

TIME: 8:00 Monday (One Hour)

METHOD: Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	a. Introduce yourself to the students and provide some background on your qualifications to teach Price Analysis. Also introduce any GSA Training Center personnel. b. State the name of the course and ensure that students are in the right course. c. Read the following to the entire class prior to the beginning of instruction on the first day. **"The training day is from 8:00 AM to 3:30 PM Monday through Friday. Normally, there are two 20 minute breaks and one hour for lunch."** d. Read the following to the entire class prior to the beginning of instruction on the first day. **"Attendance Requirements: You are expected to attend all class sessions. If you cannot attend every session, see me at the break."** If any students cannot attend all sessions, contact their supervisor and determine whether or not to allow the student to remain in class. (For your information: To receive a certificate of completion, students may miss not more than 20% of classroom instruction, e.g., 1 day of a 5-day course; 5 hours of a 4-day course, etc.) e. Take Attendance — Rosters. The instructor is responsible for returning the roster to the GSAITC after legibly updating as follows: • Enter the full name of any substitute, along with job series and grade.	

TOPIC: COURSE OVERVIEW (CONT.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	e. Take Attendance (Continued) • Add full names of persons who are present for the class for whom space is available but whose names are not on the roster. Collect original or carbon copies of the authorized nomination form from any unlisted person who brought the authorization form — he/she must provide a copy prior to the last day of class to accompany your edited roster. (Exception: Substitutes do not need a training authorization form.) Failure to provide an authorization form will preclude issuance of a certificate for successful completion of the training. • When at locations other than the GSAITC in Arlington, Virginia, ensure mailing labels are completed by any student whose name is not on the original roster. These labels are to accompany your edited roster. • Place an "A" on the roster next to the name of anyone who does not attend class and for whom there is no substitute. • Make a note on the roster of any unusual circumstances regarding a student, i.e., “Mail certificate to _____, left class early”, “Do not issue a certificate to _____, missed too much time”, etc. • For courses at the GSAITC Arlington, Virginia, location: Return the completed roster to the GSAITC administrative operations, following directions written on the roster by the administrative support staff. • For courses at other locations: Return the completed roster to the GSAITC administrative operations, by mailing the rosters along with the tests, any associated student paperwork, and any other materials provided by the GSAITC. The instructor will be supplied with an addressed envelope for this procedure.	

TOPIC:	COURSE OVERVIEW (CONT.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**

	f. Student Evaluation announcement: Announce on the first day of class, that completed student evaluations will be collected on the last day of class by a student designated to do so by the instructor. The student will collect all completed evaluations, enclose them in an envelop provided by the Instructor, seal the envelope, sign and date the envelope, and then give it to the Instructor. Indicate where the student evaluations can be found (generally the last page of the Text/Reference or, at the GSAITC, as a separate, single sheet). Designate the student at this time and hand him/her the envelope for the evaluations. • For sessions not at the GSAITC: Instructors will affix a mailing label on the envelope and mail it to the appropriate curriculum manager at the GSAITC. • For sessions at the GSAITC: The Instructor or student will leave the addressed envelope at the reception desk in Room 900. g. Indicate the rest room locations. h. Announce the telephone procedures. This includes the location of available phones (FTS and Autovon), emergency phone numbers, and how to get messages — message board when at the GSAITC. i. Explain the location of eating facilities. j. Explain the location of emergency exits and procedures. k. State that there is no smoking in the building. l. Have students complete name placards. m. At the GSAITC, point out the copy of the GSAITC Catalog that is provided to every student. Possibly indicate other related courses the students may be interested in attending (e.g., Cost Analysis and Negotiation Techniques — for equivalency with the three week DoD counterpart of these three courses).	

TOPIC: COURSE OVERVIEW (CONT.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	n. Stress that students are not to leave personal trash in the rooms, such as newspapers and coffee cups. o. For sessions at the GSAITC, Arlington, Virginia, indicate that the Center recycles all paper. Point out the location of the "paper only" container in the classroom. Indicate that all used computer printed paper, newspapers, and other paper products should be discarded in the "paper only" container. Point out that coffee cups, food, and plastic are not to be placed in this container. p. Ask students to introduce themselves. They should give their names, identify their employers and place (e.g., city and state) of employment, explain their jobs, state why they are taking the course, and express what they hope to gain from the course. q. Provide the students with a few minutes to read the following VG.	
VG A-1	**Price Analysis Course Overview** • Introduction - Prices and Prices • Prepare for Price Analysis • Maximize Price Competition • Price Related Data from Offerors • Selecting Price Related Factors • Apply Price Related Factors • Compare Prices • Calculate the Should-Pay Price • Account for Differences • Price Related Decisions in Sealed Bidding • Price Related Decisions in Negotiations • Documentation	

TOPIC: COURSE OVERVIEW (CONT.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	r. State the overall objectives of this course: "By the end of this course, you will be able to make the most important price-related decisions at each phase of the acquisition process: • Prior to soliciting, you will be able to: - Estimate the proper price or value of the requirement, given the Independent Government estimate, acquisition histories, and data from market research. - Recommend changes to solicitations that will maximize price competition. - Determine the price-related data to require from offerors. - Select price-related factors for award. • When evaluating offers, you will be able to: - Apply price-related factors to identify the low offer. - Compare the low offer to other competitive prices, commercial prices, historical prices, pricing yardsticks, and Government estimates. - Account for differences between the low offer and comparable prices. • After evaluating offers, you will be able to: - Make price-related decisions in sealed bidding, such as determining whether to reject bids at unreasonable prices. - Make price-related decisions in negotiations, such as establishing prenegotiation positions on proposed prices. - Document the price analysis. s. Stress that a calculator is necessary for the course, and that the students will be allowed use of the calculator during the test.	

TOPIC: COURSE OVERVIEW (CONT.)		
LESSON PLAN		
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
	t. Explain the difference between the Text/Reference and Classroom Materials (the former an enduring desk reference, the latter a throw-away). Walk the students through the preface to the Classroom Materials, highlighting: • The Table of Contents, which lists the classroom exercises. Stress that this will be a hands-on course; they will learn by doing. • The Syllabus. • And, most importantly, reading assignments on page CM - vi. Stress that they must read to pass the test. u. Give the students a quick tour of Chapter 3, highlighting the: • CLOs at the beginning of each chapter, noting that there will be one test question for each CLO (except those in Chapter 2). • The flowchart on Page 3-2. • The chapter overview on Page 3-3. • The vignette on page 5, which provides a transition from one chapter to the next. • The information mapping on page 7, a feature of this text to help students more readily use this book as a desk reference back on the job. v. Draw the students' attention to page xv in the Text/Reference, highlighting the passage entitled "Comments". Stress that the FAI is interested in hearing from students.	

TOPIC: ADMINISTRATIVE OVERVIEW (CONT.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
VG A-2	w. **Student Evaluation** • One end-of-course examination. - Friday Afternoon. - Multiple Choice. - Open Book. • Passing Grade is 70. • Stress that students must read to pass. • Student answer sheets are now being scanned and graded by a computer at the GSAITC; as a consequence test results and Certificates will be sent by mail to students following completion of the course.	

TOPIC:	ADMINISTRATIVE ACTIONS AT THE END OF THE COURSE	
TIME:	Prior to Exam	
	a. Distribute copies of the test, answer sheets, and pencils. Instruct students on using the pencils to complete the answer sheet. Warn students against placing any marks on the test itself. b. Student Evaluation announcement: On the last day of class, announce that students must complete and submit the Student Evaluation to receive a Certificate of Completion. The designated student will collect all completed evaluations, enclose them in the envelope provided by the Instructor, seal the envelope, sign and date the envelope, and then give it to the Instructor or, if at the GSAITC in Arlington, Virginia, by delivering it to Room 900. • For sessions not at the GSAITC, the Instructor will affix a mailing label on the envelope and mail it the appropriate curriculum manager at the GSAITC. • For sessions at the GSAITC, the Instructor will leave the addressed envelope at the reception desk in Room 900. c. Direct the students to police the classroom for personal items and all trash. • For sessions not at the GSAITC, make certain that there is no personal trash remaining in the room. • For sessions at the GSAITC, make certain that there is no personal trash remaining in the room. Place all recyclable materials into the correct container in the classroom. d. Make certain that the students have handed in all test materials (NOTE — they may NOT retain any copies of the test or answer sheets). Make certain that all other GSAITC materials are returned by students before they depart.	

TOPIC:	ADMINISTRATIVE ACTIONS AT THE END OF THE COURSE (CONTINUED)	
	e. Turn off any equipment, place all viewgraphs in order, turn off any air conditioning if required, check the windows and lights, and make certain the door is locked when you depart. f. Return all test materials (NOTE — you may NOT retain any copies of the test or answer sheets). Return tests, viewgraphs, and all other GSAITC materials to the GSAITC — • For sessions not at the GSAITC, by mailing the materials to the appropriate curriculum manager at the GSAITC. • For sessions at the GSAITC, by leaving the materials at the reception desk in Room 900 marked for the appropriate curriculum manager	

INTRODUCTION

PRICES AND PRICING

Primary Learning Objective (PLO)

Condition: Given pricing-related market research data and the Government's pricing objective stated in FAR 15.802(b)

Task:
1) Identify typical sellers' pricing objectives in a market and the key elements of the Government's pricing objective.
2) Identify the two basic approaches to contract pricing: price analysis, and cost analysis.

Standard: Correctly identifies sellers' pricing objectives and approaches for obtaining those objectives. Identifies the elements of price and cost analysis. Identifies examples of when price analysis and cost analysis are used.

Course Learning Objectives (CLOs)

At the completion of this lesson, the students will be able to:

- I-1 Identify typical sellers' pricing objectives in a market.
- I-2 Identify the key elements of the Government's pricing objective.
- I-3 Identify the two basic approaches and the elements to contract pricing: price analysis and cost analysis.
- I-4 Identify potential participants in the price analysis and the types of assistance each can provide.

Estimated Time

2 hours—Lecture/Discussion/Case Studies.

Method of Instruction

Lecture/Discussion with viewgraphs as visuals.
Student Exercise—Case studies on various pricing strategies.

Student Materials

Text/Reference—Introduction
Classroom Materials—Introduction Lesson

Instructor Materials

Text/Reference—Introduction
Instructor Guide—Introduction
Overhead Projector
Viewgraphs for Introduction Lesson

Instructor References

Chapters 1 (§ 1.1 and 1.2) and 5 of the Federal Acquisition Process

TOPIC: INTRODUCTION — PRICES AND PRICING

REF: TR I-1 through I-3

OBJECTIVE: When you finish this introduction, your students should understand the following:
- The general pricing environment
- The definition of price.

TIME: 9:20 a.m. (following morning break); 2 hours for the entire Lesson — including 1 hour and 15 minutes for case studies.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-1 & 1-2	Introduction to Prices and Pricing. a. Allow the students some time to review the learning objectives on TR I-1.	
VG I-1	b. Present introduction overview. Show VG I-1. **PRICES AND PRICING** **P. I-2** • Definition of price • Seller's pricing objectives • Seller's approaches to pricing a contract • Buyer's pricing objectives • Buyer's approaches to pricing the contract VG-I-1	
	c. Define price: "the amount of money that a buyer pays a seller for the delivery of a product or the performance of a service." The definition of price in FAR 15.801 emphasizes its components: "cost plus any fee or profit applicable to the contract type."	

TOPIC: I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES

REF: TR I-5 through I-23

OBJECTIVE: To teach the students how to identify typical sellers' pricing objectives in a market.

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-6	I.1.1 Determine the Seller's Pricing Objectives. a. Present seller pricing objectives and approaches.	
VG I-2	**SELLER'S PRICING OBJECTIVES** **P. I-6** • To cover costs • To contribute to attaining corporate operational objectives VG-I-2 Inform students that corporate objectives often do NOT require that the firm cover its costs and make a profit on each and every contract. Sometimes, firms have goals that are larger than immediate, short-term profits.	
VG I-3	**SELLER'S PRICING OBJECTIVES (CONTINUED)** **P. I-6** *CORPORATE OBJECTIVES* _____ • Short/long term profitability • Market share • Long-term survival • Product quality • Technological leadership • High productivity VG I-3 Depending on the corporate objectives for a contract, a firm may select from any of a number of strategies for pricing its goods and services.	

TOPIC: I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-7	I.1.2 Determine Seller's Approaches to Pricing.	
VG I-4		

SELLER'S PRICING APPROACHES **P. I-7**

Pricing Approaches	Strategies
• Cost-based pricing:	• Mark-up Pricing • Margin on Direct Cost • Rate of Return Pricing
• Market-based •	• Profit-Maximization Pricing • Market-Share Pricing • Market Skimming • Current-Revenue Pricing Target-Profit Pricing • Promotional Pricing • Demand-Differential Pricing • Market-Competition Pricing

VG I-4

QUESTION: Why are vendor pricing strategies important?

ANSWER: Your fundamental duty is to determine whether offered prices are "fair and reasonable", as a basis for decisions on such matters as whether to cancel a solicitation and resolicit offers. In a few moments, we will discuss the meaning of "fair and reasonable", as a pricing objective for the Government. For now, bear in mind that "fair and reasonable" is a call — which will be influenced in part by your perception of the vendor 's strategy and the risks inherent in that strategy for both parties to the contract.

TOPIC: I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	I.1.2 Determine Seller's Approaches to Pricing (con't)	
	QUESTION: But all we get from vendors is a price. How can we get information on their strategies?	
	ANSWER: Often, you will find clues to a firm's strategy when: • Researching the market (Lesson 1) • Comparing prices offered by that vendor against prices offered by other vendors, historical prices, and the like (Lesson 6) • Conducting factfinding sessions with offerors and when discussing their proposals (Lesson 10).	
	Remind the students that the burden of proof is always on the vendor to demonstrate that an offered price is reasonable and that it can perform at the offered price — which often becomes a matter of explaining and defending what appears to you to be a questionable pricing strategy.	
TR I-7	I.1.3 Review Seller's Cost-based Pricing Strategies.	
	b. Explain MARK-UP PRICING	
VG I-5	**MARK-UP PRICING** **P. I-9**	

STEP	ACTION
1	Estimate sales volume
2	Estimate product unit cost at the estimated sales volume
3	Determine mark-up rate to be used
4	Calculate unit selling price by applying mark-up rate to the product cost

VG I-5

TOPIC: I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-10	I.1.3 Review Seller's Cost-based Pricing Strategies. (Cont.)	
VG I-6	**MARK-UP PRICING - EXAMPLE** **P. I-9** **Given**: Estimated Sales Volume = 1,000 units Estimated Unit Cost = $80 Mark-up Rate = 20% **Calculate Unit Selling Price:** Unit Selling Price = Cost + (Mark-up Rate x Cost) = $80 + 0.20 x $80 = $80 + $16 = $96 VG I-6	
	c. Discuss implications for buyers: • Profit is set as a percentage of cost. Mark-up rates depend on the product line tradition, competition, and other factors. Similar products are priced using similar mark-up rates. They typically do not consider the investment required to produce the product. • A good buyer should be aware of relevant industry mark-up practices. Knowledge of mark-up practices can be tremendous advantage in negotiating reasonable prices. • If the mark-up is on direct costs only — the markup will be higher than markups on full costs. Why? Because the mark-up must cover overhead costs as well as profit. A mark-up rate of 400 percent or more may be quite reasonable. • If the mark-up is on full costs — the markup should be lower than markups on direct costs. A mark-up rate of 400 percent on full cost would normally be excessive.	

TOPIC:	I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-1	d. Assign the case study "Mark-Up Pricing." (15 minutes) • Assign a question. • Allow time to calculate answer. • Record student answers on the board. • Demonstrate the correct calculations. • Go to next question.	

CASE ANSWER - MARK-UP PRICING

Mark-up pricing is the establishment of prices based on direct cost or total cost plus a percentage mark-up. The questions below are based on the application of mark-up pricing principles.

1. Acme Products produces Part #123432H at an estimated cost of $3,800 each. The firm has an established mark-up rate of 15 percent. **What is the unit selling price?**

   $3,800 x 1.15 = $4,370

2. Duke Sales sells its Part #ABD100342 for $2,100 each. Duke's mark-up rate is set at 20 percent. **What is Duke's estimated cost to produce the unit?**

   $2,100 ÷ 1.20 = $1,750

3. The James Manufacturing Company sells Part #19243543 for $5,000 each. Each part costs the firm an estimated $4,000 to produce. **What is the firm's mark-up rate?**

   $5,000 ÷ $4,000 = 1.25 or a 25% mark up

4. Walden Corporation's estimated direct unit cost to produce Part #19235834 is $1,500. The firm bases selling price mark-up on direct cost, and the mark-up rate is 250 percent. **What is the unit selling price?**

   $1,500 x 3.5 = $5,250

5. Holden-Walker Corporation's selling price for Part #19384757 is $7,500. The firm bases selling price mark-up on direct cost, and the mark-up rate is 275 percent. **What is the estimated direct unit cost?**

   $7,500 ÷ 3.75 = $2,000

TOPIC: I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-11	I.1.3 Review Seller's Cost-based Pricing Strategies. (Cont.) e. Explain Margin Pricing	
VG I-7	**MARGIN ON DIRECT COST PRICING** **P. I-11**	

STEP	ACTION
1	Estimate sales volume
2	Estimate direct cost at estimated sales volume
3	Determine margin rate to be used
4	Calculate selling price by applying margin rate to product cost

VG I-7

VG I-8

MARGIN ON DIRECT COST PRICING - EXAMPLE **P. I-11**

Given:

Estimated Sales Volume = 1,000 units
Estimated Unit Cost = $81
Margin Rate = 40%

Calculate Unit Selling Price:

$$\text{Unit Selling Price} = \frac{\text{Cost}}{(1 - \text{Margin Rate})} = \frac{\$81}{(1 - .40)} = \frac{\$81}{.60} = \$135$$

VG I-8

TOPIC:	I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR I-12	I.1.3 Review Seller's Cost-based Pricing Strategies. (Cont.) f. Discuss implications for Buyers. • Like mark-up rates, margin rates depend on the product line, tradition, and competition. Similar products are priced using similar mark-up rates. A firm's management is often rated by the margin rate that they can obtain. • A good buyer should be aware of relevant industry mark-up practices. Knowledge of margin practices can be a tremendous advantage in negotiating reasonable prices.	
CM-2	g. Assign the case study "Margin on Direct Cost Pricing." (15 minutes) • Assign a question. • Allow time to calculate answer. • Record student answers on the board. • Demonstrate the correct calculations. • Go to next question.	

CASE ANSWER - MARGIN ON DIRECT COST PRICING

Margin on Direct Cost Pricing is very similar to mark-up pricing in that price is based on the relationship between cost and profit. Instead of adding a mark-up based on a percentage of cost, margin pricing uses direct cost data to calculate a price that will provide an established profit margin.

1. Ham Industries produces Part #23451323V at an estimated cost of $4,800 each. The firm has an established margin of 50 percent. **What is the unit selling price?**

   UP = $4,800 ÷ (1 - .50) = $9,600

2. Lambert-Russell sells part #RST29405123 at a price of $5,000 per unit. The direct cost is $2,000. **What is the margin used in pricing?**

   UP = C ÷ (1 - MR)

   (1 - MR) * UP = C

   (1 - MR) = C ÷ UP = $2,000 ÷ $5,000 = .4

   MR = 1 - .4 = .6 = 60% (confirmation: $2,000 ÷ (1 - .6) = $5,000

3. Swann Systems produces the ADCOM System at a cost of $9,000 per unit. The firm prices using a margin of 45 percent. **What is the unit selling price?**

   UP = $9,000 ÷ (1 - .45) = $16,363.64

4. Stallworth Products sells Part #RAC12948533 at a price of $6,000. The firm's margin rate is known to be 60 percent. **What is the firm's direct cost?**

   UP = C ÷ (1 - MR)

   C = (1 - MR) * UP = (1 - .6) * $6,000 = .4 * $6,000 = $2,400

TOPIC: I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-13	I.1.3 Review Seller's Cost-based Pricing Strategies. (Cont.) h. Explain rate-of-return pricing. VGs I-9 and I-10.	

VG I-9

RATE-OF-RETURN PRICING **P. I-13**

STEP	ACTION
1	Determine desired rate of return on investment
2	Estimate investment required
3	Estimate level of sales
4	Estimate unit cost at the projected sales level
5	Calculate desired unit profit
6	Calculate unit selling price (estimated cost + desired profit)

VG I-9

VG I-10

RATE OF RETURN PRICING - EXAMPLE **P. I-13**

Given:

Desired Rate of Return = 15%

Estimated Investment Required = $600,000

Estimated Sales = 5,000 units

Estimated Unit Cost = $80

Calculate Unit Selling Price:

$$\text{Calculate Desired Unit Profit} = \frac{15\% \text{ of } \$600{,}000}{5{,}000 \text{ units}}$$

$$= \frac{\$90{,}000}{5{,}000 \text{ units}}$$

$$= \$18 \text{ per unit}$$

Calculate Unit Selling Price = $80 + $18

(Unit Cost + Unit Profit) = $98

VG I-10

TOPIC:	I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR I-14	I.1.3 Review Seller's Cost-based Pricing Strategies. (Cont.) PRICING WITH RATE-OF-RETURN PRICING (CONT.) i. Discuss implications for Buyers. Profit is set based on investment, desired rate of return, and projected sales. Firm's that use this method of pricing are probably more sensitive to changes in overall sales volume than firms using the other cost-based pricing methods. They are concerned about the rate of return not just a mark-up or margin rate. A lower item price coupled with a higher sales volume can actually increase the rate of return. On the other hand, a higher item price coupled with a lower sales volume can decrease the rate of return.	
CM-3	j. Assign the Case Study "Rate-of-Return Pricing." (15 minutes) • Assign a question. • Allow time to calculate answer. • Record student answers on the board. • Demonstrate the correct calculations. • Go to next question.	

CASE ANSWER - RATE-OF-RETURN PRICING

Rate-of-Return Pricing bases prices on cost plus a profit calculated to achieve a target rate-of-return on investment.

1. Franco Pharmaceuticals plans to market a new prothesis. However, management is concerned about the $500,000 investment required. The item only costs $700 to produce and annual sales of 6,000 units appear reasonable. Similar products earn a 20 percent return on investment. **What unit profit will be required?**

   $500,000 x .20 = $100,000 required return on investment.

   $100,000 ÷ 6,000 = $16.67 profit per unit required to earn required rate of return.

2. Shell Industries is thinking of producing and selling a new product. Additional facilities costing $1,000,000 will be required to produce and sell the product. The total cost to produce the product is estimated at $2,500. Market research predicts potential sales of 2,000 units. Because of the moderate level of market risk, Shell feels that a 15 percent rate of return is reasonable. **At what price would the firm market the product?**

   $1,000,000 x .15 = $150,000 required return on investment.

   $150,000 ÷ 2,000 = $75.00 profit per unit required to earn required rate of return.

   $2,500 + $75 = $2,575 market price.

3. Blier Bargains is preparing to go into production of the Blier V system. An investment of $800,000 will enable the firm to produce the Blier V at a unit cost of only $275. With annual sales estimated at 4,000 units, the firm feels that a 12 percent rate of return is reasonable. **At what price would Blier market the product?**

   $800,000 x .12 = $96,000 required return on investment.

   $96,000 ÷ 4,000 = $24.00 profit per unit required to earn required rate of return.

   $275 + $24 = $299 market price.

4. Fuqua Corporation has developed a new product. An investment of $900,000 will be needed to go into full-scale production and marketing of the product. Production cost is estimated to be $1,000 per unit if 1,000 units are produced each year. Marketing research indicates that Fuqua can sell 1,000 units at a price of $1,200. **At a price of $1,135 and a sales volume of 1,000 units, what will be Fuqua's estimated rate of return.?**

   $1,135 - $1,000 = $135 profit per unit.

   $135 x 1,000 = $135,000 profit per year.

   $135,000 ÷ $900,000 = 15% rate of return.

TOPIC: I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-15	I.1.4 Review Seller's Market-based Pricing Strategies. k. Stress that under competition, price is but one element of the marketing mix: • price • product • place • promotion	
VG I-11	**MARKET-BASED PRICING STRATEGIES** **P. I-15** • Profit-maximization pricing • Market-share pricing • Market skimming • Current-revenue pricing • Target-profit pricing • Promotional pricing • Demand-differential pricing • Market-competition pricing VG I-11	
	l. Tell the class that each will be discussed in turn, with emphasis on implications for them as buyers.	

TOPIC:	I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR I-16	I.1.4 Review Seller's Market-based Pricing Strategies. (Cont.) m. Present the **Profit-Maximization** strategy and its implications for buyers. The seller assumes that demand falls as prices increase, and grows as prices decrease. A firm using this strategy carefully analyzes the market to find the combination of price per unit and quantity of sales that maximizes profit. Seller Considerations: • Is demand sensitive to price changes? • What is the point of profit maximization? Among the Implications for Buyers: • Government demand is generally not price sensitive. Solicitations usually call for delivery of a fixed quantity by a date certain, and that is that. No matter how low the price, the Government will not order more under the IFB or RFP. There is no advantage to the offeror in offering a price lower than that necessary to win the contract.[1] • However, if the Government enters an existing commercial market with a large enough order, that may lower the "profit maximization" price. In that case, published commercial prices, as an indicator of price reasonableness, would be misleading . • Thus, buyers should be more aware of the relationship between price, supply, and demand in the marketplace. Working with users to take advantage of potential price breaks can save the Government substantial sums of money.	

[1]Under requirements contracts, however, such as the Federal Supply Schedules, price may be a factor in the number of units ordered by the Government.

TOPIC:	I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR I-16	I.1.4 Review Seller's Market-based Pricing Strategies. (Cont.) n. Present the **Market-Share** strategy and its implications for buyers. Assumption: Long-run profitability is associated with market share. The goal is to dominate the market through market penetration. Firms set prices low, and as volume increases, cost per unit decreases and long-term profits are achieved. Seller Considerations: • Build efficient production facilities. • Set price at or below competitors' prices to win market share. • Lower prices as costs fall. Among the Implications for Buyers: • Competition for market share generally means lower prices for buyers — at least in the short run. (In the long run, prices may rise if one or two firms manage to drive out competitors.) • If the competition is fierce enough, buyers will even see "below cost" prices. BUT: • Be concerned when sellers: - Have limited financial resources - Are apparently gambling on capturing a larger share of the market (and of unit sales) than is likely.	

TOPIC:	I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR I-17	I.1.4 Review Seller's Market-based Pricing Strategies. (Cont.) o. Present the **Market Skimming** strategy and its implications for buyers. Prices are set to achieve high profit on each unit. Seller Considerations: • Establish a high price to achieve a high profit margin at relatively low volume. • Decrease price over time to attract buyers not willing to pay the price premium. Among the Implications for Buyers: • Resist attempts to "pay for the best." In particular, take care that "greatest value" competitions do not become an open invitation to offer "skim the market" prices. • Encourage attempts at source development to increase competition and control prices. • Ensure that sufficient weight is put on price, as an evaluation factor, to keep a sharp point on vendor pencils.	

TOPIC:	I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR I-19	I.1.4 Review Seller's Market-based Pricing Strategies. (Cont.) p. Present the **Current-Revenue** strategy and its implications for buyers. Emphasis on maximization of current revenue rather than profit or long-term revenue. Seller Considerations: • Determine the price/quantity combination that maximizes revenue. • Near-term cash recovery is more important than long-term profitability. • Especially likely to be the strategy of choice if vendors suspect that demand will be high today, but disappear tomorrow (e.g., hula hoops). Among the Implications for Buyers: • If the firm's near-term cash needs are not met, there may be no long term. • Undue concentration on the near-term may also jeopardize the long-term future of the firm. • If the Government will need further supplies in coming years or is counting on continuing service, "responsibility" may become the most important issue in evaluating the vendor.	

TOPIC:	I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR I-20	I.1.4 Review Seller's Market-based Pricing Strategies. (Cont.) q. Present the **Target-Profit** strategy and its implications for buyers. Product decisions are based on the expected rate of return. Seller Considerations: • Determine price based on cost-based rate-of return calculations. • Reject products that cannot earn the required rate of return. Among the Implications for Buyers: • Many firms are dropping Government sales because they believe that required rate of return cannot be attained. They believe that emphasis on competition, and initiatives like component break-out, limit the profitability of developing and producing products for Government sales. • The product could be phased out overnight if the target profit has not been earned, stranding buyers who need more. • Once the target profit has been made, sellers tend to be more flexible on price. Timing of the buy may be critical to getting the best possible price.	

TOPIC:	I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR I-21	I.1.4 Review Seller's Market-based Pricing Strategies. (Cont.) r. Present the **Promotional Pricing** strategy and its implications for buyers. Products are priced to enhance the sales of the overall product line. Thus, some products may be "loss leaders", some may carry "prestige" prices, and still others might be priced to support "bait and switch" tactics. Seller Considerations: • Determine whether offering a "loss leader" will increase the sale of related products and increase profit. • Determine whether selling a product at a high, prestige, price will improve the product-line quality image and increase profit. Among the Implications for Buyers: • "Loss-leader" pricing—Will buying the "loss leader" lead to sole source requisitions for "one-of-a-kind" high priced peripherals or accessories from that same vendor? • "Prestige" pricing— Does the price really represent higher quality or merely an appearance of higher quality (taking advantage of a gullible public's belief that you really do get what you pay for)? • "Bait and switch" pricing—Will buying the bottom of the product item result in sole source requisitions for the vendor's high end products "to maintain compatibility"?	

TOPIC:	I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR I-22	I.1.4 Review Seller's Market-based Pricing Strategies. (Cont.) s. Present the **Demand-Differential** strategy and its implications for buyers. Prices offered by the firm differ: • From one customer to the next, OR • From one product form to the next, OR • From one region to the next, OR • From one time period to the next (e.g., lower prices for "off-peak" hours). Seller Considerations: • Determine whether the overall market can be segmented to allow for price variations. • Ensure that differential pricing won't create openings for competitors to pick off one or more segments. • Assure that demand-differential will not breed customer resentment. Among the Implications for Buyers: • Are price differences in line with differences in the vendor's costs? For example, are the higher prices for the Detroit area in line with differences in shipping and storage costs? • Are prices offered the Government higher than those offered the firm's most favored private sector customers? If so, why? • Sometimes the Government should pay a lower price than other customers — especially if the Government is buying ten times more than any other customer.	

TOPIC:	I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR I-23	I.1.4 Review Seller's Market-based Pricing Strategies. (Cont.) t. Present the **Market-Competition** strategy and its implications for buyers. Prices are pegged to those of competitors, with emphasis on the likely reactions of competitors to pricing decisions of the firm. Seller Considerations: • Determine competitor prices and/or anticipated prices. • Set price to keep pace with competitor prices. Among the Implications for Buyers: • This is the kind of pricing strategy that the Federal acquisition process is designed to foster. Why? Because competition tends to keep the pressure on firms to manage efficiently and price reasonably. • Can work against the buyer's interests if the leading firm is more cost efficient than its rivals but pegs prices against those of higher cost competitors. • In markets with few competitors, this can also result in a "follow the leader" pricing strategy that comes close to price fixing (even though there is no overt collusion) — e.g., auto and steel industries before foreign competition. In such markets, sellers tend to use dull pencils in figuring their costs and setting prices. Stress that the fact of competition doesn't guarantee the quality of that competition or the reasonableness of prices.	

TOPIC:	I.1 DETERMINE SELLER'S PRICING OBJECTIVES AND APPROACHES (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-4	u. Assign the case study "Rocky Rollers." (20 minutes) • Divide the class into small groups. • Assign the entire case. • Provide time for calculations and group discussion. • Record group answers to Questions 1 and 2 on the board. • Demonstrate the correct calculation for Questions 1 and 2 on the board. • Lead discussion of Questions 3 and 4 considering different marketing strategies.	

CASE ANSWER - ROCKY ROLLERS

Rocky Rollers is an old line materials handling firm. Engineering has developed a new system equal to any in the industry. Marketing wants to get the product on the street as soon as possible. Production would require an investment of $1,500,000. Unit cost is estimated at $8,000 and potential sales at 1,000 systems per year. Hooper uses a 20 percent rate of return for pricing all products.

1. What unit profit would be required to attain the target rate of return?

$1,500,000 x .20 = $300,000 required return on investment.

$300,000 ÷ 1,000 = $300.00 profit per unit required to earn required rate of return.

2. What would the unit price be at that profit level?

$8,000 + $300 = $8,300

3. Should Rocky Rollers produce the system if competitors market similar systems for about $7,700? Why?

It depends. At that price they would have to adopt a marketing strategy that will demonstrate that their unit is worth the price difference.

4. What are the firm's marketing alternatives?

Options:

- Market share pricing — Would pricing "below cost" in the short run allow "catch up" pricing after most competitors have vanished?
- Market skimming — Does Rocky Rollers — "an old line materials handling firm" — have such a strong reputation for quality that some consumers will "pay extra" for their product?
- Demand differential pricing — Can Rocky Rollers differentiate its product from those of competitors (in terms of looks, features, or advertising) to make the product more attractive to consumers (such as the Federal Government) than lower priced products of its rivals?
- Market-competition pricing — A no-go <u>unless</u> Rocky Rollers can reduce costs to meet or beat the competition.

This case demonstrates the importance of competition. Effective competition provides an immediate incentive to firms to improve their produce, reduce cost, or both. This is hard to achieve in a noncompetitive market place because firms act as though cost and quality are givens in the marketing mix equation.

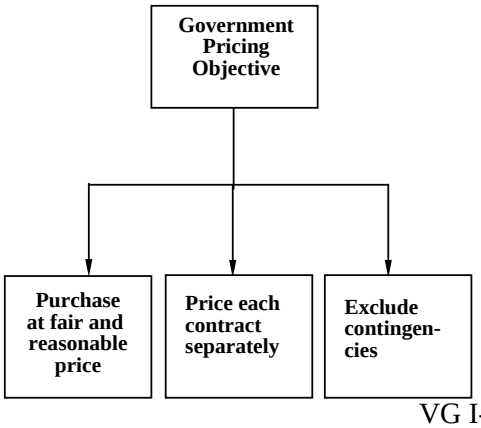
TOPIC: I.2 IDENTIFY GOVERNMENT'S PRICING OBJECTIVE

REF: TR I-25 through I-34

OBJECTIVE: To teach the students the key elements of the Government's pricing objective.

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-25	a. Present the Government's Pricing Objectives.	
VG I-12	**GOVERNMENT'S PRICING OBJECTIVE** **P. I-25**  VG I-12	
TR I-27	I.2.1 Pay a Fair and Reasonable Price b. Present the four primary considerations in determining whether a price is "fair and reasonable"	
VG I-13	**FAIR AND REASONABLE PRICE** **P. I-27** *MUST BE*_____ 1. Fair to buyer 2. Fair to seller 3. Reasonable under market conditions 4. Reasonable considering total cost of acquisition VG I-13	

TOPIC: I.2 IDENTIFY GOVERNMENT'S PRICING OBJECTIVE (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-27	I.2.1 Pay a Fair and Reasonable Price (Cont.)	
VG I-14	**FAIR PRICE** **P. I-27** • Free from dishonesty or injustice • Proper under the rules • Equitable VG I-14	
	c. Explain what is meant by "**Fair to the Buyer.**"	
	QUESTION: What can happen if you agree to a price that is too high?	
	ANSWER: • You will waste scarce Government funds. • You might become famous as the buyer who paid $435 for a hammer.	
	d. Explain what is meant by "**Fair to the Seller**"	
	QUESTION: Why should you care if the price is not fair to the seller?	
	ANSWER: If the price is unrealistically low, both parties are at risk. The risk to the Government is that the firm — to cut its losses — might: • Cut corners on product quality. • Deliver late. • Default, • Refuse to deal with the Government in the future or be forced out of business entirely.	

TOPIC: I.2 IDENTIFY GOVERNMENT'S PRICING OBJECTIVE (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-27	I.2.1 Pay a Fair and Reasonable Price (Cont.) Emphasize that firms are sometimes willing and financially able to perform satisfactorily for a price that is not likely to cover all of their costs. In such cases, the "below cost" price can be considered a "fair" price. On the other hand, offers are often unrealistically low because the offeror misunderstands the requirement or has grossly underestimated the risks and costs of the work. In these cases, it would be unfair to the offeror (and to other good faith offerors) to accept the low offer. More importantly, award at that price would be "false economy if there is subsequent default, late deliveries, or other unsatisfactory performance …" e. Explain what is meant by "**Reasonable Under Market Conditions**", with emphasis on the relationship between competitive conditions and price. Economic forces such as supply, demand, the legal and regulatory environment, and general economic conditions change constantly. Hence, a price that is reasonable today may not be reasonable tomorrow.	
VG I-15	**RELATIONSHIP BETWEEN MARKET CONDITIONS AND PRICES** **P. I-28** *CONSTANT DEMAND AND* _____ • Decreasing supply = higher prices • Increasing supply = lower prices *CONSTANT SUPPLY AND* _____ • Decreasing demand = lower prices • Increasing demand = higher prices VG I-15	

TOPIC: I.2 IDENTIFY GOVERNMENT'S PRICING OBJECTIVE (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-27	I.2.1 Pay a Fair and Reasonable Price (Cont.)	
VG I-16	**RELATIONSHIP BETWEEN MARKET CONDITIONS AND PRICES (Cont.) P. I-28** • Inflation and deflation affect prices even when supply and demand are constants • Competition needed for forces of supply and demand to work effectively VG I-16	
	Stress the relationship between market prices and the level and nature of competition. If there are many sellers and many buyers, then price is largely determined by supply and demand. If one seller controls supply of goods in demand by many buyers, than that seller will have considerable control over the price. If a few sellers dominate the supply side, they too will have considerable pricing power relative to buyers — as was evident in the auto and steel markets prior to the advent of foreign competition.	
TR I-29 and I-30	Refer students to section I.2.2 in the text, “Identify Markets and Pricing Advantage” for more information on the relationship between competitive conditions and price.	

TOPIC: I.2 IDENTIFY GOVERNMENT'S PRICING OBJECTIVE (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	I.2.1 Pay a Fair and Reasonable Price (Cont.)	
	f. Explain what is meant by "**Reasonable Considering the Total Cost of the Acquisition**" A price that seems reasonable at first glance may be unreasonable when price-related factors, such as transportation, are considered.	
VG I-17	**ELEMENTS OF TOTAL ACQUISITION COSTP. I-28** • Contract price • Direct acquisition cost • Costs of ownership • Government's overhead cost • Costs of contract award and administration VG I-17	
	Suppose you are buying cement for a road in Michigan. A plant in Arkansas is willing to sell you cement for $5 less a ton than any made in Michigan. Is the Arkansas price is reasonable? Not if shipping costs are $10 a ton higher for the Arkansas cement.	
CM-5	g. Assign the case study "Fair and Reasonable." (10 minutes) • Assign a question. • Allow time to read the question. • Ask for student reaction. • Lead discussion of important elements.	

CASE ANSWER - FAIR AND REASONABLE

Based only on the information provided, answer each of the following questions.

1. You solicited prices from 20 firms and 15 firms submitted bids. Each firm bid on a product that it produces in accordance with the commercial standard used in the solicitation. The low bid totals $125,000 and several other bids are within $5,000.
   Based on the information provided, does the price appear reasonable?

   Yes, based only on the information provided, the price appears fair and reasonable. However, other information may refute that analysis.

2. You are negotiating a contract for unique product only produced by one firm. The firm, Landry Products, has offered a unit price of $2,000 per unit for 40 units. That is $500 more per unit than you paid last month and $500 more than the current commercial price. Landry states that the difference is a new surcharge for Government business. The one-time surcharge was established to cover a $20,000 loss on a recent Government contract.
   Based on the information provided, does the price appear fair and reasonable?

   No, contracts must be priced independently.

3. You are negotiating a sole-source contract. The firm, Henderson Products, has offered a unit price of $1,000 per unit for 60 units. The price will increase to $1,200 if the firm looses a pending product liability law suit. Henderson states that all prices will increase by 20 percent until the cost of any adverse settlement is covered.
   Based on the information provided, does the price appear fair and reasonable?

   No, the $200 is a contingency. The occurrence of the contingency cannot be reasonable estimated at this time.

TOPIC: I.3 IDENTIFY GOVERNMENT APPROACHES TO CONTRACT PRICING

REF: TR I-35 through I-38

OBJECTIVE: To teach the students the two basic approaches and the elements to contract pricing: price analysis and cost analysis.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-35	a. Define "price analysis" and distinguish it from "cost analysis."	
VG I-18	**GOVERNMENT APPROACHES TO CONTRACT PRICING** **P. I-35** *DEFINITION - PRICE ANALYSIS* _____ 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. VG I-18	
VG I-19	**GOVERNMENT APPROACHES TO CONTRACT PRICING (CONTINUED)** **P. I-35** *DEFINITION - COST ANALYSIS* _____ THE REVIEW AND EVALUATION OF: (A) Proposed elements of cost and profit or fee (B) Judgmental factors applied by offeror in projecting from data to estimated costs. VG I-19	
	List elements of cost that may be examined: • Direct materials • Direct labor • Other direct • Indirect • Facilities cost of capital	

TOPIC: I.3 IDENTIFY GOVERNMENT APPROACHES TO CONTRACT PRICING

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-35	b. Tell the students when they should consider using price analysis and when they should also consider a cost analysis. Use *price analysis* for all purchases. It is particularly effective when a viable competitive market is controlling the price. Use *cost analysis* when: • offerors are required by FAR 15.804 to submit Certified Cost or Pricing Data. • price analysis alone cannot establish price reasonableness or realism.	
TR I-37	I.3.1 Perform Price Analysis c. Identify the basic types of comparisons made as part of price analyses.	
VG I-20	**BASES OF PRICE ANALYSIS** **P. I-37** • Competitive bids or proposals • Catalog, market, or regulated prices • Prior proposed and/or contract prices • Rough yardsticks and cost estimating relationships • Independent government estimates VG I-20	

TOPIC: I.4 IDENTIFY POTENTIAL PARTICIPANTS IN THE PRICE ANALYSIS

REF: TR I-39 through I-41

OBJECTIVE: To teach the students how to identify the participants in the price analysis and the types of assistance each can provide.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-39 through I-41	1.4.1 Potential Participants a. Identify potential participants in the price analysis.	
 VG I-21	**PRICE ANALYSIS PARTICIPANTS P. I-40** • Contracting officer • Requirements managers • Inventory managers • Technical specialists • Transportation, property, and logistics managers • Competition advocates • Legal specialists • Contract administrators • Cost/price analysts VG I-21	
	• For most contracts, assistance can be obtained from - The Contracting Officer - A Requirements Manager	

TOPIC: SUMMARY — PRICES AND PRICING

REF: TR I-1 through I-42

OBJECTIVE: Summarize to the students**:**

- The general pricing environment
- The definition of price.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR I-1	Summary. a. Summarize the main points of the introductory lesson: • Sellers' pricing objectives in a market. • Key elements of the Government's pricing objective. • Basic approaches to contract pricing: price and cost analysis. • Participants in the price analysis. b. Tell students that the next lesson will cover steps to be followed when preparing for price analysis prior to soliciting.	

LESSON 1

PREPARE FOR PRICE ANALYSIS

Primary Learning Objective (PLO)

Condition: Given:

1) Purchase request, including the Independent Government Price Estimate, that identifies a need and a proposed price
2) Guidelines for reviewing purchase requests
3) Market research materials (e.g., prior contracts, catalogs, trade journals, outside sources, etc.)

Task:

1) Determine whether the Independent Government Price Estimate (IGPE) is supported by factual analysis (how was the estimate made, where did it come from, and is it reasonable)

2) Identify pricing-related data from acquisition histories and other sources, either in-house or in the outside market

3) Estimate the proper price level or value of the supplies or services to be purchased prior to soliciting

Standard: Estimates of the proper price level or value are validly derived from the IGPE, historical pricing data, and data on market trends and prices. Identifies all relevant sources of pricing-related market data necessary for business management decisions. Determines whether the estimated price(s) are in line based on market data. Performs task in accordance with guidelines for reviewing purchase requests.

Course Learning Objectives (CLO)	1-1	Determine whether the Independent Government Price Estimate (IGPE) is supported by factual evidence (how was the estimate made, where did it come from, and is it reasonable).
	1-2	Identify pricing-related data in acquisition histories. Jan
	1-3	Identify sources of market data and price-related questions that can be answered by consulting these sources.
	1-4	Estimate the proper price level or value.

Estimated Time	65 minutes—Lecture/Discussion/Case Studies.
Method of Instruction	Lecture/Discussion with viewgraphs as visuals. Student Exercise—Case study on how to estimate the proper price level.
Student Materials	Text/Reference—Chapter One Classroom Materials—Chapter One
Instructor Materials	Text/Reference—Chapter One Instructor Guide—Chapter One Overhead Projector Viewgraphs for Chapter One
Instructor References	BP 3.1, EO 1; BP 6.2, PLO; BP 21, EO 1s

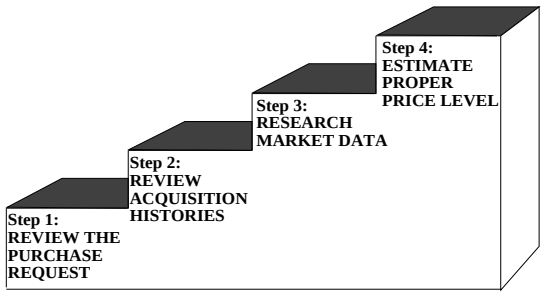
TOPIC:	INTRODUCTION - PREPARE FOR PRICE ANALYSIS AS PART OF ACQUISITION PLANNING
REF:	TR 1-1 through 1-8
OBJECTIVE:	To introduce to the students the necessary steps and the levels in acquisition planning.
TIME:	12:20 Monday (after lunch); 65 minutes for entire Lesson.
METHOD:	Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-1	a. Allow the students some time to review the vignette on TR 1-1 and the learning objectives on TR 1-2.	
	b. Stress that students should prepare for price analysis when planning their procurements; describe the importance of developing a preliminary estimate of the price in planning the procurement.	
TR 1-4	Every acquisition starts with planning to ensure that the Government meets its needs in the most effective, economical, and timely way possible. Show VG 1-1. (FAR Part 7)	
VG 1-1	**ACQUISITION PLANNING REQUIREMENTS** **P. 1-4** • Acquisition planning — for high dollar/high visibility transactions • Contracting planning — for all purchase transactions • One purpose—Estimate proper price or value prior to soliciting VG 1-1	
	Plans should address all technical, business, management and other significant considerations that will shape the acquisition.	
	Preliminary price estimates are a mandatory element of such plans. (Ref. FAR 15.803(b))	

TOPIC: INTRODUCTION - PREPARE FOR PRICE ANALYSIS AS PART OF ACQUISITION PLANNING (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-6	Prepare for Price Analysis as Part of Acquisition Planning. (Cont.) Key decisions in the planning process driven by the preliminary price estimate: - Use small or large purchase procedures - Require offerors to furnish certified cost or pricing data - Use certain terms and conditions in the solicitation c. Present an overview of steps in developing a preliminary price estimate:	
VG 1-2	**PREPARE FOR PRICE ANALYSIS P. 1-7**  VG 1-2	

TOPIC: 1.1 REVIEW THE PURCHASE REQUEST

REF: TR 1-9 through 1-16

OBJECTIVE: Teach the students how to determine whether the Independent Government Price Estimate (IGPE) is supported by factual evidence (how was the estimate made, where did it come from, and is it reasonable).

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-9	a. Describe "Purchase Requests", as the document that formally transmits the requirement. Stress that the PR should include an **independent Government estimate**. b. Present common issues in evaluating independent Government estimates. • Major concerns about how much to rely on the accuracy of the Government estimate includes the following questions: Present VG 1-3.	
VG 1-3	**REVIEW THE PURCHASE REQUEST ESTIMATE** • How was the estimate made? • What assumptions were made? • What information and tools were used? • Where was the information obtained? • How did previous estimates compare with prices paid? VG 1-3	**P. 1-9**
	• Also ask: When was the estimate made?	

TOPIC:	1.1 REVIEW THE PURCHASE REQUEST (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 1-10	1.1.1 How Was the Estimate Made? There are two major types of estimates: • Estimates for automated purchase requests—prepared by a computer. • Estimates for manual purchase requests—prepared by the individual.	
TR 1-11	1.1.2 What Assumptions Were Made? Every estimate involves assumptions. Knowing and understanding those assumptions can give an insight into the estimator's understanding of reliable estimate development. <u>Example:</u> **Estimate**: The estimator used the last price paid for an item to estimate the price for the same item ten years later. **Assumption:** The last price paid was reasonable, and the market situation has not changed in ten years. **Analysis:** Over a few days or weeks, this assumption may be reasonable if quantity, delivery, and other factors have not changed. But what if the last purchase was made ten years ago? When these factors are known, contracting personnel can adjust for illogical estimator assumptions.	

TOPIC: 1.1 REVIEW THE PURCHASE REQUEST

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-12	1.1.3 What Information and Tools Were Used? • The most reliable estimates answer yes to the following: Show VGs 1-4 and 1-5.	
VG 1-4	**WHAT INFORMATION AND TOOLS WERE USED? P. 1-12** • Did the estimator perform detailed analysis of requirements of purchase request? - Specifications? - Statement of work? - Drawings? - Physical inspection or teardown? VG 1-4	
VG 1-5	**WHAT INFORMATION AND TOOLS WERE USED? P. 1-12** • Is estimator familiar with the market for the item? - Last price paid? - Market inflation? - Current market price? - Quantity price breaks? - Possible substitutes? VG 1-5	

TOPIC: 1.1 REVIEW THE PURCHASE REQUEST (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-12	1.1.3 What Information and Tools Were Used? (Cont.) • Estimating Tools: • Accepted quantitative techniques • A reasoned analysis • Professional judgment	
TR 1-14	1.1.4 Where Was the Information Obtained? Price Sources: • Catalog prices • Prices from similar past purchases. • Build estimates based on an evaluation of the material and work involved. Misleading Information. Many sources, e.g. stock lists can present misleading information and estimators must be very careful when using older data. Price Reasonableness. If both the estimate and the proposal come from the offeror, there is no independent measure of price reasonableness. Estimators must be discouraged from contacting vendors for specific quotations.	
TR 1-15	1.1.5 How Did Previous Estimates Compare With Prices Paid? In evaluating estimates, ask: Have the estimator's estimates been close to contract prices determined fair and reasonable through analysis using other techniques?	

TOPIC: 1.2 REVIEW ACQUISITION HISTORIES

REF: TR 1-17 through 1-20

OBJECTIVE: Identify pricing-related data in acquisition histories.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-17 FAR 7.103(k)	a. Tell students that COs are required, prior to contracting, to review: 1. Acquisition history of supplies and services. 2. Description of supplies.	
	b. Present "Types of Acquisition Histories" (1.2.1).	
TR 1-18 VG 1-6	**ACQUISITION HISTORIES P. 1-18** • Purchase files • Computer data files • Manual item records VG 1-6	
	c. Describe price-related data in acquisition histories.	
TR 1-19 VG 1-7	**WHAT DO YOU NEED TO LOOK FOR? P. 1-19** PAST — • Specifications • Sources of supplies and services • Market conditions • Quantities • Delivery terms • Start-up costs • Method and terms of the procurement • Prices VG 1-7	
	Before relying on past prices as a basis for preliminary price estimates, students must recognize and make adjustments for differences in specifications, market conditions, quantities, delivery terms, and the like, that bear on price.	

TOPIC: 1.2 REVIEW ACQUISITION HISTORIES (Cont.)		
LESSON PLAN		
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
?	QUESTION: Can we assume that past prices paid by the Government were reasonable? ANSWER: Not necessarily. You must apply judgment even to past prices, in terms of determining how much weight to place on them when estimating prices for future procurements.	

TOPIC: 1.3 RESEARCH MARKET DATA

REF: TR 1-21 through 1-44

OBJECTIVE: Identify pricing-related data in acquisition histories.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-21 through 1-23	a. Explain the importance of market research to price analysis. • Acquisition histories provide data on past prices, which might not be a good indicator of current prices. For many products and services, you can readily find current price-related data from published sources. When published sources are insufficient, there are still other sources of market data to consult. This lesson covers: - What to Research - Published Market Data - Other Sources of Market Data 1.3.1 What to Research b. Identify types of data to seek when researching the market (refer students to the table on TR 1-22 & 23.)	
VG 1-8	**WHAT DO YOU NEED TO RESEARCH?** • Competitive conditions • Overall level of demand • Trends in supply and demand • Pattern of demand • Trends in prices • Pricing strategies • Sources • Product characteristics • Delivery/performance lead times • Ownership costs • Terms and conditions • Problems VG 1-8	**P. 1-22**

TOPIC: 1.3 RESEARCH MARKET DATA

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-24	1.3.2 Published Market Data	
	c. Present published sources of data.	
VG 1-9	**SOURCES OF PUBLISHED**	**DATA P. 1-24**
	• Manufacturer and dealer catalogs • Product brochures and promotional material • Trade journals • Product standard and testing organizations • Source identification publications • Federal supply schedules (FSS) • Government economic data • Non-government economic data Vg 1-9	
TR 1-26 through 1-42	• Refer the students to the tables in TR 1-26 through TR 1-37: (1.3.2.1 - 1.3.2.8):	
	1.3.2.1 Manufacturer and Dealer Catalogs • Product Descriptions • Pictures • Prices and Quantity Discounts • Minimum Order Requirements • Delivery Data • Points of Contact for Quotes and Orders	
	1.3.2.2 Product Brochures and Promotional Material • Detailed Specifications • Pictures • Available Service Guarantees and Product Warranties • Points of Contact for Quotes and Orders • Pricing Information • Delivery Data	

TOPIC:	1.3 RESEARCH MARKET DATA	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 1-28	1.3.2.3 Trade Journals Ads: • General Product Descriptions • Pictures • Comparisons with Competitive Products • List Prices Independent product evaluations: • Strengths and Weaknesses of Products • Warranty or Guarantee Provisions • Comparisons with Competitive Products • Pricing Information Articles on methods and applications: • Application of Existing Products to Problem Solving • Strengths and Weaknesses of Products in Problem Solving 1.3.2.4 Product Standards and Testing Laboratories (FAR Subpart 9.2) • Qualified Products Lists for products being sold to the Government. • Underwriter Laboratory (UL) for electrical products. 1.3.2.5 Source Identification Publications: • Yellow Pages • Thomas Register— - Product Specifications - Selected Product Pictures - Source Location Information	

TOPIC: 1.3 RESEARCH MARKET DATA (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-31	1.3.2.6 Federal Supply Schedules • Product Descriptions • Pictures • Pricing and Discount Information Note that Schedule prices are considered fair and reasonable in the context of placing orders against them, but this does not necessarily mean that the Schedule price is fair and reasonable for your procurement (e.g., if you plan on procuring an amount in excess of the Schedule's maximum order limit). 1.3.2.7 Government Economic Data. Dept of Agriculture: Agriculture Price Reports (monthly agriculture commodity price data) Agriculture Statistics (annual agriculture commodity price data) Department of Commerce: Current Business Reports (monthly data on wholesale trade and inventories) Current Industrial Reports (periodic reports on production and consumption in identified industries) Bureau of Labor Statistics: Producer Prices and Price Indexes (monthly reports on price movements in primary markets) Federal Reserve System: Federal Reserve Bulletin (monthly economic indexes and business data) Congress: Economic Indicators (monthly information on prices, production, business activity, and purchasing power)	

TOPIC: 1.3 RESEARCH MARKET DATA (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-36	1.3.2.8 Non-Government Economic Data Purchasing Organizations: Periodic, usually monthly, analyses of market conditions based on buyer perceptions and economic analysis. Commodity or Industry Publications: Chemical Marketing Reporter (weekly information on market indexes, current prices, and price changes Random Lengths Lumber and Plywood Market Report Service (weekly information on supplies and prices) The Black Diamond (every other month information on solid fuel prices) Iron Age (weekly information on steel, ore, primary metals, and scrap prices Black's Office Space Guide (six times annually information on office space leasing prices) Pulp and Paper Week (weekly information on paper industry prices, economics, and technology) Platt's Oilgram Price Report (daily information on current oil prices) Textile Pricing Outlook (information on textile petrochemical, raw material, fiber, yarn, and fabric prices) Economic Forecasting Services: Data on Current Prices, Price Changes, Price Projections, and Economic Conditions Across the Economy.	

TOPIC: 1.3 RESEARCH MARKET DATA (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-38	d. Discuss sources of unpublished data.	
VG 1-10	• In the absence of good acquisition histories and published sources of market data, other sources of information need to be researched:	
	IDENTIFY AND COLLECT OTHER DATAP. 1-38 • Federal government buyers and analysts • Buyers outside the federal government • Suppliers • Additional pricing data sources VG 1-10	
TR 1-42	1.3.3.4 Additional Pricing Data Sources	
VG 1-11	• Refer students to the table at TR 1-42.	
	ADDITIONAL DATA SOURCES P. 1-42 • Trade and professional associations • Chamber of commerce • Better business bureau • Watch dog agencies VG 1-11	

TOPIC:	ESTIMATE PROPER PRICE LEVEL
REF:	TR 1-45 through 1-48
OBJECTIVE:	To teach the students how to estimate the proper price level or value.
METHOD:	Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-46	1.4.1 Evaluate the Data. a. Describe how data from various sources can be consolidated to establish a preliminary price estimate. • Refer students to table on TR 1-46 and 1-47. • The table presented in VGs 1-12 through 1-15 shows possible questions to be considered when developing a range of likely offers and identifying the factors that are likely to influence offered prices.	

VG 1-12

ESTIMATE PROPER PRICE (CONT.) P. 1-46

PRICE ESTIMATE DATA SOURCE	DATA ANALYSIS QUESTIONS	EVALUATION OF DATA RELIABILITY
Purchase Request Estimate	• How was the estimate made? • What assumptions were made? • What information and tools were used? • How did previous estimates compare with prices paid?	VG 1-12

TOPIC: 1.4 ESTIMATE PROPER PRICE LEVEL (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-46	1.4.1 Evaluate the Data (Cont.)	

VG 1-13

ESTIMATE PROPER PRICE (CONT.) P. 1-46

PRICE ESTIMATE DATA SOURCE	DATA ANALYSIS QUESTIONS	EVALUATION OF DATA RELIABILITY
Acquisition History	• What prices have been paid in the past? • How were the historical prices determined fair and reasonable? • How comparable were the historical purchases? • Are there any evident price trends?	VG 1-13

VG 1-13

ESTIMATE PROPER PRICE (CONT.) P. 1-47

PRICE ESTIMATE DATA SOURCE	DATA ANALYSIS QUESTIONS	EVALUATION OF DATA RELIABILITY
Published Data	• What is the price of the product or comparable products? • How comparable is the product described in the published source? • Is there more than one price estimate that can be drawn from published sources?	VG 1-14

TOPIC: 1.4 ESTIMATE PROPER PRICE LEVEL (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-47	1.4.1 Evaluate the Data. (Cont.)	

VG 1-15

ESTIMATE PROPER PRICE (CONT.) P. 1-47

PRICE ESTIMATE DATA SOURCE	DATA ANALYSIS QUESTIONS	EVALUATION OF DATA RELIABILITY
Other Data Sources	• What other information is available? • How comparable is the product/price information from different sources?	VG 1-15

CM-7	b. Assign the case study "Brittle Bearings." (25 minutes) • Divide the students into small groups. • Assign the entire case. • Allow sufficient time to complete. • Use the general format of VGs 1-12 through 1-14 to record the answers on the board.	

CASE ANSWER - BRITTLE BEARINGS (based on an actual case)

You have just received a purchase request for the purchase of 5,000 roller bearings. The purchase request estimate is $8.00 per unit for a total of $40,000. The Government estimate is based on a recent estimate prepared by your local engineering staff as part of a routine review of items whose annual total purchase price exceeds $100,000. The estimate was prepared independently using manufacturing principles and factors commonly used in the bearing industry.

The procurement history indicates that the last purchase of the item was 3-months ago. At that time, 2,000 units were purchased at a price of $12.00 each.

Brittle has been the sole source for these bearings since they purchased their only competitor about five years ago. The price for the last competitive purchase was $5.75 five years ago, just before the purchase of their competitor.

Review of the Producer Price Index (PPI) shows that average bearing prices have increased 40 percent over the past five years.

1. Based on the above information, what is your best estimate of a reasonable price for the roller bearings?

$8.00	User estimate based estimate by engineering staff.
$12.00	Last price paid.
$8.05	Last competitive price increased for inflation. ($5.75 x 1.40 = $8.05)

It is difficult to say. It appears that about $8.00 would be reasonable. However, the last price paid was $12.00 for about 40% of the current quantity.

2. What additional information would be useful in your analysis and where might you go to obtain it?

What price breaks are available? (Then and now?)
What purchase quantity was assumed by engineering?

What was the quantity of the last competitive purchase?

What was the most recent price for similar quantities?

Have there been any changes in specifications, delivery terms, or business terms being proposed for the solicitation that might affect price?

Could commercial bearings be substituted?

Is the Government the only customer for these bearings? Is there any incentive for the contractor to invest in new tooling? Or is the price rising over time because the contractor's tooling is wearing out and not being replaced?

The questions should consider any information that would permit further price analysis comparisons.

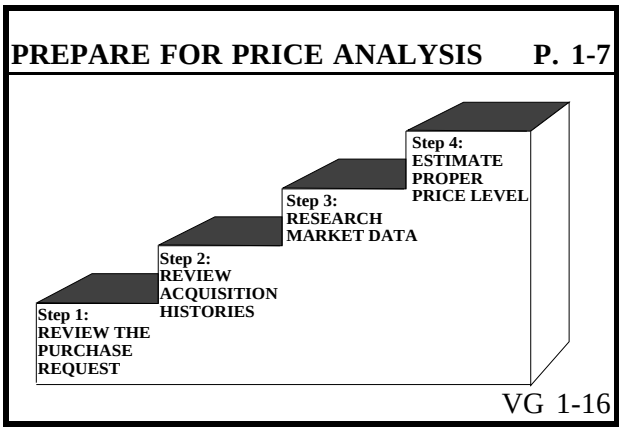
TOPIC: SUMMARY - PLANNING THE ACQUISITION

REF: TR 1-1 through 1-46

OBJECTIVE: To summarize the necessary steps and the levels in acquisition planning and to introduce the students to Lesson 2.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-1 through 1-48	Summary. a. Recap the four steps in acquisition planning:	
VG 1-16	 b. Tell the students that, having arrived at a price-estimate for the buy, the next step is to plan the solicitation of offers from private sector vendors. c. Warn the students that the Government often receives offers from the private sector that are far higher than what the CO expected to pay prior to solicitation.	

TOPIC: SUMMARY - PLANNING THE ACQUISITION (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 1-1 through 1-48	Summary. (Cont.)	
?	QUESTION: Why might offered prices be far higher than the CO's preliminary price estimate? ANSWER: Because the CO: - Used specifications that unnecessarily and unwittingly limited competition to the premium priced products. - Ordered an uneconomic quantity. - Entered the market at the wrong time (e.g., buying produce out of season). - Imposed an unnecessarily tight delivery schedule relative to market norms. - Used the wrong type of contract (e.g., a firm fixed price contract for a market that is expecting a high rate of inflation during the period of contract performance). - Imposed warranty requirements far in excess of what is customary for that market. d. Tell students that, in the next lesson, they will learn strategies for soliciting offers that will help prevent such problems that are mentioned above. These strategies can help ensure that offered prices are reasonably close to the presolicitation estimate of the proper price, or value of the supply or service.	

LESSON 2

MAXIMIZE PRICE COMPETITION

Primary Learning Objective (PLO)	Condition:	Given acquisition histories, market data, the Purchase Request (PR), the Statement of Work (SOW), and related planning documents.
	Task:	Identify actions that can be used to increase competition and reduce prices without affecting product quality.
	Standard:	Correctly identifies actions that can be used to increase competition and reduce prices.
Course Learning Objective (CLO)	2-1	Review Statements of Work (SOWs) and related elements of the Schedule and recommend changes to obtain more effective price competition. Jan
	2-2	Recommend contract terms and conditions to obtain more effective price competition. Jan
	2-3	Select method(s) of publicizing to obtain more effective price competition. Jan
Estimated Time	65 minutes—Lecture/Discussion/Case Studies.	
Method of Instruction	Lecture/Discussion with viewgraphs as visuals. Student Exercise—Case studies on requirements analysis and evaluation factors.	
Student Materials	Text/Reference—Chapter Two Classroom Materials—Chapter Two	
Instructor Materials	Text/Reference—Chapter Two Instructor Guide—Chapter Two Overhead Projector Viewgraphs for Chapter Two	
Instructor References	BP 3.3, EO 3, 5, &7; BP 7.1, EO 11; BP 4.1; BP 4.2; BP 12, EO 4; BP 13, EO 4	
NOTICE:	This lesson may give rise to questions from students who have not had any prior training in basic contracting concepts (e.g., progress payments, financing, Government furnished property) that are extraneous to this course. To keep on time, stress that the material will NOT be tested and that you are willing to answer such questions after class.	

TOPIC: INTRODUCTION TO MAXIMIZE PRICE COMPETITION

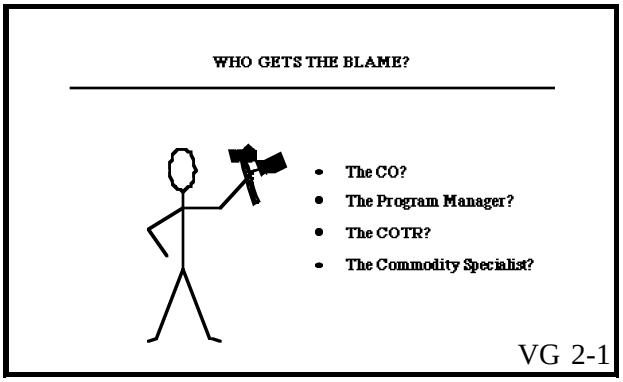
REF: TR 2-1 through 2-8

OBJECTIVE: Introduce the students to the Government's policy regarding competition, why competition is important and the Uniform Contract Format (UCF).

TIME: 1:45 p.m. Monday (following afternoon break); 65 minutes

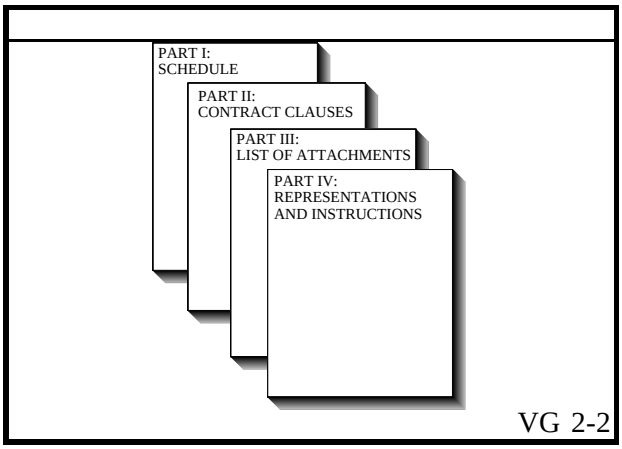
METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 2-1	a. Inform students that this chapter is optional and that there will be no test questions on it.	
	b. Discuss the objectives on TR 2-1 considering competition and contract pricing.	
	c. Tell the students the story about the $450 hammer.	
VG 2-1		
TR 2-3	d. Present Government policy regarding competition (FAR 6.101(a)).	
	10 U.S.C. 2304 and 41 U.S.C. 253 require, with certain limited exceptions..., that contracting officers shall promote and provide for full and open competition in soliciting offers and awarding Government contracts.	
	e. Explain why competition is important to price analysis: - The best way to encourage firms to offer a quality product at a reasonable price.	

TOPIC: INTRODUCTION TO MAXIMIZE PRICE COMPETITION (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 2-4	Introduction (Cont.) - Most common basis for exempting offerors from the requirement to submit certified cost or pricing data. f. Explain what is meant by maximizing price competition: 1. Attract offers from two or more of the <u>best</u> vendors, and 2. Obtain offers that are priced as low as reasonably possible - Reflects the Government's actual minimum need and - Minimizes the costs and risks to both parties of satisfying that need. g. Show VG 2-2, Uniform Contract Format (UCF). Discuss the UCF per the chart on TR 2-4 and 2-5.	
VG 2-2		**UNIFORM CONTRACT FORMAT (**

TOPIC: INTRODUCTION TO MAXIMIZE PRICE COMPETITION (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 2-6	h. Refer the students to the table on TR 2-4 and 2-5. Walk students through the UCF Section "Potential Impediments to Price Competition." i. Tell students that the Chapter answers three critical questions: • How can solicitation Schedules (Part I of the UCF) be improved to yield more effective price competition? • How can business terms and conditions (Parts II - IV of the UCF) be improved to yield more effective price competition? • How can the methods of publicizing the buy be tailored to yield more effective price competition?	

TOPIC:	2.1 STRATEGIES FOR IMPROVING THE SCHEDULE
REF:	TR 2-9 through 2-46
OBJECTIVE:	Review Statements of Work (SOWs) and related elements of the Schedule and recommend changes to obtain more effective price competition. Jan
METHOD:	Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 2-9 VG 2-3	a. Present strategies for improving specifications and statements of work. **STRATEGIES FOR IMPROVING SCHEDULES** **P. 2-9** • Consolidate requirements • Promote performance specifications • Commercialize the purchase description • Target the optimum market segment • Match delivery schedule to the market • Obtain industry feedback on proposed specifications • Obtain relief from restrictive requirements VG 2-3 • Consolidate requirements when doing so will result in quantity discounts. Consolidation can be accomplished either by: - Writing one IFB or RFP that combines requirements from multiple purchase requests for the same good or service, or by - Establishing indefinite delivery contracts for items that are repeatedly requisitioned during the course of a year. • Promote performance specifications when that will allow competitors to propose more efficient and economical means of meeting the Government's requirements than previously employed.	

TOPIC:	2.1 STRATEGIES FOR IMPROVING THE SCHEDULE (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
	• Commercialize the purchase description by - Discouraging use of Brand-Name and Brand-Name-or-Equal Purchase Descriptions (or at least making sure that the "or-equal" is not unnecessarily restrictive of competition). - Promoting use of commercial item descriptions (CIDs), commercial product descriptions, and commercial business terms and conditions in the solicitation, in lieu of Government-unique specifications. Example: When Commerce assumed responsibility for inspecting seafood procured by DoD, it substituted U.S. Grade Standards for Government-unique specs. The result: A first year savings of $5 million over previous DoD procurements. • Target the right market segment — watch for restrictive language in proposed Schedules that could trap you into a sole source procurement or a premium priced segment of the market. • Match the delivery schedule to market cycles — buy potatoes at harvest, not in the middle of winter. • Obtain industry feedback on proposed specifications, through such means as draft RFPs and presolicitation conferences. Potential offerors will be quick to find and complain about restrictive language in a draft solicitation. • Seek relief from restrictive requirements from the requiring activity, based on industry feedback and your market research. Here, the agency's competition advocate can be a real friend.	

TOPIC:	2.1 STRATEGIES FOR IMPROVING THE SCHEDULE (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-9	b. Assign case study "HUGO Corporation." (20 minutes) • Divide students into small groups. • Assign the entire case. • Allow time to complete. • Record answers to questions on the board for discussion.	

CASE ANSWER - HUGO CORPORATION (based on an actual case)

You are preparing a solicitation for a requirements contract for shop equipment. Only one firm responded to the last solicitation. Final agreement was reached through single-source negotiations. As you review the contract file from the last requirements contract, several points catch your eye. First, you note the purchase description is the same as the description on the current purchase request:

Saw, Band. HUGO Part Number XBS13434 or equal.

Lathe, Wood. HUGO Part Number XWL97967234 or equal.

Saw, Table. HUGO Part Number XTS2454667 or equal.

Second, you note the following words in the Price Negotiation Memorandum (PNM):

- The HUGO Corporation initially offered a 10 percent discount on orders for any combination of 1,000 units or more of the three line items included in the proposed solicitation.
- Although the Agency appears to have placed orders that total more than 500 pieces in the past, there is no way that the Contracting Officer can control the ordering pattern of the Item Manager. The HUGO Corporation's negotiator was advised that the Government would be unable to accept the proposed discount.
- After substantial negotiation, the offeror reduced its price across the board by 5 percent with no quantity stipulations.

1. **You are concerned about the clarity of the purchase description in light of the lack of competition on the current purchase. As a buyer, what can you do?**

   After brand name (sole source), brand name or equal is the least desirable form of purchase description. Here you have only received one offer on what would seem to be items that should draw substantial competition. As a minimum, you should ask "Why?" Question potential sources that did not make an offer. Review files for competition on past purchases. Question the requester on files for competition on past purchases. Question the requester on any known unique features of the brand-name item. If problems are identified work with the requester to attempt to correct them.

2. **You are also concerned that the Government did not obtain the greatest possible discount on sales over 500 total units. As a buyer, what can you do?**

   Contact the requester and determine the reasonableness of using a 500 unit minimum purchase. Consider including quantity price breaks in the solicitation.

TOPIC: 2.2 STRATEGIES FOR IMPROVING BUSINESS TERMS AND CONDITIONS

REF: TR 2-47 through 2-62

OBJECTIVE: Recommend contract terms and conditions to obtain more effective price competition. Jan

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 2-47	a. Present strategies for selecting clauses and provisions for the solicitation to maximize price competition:	
VG 2-4	**SELECT BUSINESS TERMS P. 2-47** • Base contract type on risk analysis • Review applicability of socioeconomic requirements • Match payment and finance terms to market conditions • Furnish government property • Minimize cost of warranty requirements • Optimize price/technical tradeoffs VG 2-4	
	• Solicit the right type of contract for the procurement, given the risks inherent in doing the work. - If the price of a critical raw material is soaring out of sight, don't solicit a firm fixed price — rather solicit an FP-EPA contract, with the economic adjustment pegged to the price of that raw material. - When buying pure research, don't write a firm fixed price contract. Instead write a fixed price level of effort contract or some sort of cost reimbursement contract	
	QUESTION: Suppose you ignore this advice and solicit firm fixed prices for these kinds of requirements. What kind of prices are you likely to get? ANSWER: Sky-high prices, because offerors will understandably offer prices that protect them against all probable risks and worst - case scenarios.	

TOPIC:	2.2 STRATEGIES FOR IMPROVING BUSINESS TERMS AND CONDITIONS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
	In such cases, firms desperate for work have been known to offer low, extremely risky firm fixed prices. However, forcing offerors to live with such prices has as often as not backfired — miring the Government in claims, delays, defaults, overruns, and other such nightmares. In the end, the total cost to taxpayers of such contracts has often been far higher than would have been incurred by the Government had it used a more reasonable contract type in the first place. • Don't impose socioeconomic requirements on contractors when such requirements are not in the Government's best interests, as provided in FAR provisions on the applicability of those requirements. For instance, don't award to a small business if the award would not be at a fair market price. • Make financing, such as progress payments, available to offerors if doing so will result in more competition and lower prices — e.g. for longterm contracts that require sizable upfront working capital. (On the other hand, money is not free — expected benefits of financing contractors should outweigh risks and costs to the Government of providing upfront money). • Furnish Government property if doing so will result in more competition and lower prices. (On the other hand, property is not free — the expected benefits of furnishing it should outweigh the risks and costs to taxpayers of providing the property). • Where permissible, use commercial warranties instead of Government unique warranty terms, when doing so will result in more competition and lower prices. • In greatest value competitions, ensure that price has a high enough weight to keep vendor pencils sharp.	

TOPIC:	2.2 STRATEGIES FOR IMPROVING BUSINESS TERMS AND CONDITIONS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-10	b. Assign the case study "Wrench Works." • Assign students to teams. • Assign the entire case. • Allow time to complete. • Record answers to Question 2 on the board for discussion.	

CASE ANSWER - WRENCH WORKS (based on an actual case)

You are preparing a solicitation for three adjustable wrenches: 6 inch, 8 inch, and 12 inch. As you prepare the solicitation, you review the prior contract file. Two elements of the Price Negotiation Memorandum (PNM) concern you.

Price Analysis
In comparison with the current requirements contract, prices on the proposed contract have increased 52.0 percent. Since the award of the prior contract, the relevant Producers Price Index (PPI) increased 10.0 percent.

The price difference is attributed to two related factors: increased requirements and decreased competition. The new requirements involve finish, first article testing, and 100 percent in-process testing.

Finish Requirements. New finish requirements, require that the head of each wrench be polished to a smoothness no coarser than 50 micro inches. Previous specifications required a polished head but did not specify smoothness. Responses to the request for proposal (RFP) by several suppliers indicate that these requirements are far in excess of the industry standard for polish. They indicate that new equipment and more production time would be required to meet the new requirements. Both changes increase the prices offered. Several firms indicated that they could not submit a proposal because of the significant risk involved in the equipment investment. With no guarantees on Government requirements, they may make a significant investment in equipment to produce product for which there is no demand. Commercial customers are more concerned about price than polish.

First Article Testing. First article testing requirements also added to the contract price. Each contractor will be required to submit units for testing and approval prior to delivery of production units. Many offerors are concerned about the timeliness of Government testing and the effect on costs and delivery schedules.

CASE ANSWER - WRENCH WORKS (Continued)

In-Process Testing. The revised specification also includes a new requirement for 100 percent testing of wrenches for cracks. While random testing is common place, no firm in the industry uses 100 percent testing in normal production. The firm that submitted the only proposal has in-house testing facilities. The requirement is not considered restrictive because other firms have similar testing facilities and the required testing is also available from numerous commercial laboratories.

1. Should the current buyer be concerned about the above points?

Yes.

2. What, if anything, can the buyer do to increase competition?

Work with the user to eliminate excessive and restrictive contract requirements.

Finish requirements: Work with the user to examine the finish requirements. Why do Government requirements exceed commercial practice? Are they excessive? Can they be reduced without affecting required quality? If requirements cannot be reduced, would it be reasonable to use an indefinite quantity contract instead of a requirements contract. The guaranteed minimum may attract offerors.

First article testing: Is first article testing required? If quality requirements are so critical, would not competition actually be increased and prices reduced through use of qualified products list?

In-process testing: 100% testing of wrenches seems excessive. Would not demonstration of an effective quality program be just as effective at a much lower price.

TOPIC: 2.3 STRATEGIES FOR PUBLICIZING THE ACQUISITION

REF: TR 2-63 through 2-68

OBJECTIVE: Select method(s) of publicizing to obtain more effective price competition.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 2-63	a. Show VG 2-29. Stress that methods of publicizing should match the market's knowledge of Federal requirements. If vendors in a market do not read the Commerce Business Daily, don't expect much competition if that's the only place you publicize the requirement.	
VG 2-5	**METHODS OF PUBLICIZING** **P. 2-63** • Notice in contracting office • Commerce business daily (CBD) • Handouts • Notices to trade associations • Announcements in mass media without cost • Electronic bulletin boards • Paid advertisements VG 2-5	
	• Consider the potential effect on competition and contract price when publicizing the buy. • Allow enough time to receive requests for the solicitation. Ask for student input on how the different methods of publicizing the purchase could be used for the items that they purchase. • *Notice in Contracting Office*—Useful as a notice of requirements to local small businesses.	

TOPIC:	2.3 STRATEGIES FOR PUBLICIZING THE ACQUISITION (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 2-64	• *CBD*—Useful as a notice of larger requirements that will attract distant sources, e.g. national and international sources interested in competing for subcontracts. • *Handouts*—Will reach local sources and make collecting information easier for potential sources. • *Notices to Trade Associations*—Presents requirements to firms that may never have considered Government business. • *Announcements to Mass Media Without Cost*—May reach firms that may never have considered Government business. • *Electronic Bulletin Boards*—Can provide information on all requirements or tailored to particular classes of requirements. • *Paid Advertisements*—Local or national. Presents an exact message the Government wants to send.	

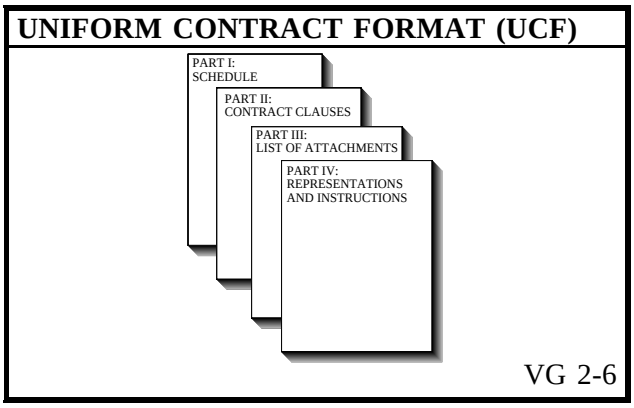
TOPIC: SUMMARY - TO MAXIMIZE PRICE COMPETITION

REF: TR 2-1 through 2-68

OBJECTIVE: Summarize to the students the Government's policy regarding competition, the Uniform Contract Format (UCF), why competition is important, and introduce the students to Lesson 3.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 2-1 through 2-68	Summary. a. Show VG 2-30 and recap the lesson as covering the Government's policy on competition, the Uniform Contract Format (UCF), and strategies for improving the contents of the UCF to maximize price competition.	
VG 2-6		
	b. Tell students that they have learned the answer to three questions: • How can solicitation Schedules (Part I of the UCF) be improved to yield more effective price competition? • How can business terms and conditions (Parts II - IV of the UCF) be improved to yield more effective price competition? • How can the methods of publicizing the buy be tailored to yield more effective price competition?	

TOPIC: SUMMARY - TO MAXIMIZE COMPETITION (Cont.)		
LESSON PLAN		
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 2-1 through 2-68	Summary (Cont.) c. Tell students: "Now that you have done your best to improve the solicitation, the next step is to determine whether offerors must furnish cost or pricing data with their offers. That in large measure is a matter of whether the solicitation, as it is now worded, ONE is likely to attract more two or more responsive and responsible offerors or TWO can be satisfied by commercial products or services."	

LESSON 3

PRICE-RELATED DATA FROM OFFERORS

Primary Learning Objective (PLO)

Condition: Given a solicitation and one or more proposals

Task:

1) Determine whether certified cost/pricing data are required.

2) Identify the positive and negative effects of obtaining certified cost or pricing data.

3) Identify additional price-related offeror data necessary for making decisions on price reasonableness and when it is necessary to gather these data.

Standard: Correctly determines situations where certified cost or pricing data are required and the positive and negative effects of requiring offerors to submit cost or pricing data. Applies the criteria in FAR 15.804-3(b) to determine whether the exemption applies to a particular procurement. Identifies additional price-related offeror data in accordance with FAR 15.804-3(h).

Course Learning Objective (CLO)

3-1 Identify contract actions for which certified cost or pricing data are required.

3-2 Determine whether the offeror is exempt from submitting or certifying cost or pricing data on adequate price competition, regulated pricing, catalog pricing, or market pricing.

3-3 Identify additional price-related offeror data necessary for making decisions on price reasonableness.

Estimated Time

2 hours 55 minutes—Lecture/Discussion/Case Studies.

- 40 minutes on Monday, beginning at 2:50 p.m.
- 2 hours 15 minutes on Tuesday, beginning at 8:00 a.m.

Method of Instruction

Lecture/Discussion with viewgraphs as visuals.
Student Exercise—Case studies on collecting additional pricing data and submission of Certified Cost or Pricing Data.

Student Materials	Text/Reference—Chapter Three Classroom Materials—Chapter Three
Instructor Materials	Text/Reference—Chapter Three Instructor Guide—Chapter Three Overhead Projector Viewgraphs for Chapter Three
Instructor References	BP 20.3, PLO

TOPIC: INTRODUCTION TO PRICE-RELATED DATA FROM OFFERORS

REF: TR 3-1 through 3-5

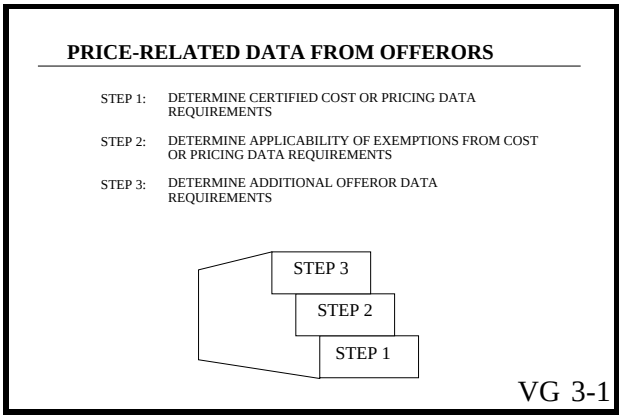
OBJECTIVE: Introduce the students to the necessary steps involved in the pricing decision.

TIME: 2:50 p.m. Monday; 2 hours 55 minutes

- 40 minutes on Monday, beginning at 2:50 p.m.
- 2 hours 15 minutes on Tuesday, beginning at 8:00 a.m.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-1	a. Allow the students some time to review the objectives on TR 3-1. b. Present steps in determining data requirements:	
VG 3-1	 • To analyze prices, the only data that you usually will need from offerors <u>in their bids or proposals</u> is the price and information on any price-related factors in the IFB or RFP. • To analyze the offeror's estimate of the costs of contract performance, you would need additional data from the offeror, such as: - The offeror's estimate of the total cost of the work, broken down by elements of cost, such as direct labor, and - Cost or pricing data on which the total cost estimate is based.	

TOPIC: 3.1 DETERMINE CERTIFIED COST OR PRICING DATA REQUIREMENTS

REF: TR 3-7 through 3-14

OBJECTIVE: Identify contract actions for which certified cost or pricing data are required.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-7	a. Define cost or pricing data for the students, stressing that by "cost or pricing data" is meant data on elements of cost.	
VG 3-2	**COST OR PRICING DATA** All facts, as of the date of price agreement, that prudent buyers and sellers would reasonably expect to significantly affect price negotiations. ... Cost or pricing data are more than historical accounting data; they are all the facts that can be reasonably expected to contribute to the soundness of estimates of future costs and to the validity of determinations already incurred. … VG 3-2	
	• Note that the slide shows only part of the FAR definition.	
	b. State that, under certain circumstances, offerors are required to certify such data, by signing a "Certificate of Current Cost or Pricing Data."	
	• The certificate of current cost or pricing data provides a legal record that the offeror certifies, to the best of his/her knowledge, that the cost or pricing data provided in the proposal and during negotiations are: Show VG 3-3.	
VG 3-3	**CERTIFICATE OF CURRENT COST OR PRICING DATA** **P. 3-7** • Accurate • Complete • Current VG 3-3	

TOPIC: 3.1 DETERMINE CERTIFIED COST OR PRICING DATA REQUIREMENTS (con't)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-7	3.1.1 Identify Situations Requiring Certified Cost or Pricing Data	
	• Why be concerned about certified cost or pricing data in this course? Because, when certified cost or pricing data are required, you <u>must</u> perform a cost analysis. Hence, this lesson will provide you with the skill necessary to determine when you can rely on price analysis alone.	
	• This lesson will also focus on exemptions to the requirement for certified cost or pricing data, because often the information provided by offerors to support exemptions is critical to analyzing their prices.	
	QUESTION: So when are certified cost or pricing data required?	
	ANSWER: The fact that you have requested data on elements of cost does not always mean that you must further require certification of the data. The requirement for certification depends on:	
VG 3-4	**CERTIFICATION REQUIREMENTS P. 3-9** • Method of procurement • Dollars involved • Available exemptions • Special justifications documented by contracting officer VG 3-4	
	• Stress that certified data are never required when the method of procurement is sealed bidding.	

TOPIC: 3.1 DETERMINE CERTIFIED COST OR PRICING DATA REQUIREMENTS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-10 VG 3-5	3.1.1 Identify Situations Requiring Certified Cost or Pricing Data (Cont.) • Refer the students to the decision table on TR 3-10.	

COST OR PRICING DATA CERTIFICATION **P. 3-10**

Method Of Procurement	CERTIFICATION REQUIRED? $25,000 Or Less	More Than $25,000 But Not More Than $100,000	More Than $100,000
New contract price proposal, including options priced in the contract.	NEVER	Only if the contracting officer justifies the requirement in writing and includes the documentation in the contract file.	YES, unless exempted based on: • adequate price competition • catalog pricing • market pricing • regulated prices VG 3-5

c. Inform students that COs may decide to require certified cost or pricing data for contracts under the applicable dollar threshold. Discuss pros, cons, and considerations in making this decision.

VG 3-6

COST PROPOSAL DECISION FOR CONTRACTS UNDER $100,000 **P. 3-11**

IF	THEN.....
Price analysis alone WILL suffice to determine that the low offer is fair and reasonable.	DO NOT require the submission of a cost proposal (certified or not) in the RFP.
Price analysis alone WILL NOT suffice to determine that the own offer is fair and reasonable.	You need a cost proposal from the offeror. You must now decide whether or not to require certification of that proposal. VG 3-6

TOPIC: 3.1 DETERMINE CERTIFIED COST OR PRICING DATA REQUIREMENTS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-11	3.1.2 Determine Requirement for Certified Cost or Pricing Data for Purchases under $100,000. • Present the pros of requiring certification of the data: - May result in more favorable price - All facts must be provided - Legal certification - Rights under defective pricing • Present the cons: - Contractor preparation cost - Government analysis cost - Extended lead time - Source lost - Costs of defective pricing enforcement • Give special consideration to requiring certified cost or pricing data if the offeror, contractor or subcontractor has had the types of problems listed in VG 3-7. July	
VG 3-7	**CERTIFIED DATA UNDER $100,000** **P. 3-13** *REQUIRE IF THE CONTRACTOR HAS HAD A HISTORY OF _____* • Defective pricing • Cost estimating deficiencies • Fraud VG 3-7	
	d. Inform students that, instead of requiring certified data, COs may instead request limited or partial data for contracts under the dollar threshold. • When certification is not required, do not ask for complete data on all elements of cost. Rather, request "partial or limited data"	

TOPIC:	3.1 DETERMINE CERTIFIED COST OR PRICING DATA REQUIREMENTS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 3-13	3.1.2 Determine Requirement for Certified Cost or Pricing Data for Purchases under $100,000 (Cont.)	
?	QUESTION: What types of limited or partial data can you request from offerors? ANSWER: • You can ask for an overall breakdown of costs by category (e.g., total dollar amount for direct labor, direct materials, other direct costs, indirect costs, and profit or fee). • But only request facts to support the specific element or elements of cost you plan to analyze (e.g., direct labor).	
☞	e. Stress that the purpose of this course is not to provide skill at cost analysis. Hence, during the remainder of this course (through Lesson 8, anyway), we will proceed on the assumption that you will be able to determine price reasonableness through price analysis alone. In lessons 9 and 10, you will learn what to do if this assumption proves wrong.	
?	QUESTION: But what if a negotiated contract will exceed $100,000? Aren't you required to obtain cost or pricing data from offerors and analyze the data? ANSWER: YES — unless one of several exemptions applies. Inform students that we are now going to look at each exemption in turn and determine when it does and does not apply.	
☞	f. **Stress that granting an exemption is not the same thing as determining that the offeror's price is fair and reasonable**. Even if you exempt an offeror from the requirement for certified data based on adequate price competition, catalog pricing, or market pricing, you <u>must</u> separately determine whether the offered price is fair and reasonable based on the types of comparisons discussed in Lesson 6.	

TOPIC:	3.2 DETERMINE APPLICABILITY OF EXEMPTIONS FROM COST OR PRICING DATA REQUIREMENTS
REF:	TR 3-15 through 3-36
OBJECTIVE:	Determine whether the offeror is exempt from submitting or certifying cost or pricing data on adequate price competition, regulated pricing, catalog pricing, or market pricing.
METHOD:	Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-18	3.2.2 Determine Whether Adequate Price Competition Exists a. Refer the students to the table on TR 3-18. Stress that offerors should not be asked to submit cost or pricing data with their offers when you anticipate adequate price competition.	
VG 3-8	**ADEQUATE PRICE COMPETITION P. 3-18** • Two or more responsible, responsive offerors • Competing independently • Award to offeror with low evaluated price VG 3-8	
	• However, you must require cost or pricing data if the solicitation and evaluation of offers will occur under conditions specified in the FAR that preclude adequate price competition.	
VG 3-9	**CONDITIONS PRECLUDING ADEQUATE PRICE COMPETITION P. 3-18** • Qualified offerors denied opportunity • Low offeror has decided advantage • Unreasonable prices VG 3-9	

TOPIC:	3.2 DETERMINE APPLICABILITY OF EXEMPTIONS FROM COST OR PRICING DATA REQUIREMENTS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**

TR 3-20

3.2.2.1 Determine Whether Price Competition Exists

- Refer the students to the decision table on TR 3-20.

b. Tell students that, after the closing date for proposals, they must determine:

- Whether price competition in fact occurred, and
- The adequacy of that competition:

VG 3-10

DETERMINE WHETHER PRICE COMPETITION EXISTS P. 3-20

IF...	THEN....
There is only one offer.	Price competition does not exist.
There is only one responsive offer from a responsible offeror.	Price competition does not exist.
The offerors did not compete independently (e.g. were collusive).	Price competition does not exist.
Only one brand name and part number is acceptable.	Price competition does not exist no matter how many offers are received.
Offers all come from different divisions of the same corporation.	Price competition does not exist. Offers are not independent.

Cont. VG 3-10

TOPIC: 3.2 DETERMINE APPLICABILITY OF EXEMPTIONS FROM COST OR PRICING DATA REQUIREMENTS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-20	3.2.2.1 Determine Whether Price Competition Exists (Cont.)	
VG 3-10		

Cont. THEN....	**P. 3-20** IF...
Award will be made	Price competition
based on greatest value, a considering both price-related and technical ranking factors.	exists only if price is substantial evaluation factor.
Award will be made does	Price competition
based solely on technical factors.	not exist. VG 3-10

- Indicate that the last "IF" should be theoretical, since the FAR requires price analysis for every procurement (in theory).
- The next issue is whether the competition was in fact adequate. State that this issue will be addressed in Lesson 6.

c. Summarizing by making the following points:

- If you anticipate adequate price competition, don't require offerors to provide cost or pricing data with their proposals.
- After the proposal closing data, you must verify that "adequate price competition" did in fact occur. This will be discussed in Lesson 6.
- Even if price competition was "adequate", in terms of exempting offerors from the requirement for certified data, you might need limited or partial cost data from offerors to verify their offers. This will be discussed in Lessons 9 and 10.

TOPIC: 3.2 DETERMINE APPLICABILITY OF EXEMPTIONS FROM COST OR PRICING DATA REQUIREMENTS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-23	3.2.3 Determine Exemptions Based on Adequate Price Competition d. Stress that offerors should not be asked to submit cost or pricing data with their proposals when prices are based on prior adequate price competition. VG 3-11 lists two common applications of pricing "based on" adequate price competition:	
VG 3-11	**PRICING BASED ON COMPETITION** **P. 3-23** • Option prices • Recent competitive prices VG 3-11	
	• *Option Prices*—are considered to be based on adequate price competition. The exercise of an option at the price established in the contract through adequate price competition is exempt from the requirement for a Certificate of Current Cost or Pricing Data. • *Recent Competitive Prices*—Proposal prices may be considered to be based on competition and exempt from submission of a Certificate of Current Cost or Pricing Data when the following four conditions are met: - Item or service has been bought competitively within the last year. - Item or service, for good reason, is not being purchased competitively this time. - Current purchase quantities, terms, and conditions are comparable with recent purchases. - Price analysis comparisons between the current price and the recent competitive price clearly demonstrate price reasonableness.	

TOPIC:	3.2 DETERMINE APPLICABILITY OF EXEMPTIONS FROM COST OR PRICING DATA REQUIREMENTS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 3-23	3.2.3 Determine Exemptions Based on Adequate Price Competition (Cont.)	
CM-11	e. Assign the case study "Certified Contracting" (30 minutes) • Assign students to teams. • Assign the students the entire case. • Allow time to complete. • One of the groups/teams presents report. • Record answers to questions on the board for discussion. • Elicit additional comments from other teams.	

CASE ANSWER - CERTIFIED CONTRACTING

As a contracting officer, it is your responsibility to determine if offerors should be required to submit Cost or Pricing Data. When Cost or Pricing Data are required you must also determine whether the apparent successful offeror should be required to certify the data prior to contract award. Based on the limited information available, what would you decide in each situation below?

1. You are preparing a solicitation for training services. A total of 54 sources have requested copies of the solicitation. Other buyers of similar services tell you that they typically receive two to six proposals on solicitations for similar requirements. **Should the solicitation require offerors to submit full cost or pricing data with the intent of requiring certification? Why?**

   No, it appears that there will be adequate price competition. Cost or Pricing Data should not be required.

CERTIFIED CONTRACTING (Con't)

2. You have a purchase request for the purchase of $510,000 of surgical instruments. The request includes a justification limiting the purchase to Dull Instruments "to enhance the probability of patient survival in the operating room." From experience, you know that you can obtain offers from about six firms that offer Dull Instruments. **Should the solicitation require offerors to submit full cost or pricing data with the intent of requiring certification? Why?**

Yes, competition will not be independent because all sources must ultimately obtain the instruments from Dull Instruments. Cost or Pricing Data should be required. Certification should be required unless another exemption applies.

3. Ten days ago you awarded a contract for rebuilding 100 electronic units so that they would meet the requirements of current safety directives. Three offers were received:

Shock Electronics	$600,000
Space Electronics	$650,000
Martin Systems	$750,000

Today you received a purchase request for priority rebuilding of 55 more units. To meet delivery requirements you are restricting the solicitation to a single source, Shock Electronics. **Should the solicitation require Shock to submit full cost or pricing data with the intent of requiring certification? Why?**

No, the purchase can be exempted from requirements for Cost or Pricing Data based on recent price competition. [FAR 15.804-3(b)(3)]

4. For five years Northern Motors has been the only firm manufacturing a complex state-of-the-art generator to Government specifications. Northern is the only firm with significant investment in the expensive special tooling required for producing this generator. You are preparing an RFP for 20 units at an estimated price of $520,000. A total of four firms have requested the RFP. **Should you require the offerors to submit full cost or pricing data with the intent of requiring certification? Why?**

Yes, it appears that Northern Motors has a lock on the competition by virtue of its investment. Certification should be required unless another exemption applies.

CERTIFIED CONTRACTING (Con't)

5. The facility, where your office is located, is divided into two areas, Area A and Area B. You sent an RFP for custodial services in the two areas to 21 potential sources. Because the solicitation was issued under full and open competition, no cost or pricing data were required. Yesterday, the RFP closed. Today you review the proposals received and find the following:

	Area A (12,600 Sq Ft)	Area B (20,400 Sq Ft)
Garbage Unlimited	$504,000	$1,020,000
Jason's Janitors	$620,000	No Offer

Should you require the offerors to submit full cost or pricing data with the intent of requiring certification? Why?

Yes, there is no competition for the Area B requirement. Certification should be required unless another exemption applies.

6. Your contracting office issued an RFP for a 1-year contract for vegetation control on a remote 2,450 acre section of your facility. The performance specifications read, "control vegetation so that vegetation height does not exceed six inches." Two offers were received:

Lawn Love	$560,000
Woolrich Farms	$130,000

The Government estimate was $540,000 and the price of the prior contract is $515,000. When questioned on their low offer, Woolrich representatives advised that they intend to use sheep instead of the combination of tractor mowers, lawn mowers, and manual labor offered by Lawn Love. It appears that the Woolrich method will work and is not prohibited by any laws of applicable directives. **Should you require the offerors to submit full cost or pricing data with the intent of requiring certification? Why?**

NO. The Woolrich offer meets the basic tests for adequate price competition, and therefore Woolrich should not be required to submit certified cost or pricing data.

On the other hand, you do not have sufficient data in hand at this point to determine the reasonableness of the Woolrich offer. Is $130,000 too low for their sheepish approach? Or is it too high? How are you to determine reasonableness?

First, by asking Woolrich pointblank to show you that their offer is not unreasonably low, so low that it is tantamount to a mistake. This you can do in discussions, as will be described in Lesson 10.

Second, by market research. Call relevant staff at the Department of Agriculture. Ask — how many sheep does it take to keep an acre of grass trimmed to six inches? Ask about the costs of raising that many sheep. And, most importantly, ask the question: how much money can a farmer make by shearing the sheep and every now and again selling them to meat processing plants. Such information should allow you to come up with an informed prenegotiation objective for discussions with Woolrich, as we will also discuss in Lesson 10.

TOPIC: 3.2 DETERMINE APPLICABILITY OF EXEMPTIONS FROM COST OR PRICING DATA REQUIREMENTS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-24	3.2.4 Determine Exemptions Based Catalog Pricing f. Stress that students should exempt offerors from the requirement for certified data when the offered price is based on a catalog price — but only if the questions in VG 3-12 can be answered affirmatively	
VG 3-12	**EXEMPTIONS BASED ON CATALOG PRICING P. 3-24** • Are prices, or are prices based on, *established catalog prices?* • Are items *commercial items* • Are items sold in *substantial quantities* to the *general public?* VG 3-12	
	• The catalog pricing exemption is normally claimed using Section I of the SF 1412. The data must be carefully analyzed before granting an exemption to the submission of a Certificate of Current Cost or Pricing Data. • Note that textbook, on pages 3-26 and 3-27, provides some useful guides to critiquing information in Section I. • Walk the students through Section I (VG 3-13). Highlight: - Block 7, stressing that the catalog has to be available in whole or in relevant part. - Block 8, stressing that this block is the basis in part for determining whether the catalog price is current enough to be considered a commercial price. - Block 9 (Categories of Sales), stressing that this block is the basis for the "substantial quantities" test. - Block 11, stressing that this block is the basis for determining whether the catalog price is in fact the "commercial" price (unlike, for instance, the "sticker prices" of car companies).	

TOPIC: 3.2 DETERMINE APPLICABILITY OF EXEMPTIONS FROM COST OR PRICING DATA REQUIREMENTS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
VG 3-13	3.2.4 Determine Exemptions Based On Catalog Pricing (Cont.) Emphasize that Block 11 lists "representative" sales (not ALL sales); the "number of units sold" in this block usually does NOT equal the numbers reported in BLOCK 9. - Also stress that Block 11 can help students establish their positions on price (which, if you are buying ten times the amount of the largest commercial buyer, could be considerably lower than the catalog price).	

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SECTION I - CATALOG PRICE (See instructions for items 7 thru 11 on reverse.)

7. CATALOG IDENTIFICATION AND DATE	8. SALES PERIOD COVERED FROM	TO

9. CATEGORIES OF SALES	TOTAL UNITS SOLD*	10. REMARKS
a. U.S. Government sales		
b. Sales at catalog price to general public		
c. Other sales to general public		

* If your accounting system does not provide precise information, insert your best estimate and explain the basis of it in item 10, REMARKS. Con separate sheet ,if necessary.

11. LIST THREE SALES OF THE ITEM OFFERED

SALES CATEGORY	DATE	NO. OF UNITS SOLD	
a. ☐ B ☐ C			$
b. ☐ B ☐ C			$
c. ☐ B ☐ C			$

SECTION II - MARKET PRICE (See Instructions for item 12 on reverse

VG 3-13

TOPIC: 3.2 DETERMINE APPLICABILITY OF EXEMPTIONS FROM COST OR PRICING DATA REQUIREMENTS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-27	3.2.4 Determine Exemptions Based On Catalog Pricing (Cont.) • Explain the table on TR 3-27 shown in VG 3-14, as the basis for determining whether the product or service meets the "substantial quantities" test.	
VG 3-14		

APPLICABILITY OF EXEMPTION **P. 3-27**

A = Sales to the Federal Government
B = Sales at Catalog Price to the General Public
C = Other Sales to the General Public
B+C = All Sales to the General Public
A+B+C = Total Sales

IF....	THEN....
B+C ≥ 55% of A+B+C and B ≥ 75% of B+C	The catalog pricing exemption usually applies.
B+C < 35% of A+B+C or B < 55% of B+C	The catalog pricing exemption rarely applies.
B+C ≥ 35% but < 55% of A+B+C or B ≥ 55% but < 75% of B+C	Further investigation is required. VG 3-14

- Refer students back to Block 9 in SF 1412.
- Don't let the offeror count sales to contractors among sales to the "General Public," if the Government is the end user of the item. • Note finally that this exemption from certified data might only be partial. If the item has been modified for Government purposes and, as a consequence, the offered price exceeds the catalog price by more than $100,000 for the quantity being ordered, certified data would be required for costs of the modification.

TOPIC:	3.2 DETERMINE APPLICABILITY OF EXEMPTIONS FROM COST OR PRICING DATA REQUIREMENTS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-14	g. Assign the case study "Downtown Prices" (30 minutes) • Work through Question #1 with the class. In doing so, explain that $260 is the per unit price in the catalog for orders of 10 or more. • Assign students to teams. • Assign the students the remaining questions. • Allow time to complete. • Record answers to questions on the board for discussion.	

CASE ANSWER - DOWNTOWN PRICES

As the contracting officer at your agency's Downtown Contracting Center, you must decide whether each one of the following single source purchases should be exempted from submission of Certified Current Cost or Pricing Data. What other information might you want to know before you make your decision?

1. Radio Shed is offering 2,000 radio components on Jul 14, 19X5 at $260 each. An attached catalog shows that $260 is the catalog price per item on orders of 10 or more. The Standard Form 1412 shows the following:

   Catalog Identification and Date: Catalog L45345, Radio Components, dated May 1, 19X5

   Sales Period Covered: From Apr 1, 19X5 to Jun 30, 19X5

U.S. Government Sales	20
Sales at Catalog Price to the General Public	60
Other Sales to the General Public	—

Sale 1:	Category B	Jun 20, 19X5	10 Units	$260 price
Sale 2:	Category B	Jun 1, 19X5	5 Units	$286 price
Sale 3:	Category B	May 15, 19X5	5 Units	$286 price

   Exempt, Non-Exempt, or Investigate? Why?

   B+C/A+B+C = 75.0%
   B/B+C = 100.0%

DOWNTOWN PRICES (Con't)

The percentages fall into the "usually exempt" category. However, there is a real question as to whether 100 sales are substantial against our one purchase of 2,000. Care should be exercised. Consider the true commercial nature of the product. Possibly larger volume sales from a prior contract period could be used to demonstrate substantial commercial sales. If it is not commercially priced, require Certified Cost or Pricing Data.

ALSO, use this case to reinforce the point that, just because you agree to an exemption based on the catalog price, you do not have to award at that price. If there is a relationship between quantity and price when going from 5 to 10 units, surely there should be some sort of additional quantity discount when going from 10 to 2,000 units.

2. Trumpy System is offering 1,000 Trumpy II office support systems on January 14, 19X8 at $825 each. An attached catalog shows that $825 is the catalog price and the Standard Form 1412 shows the following:

Catalog Identification and Date: Office Support Systems, dated July 1, 19X7

Sales Period Covered: From October 1, 19X7 to December 31, 19X7.

U.S. Government Sales	5,000
Sales at Catalog Price to the General Public	3,000
Other Sales to the General Public	1,500

Sale 1:	Category C	Nov 15, 19X7	1,500 Units	$743 price
Sale 2:	Category B	Dec 1, 19X7	1,500 Units	$825 price
Sale 3:	Category B	Oct 15, 19X7	500 Units	$825 price

Remarks: The Category C sale price was based on a special 10 percent discount to Johnson Ships for a single sale of over $2 million which included several different systems.

Exempt, Non-Exempt, or Investigate? Why?

B+C/A+B+C = 47.4%
B/B+C = 66.7%

The percentages fall into the "further investigation" category. Other pricing data should be collected to determine if the pricing decision can be based on price analysis alone. The discount to Johnson Ships should be examined whether or not the exemption is granted.

3. Woven Valve is offering 500 XT1000 valves on October 26, 19X5 at $1,150 each. An attached catalog shows that $1,150 is the catalog price and the Standard Form 1412 shows the following:

Catalog Identification and Date: Woven Valves Catalog, dated May 30, 19X4

Sales Period Covered: From July 1, 19X5 to September 30, 19X5.

U.S. Government Sales	2,000
Sales at Catalog Price to the General Public	3,500
Other Sales to the General Public	1,000

DOWNTOWN PRICES (Con't)

Sale 1:	Category C	Jul 8, 19X5	250 Units	$ 920 price
Sale 2:	Category C	Aug 1, 19X5	750 Units	$ 920 price
Sale 3:	Category B	May 15, 19X5	1,200 Units	$1,150 price

Remarks: The Category C sale price was based on a special 20 percent discount for interorganizational transfers to Woven Systems.

Exempt, Non-Exempt, or Investigate? Why?

B+C/A+B+C = 69.2%
B/B+C = 77.8%

The percentages fall into the "usually exempt" category. However, interorganizational transfers are included in the calculations. The request for exemption should be rejected and the offeror required to submitted a properly prepared request. A secondary issue is the date of the catalog — more than a year old. Need to question whether it is in fact the most current catalog.

4. DUMP Data Systems is offering 500 Part Number RST234 computer components on October 20, 19X5 at $1,250 each. An attached catalog shows that $1,250 is the catalog price and the Standard Form 1412 shows the following:

Catalog Identification and Date: DUMP Computer Parts, dated June 30, 19X4

Sales Period Covered: From July 1, 19X4 to September 30, 19X4.

U.S. Government Sales	1,000
Sales at Catalog Price to the General Public	6,450
Other Sales to the General Public	—

Sale 1:	Category B	Jan 15, 19X4	1,200 Units	$1,125 price
Sale 2:	Category B	Feb 1, 19X4	500 Units	$1,250 price
Sale 3:	Category B	Mar 15, 19X4	200 Units	$1,250 price

Remarks: The price for Sale 1 includes a 10 percent catalog discount for all sales over 1,000 units.

Exempt, Non-Exempt, or Investigate? Why?

B+C/A+B+C = 86.6%
B/B+C = 100.0%

The percentages fall into the "usually exempt" category. However, the sales data is a year old. Sales data are supposed to be the most recent available. The request should be rejected unless recent data support an exemption.

DOWNTOWN PRICES (Con't)

5. Liftoff Corporation is offering 100 Model 24 lifts on July 15, 19X5 at $5,500 each. An attached catalog shows that $5,500 is the catalog price and the Standard Form 1412 shows the following:

   Catalog Identification and Date: Liftoff Corporation Catalog, dated June 1, 19X5

   Sales Period Covered: From July 1, 19X5 to September 30, 19X5.

U.S. Government Sales	2,000
Sales at Catalog Price to the General Public	3,000
Other Sales to the General Public	—

Sale 1:	Category B	Jan 5, 19X5	200 Units	$4,400 price
Sale 2:	Category B	Feb 1, 19X5	200 Units	$4,620 price
Sale 3:	Category B	Mar 15, 19X5	200 Units	$5,000 price

Exempt, Non-Exempt, or Investigate? Why?

B+C/A+B+C = 60.0%
B/B+C = 100.0%

The percentages fall into the "usually exempt" category. However, prices have increased dramatically, 25%. Unless the increases can be explained through price analysis alone, Cost or Pricing Data should be required.

KEY POINTS TO REINFORCE FROM THESE CASES:

- When considering an exemption based on catalog pricing, the main issue is whether or not you will be able to determine the reasonableness of the offered price absent certified cost or pricing data.
- The decision to exempt is not the same as the decision on whether the catalog price or the offered price is fair and reasonable. There are many reasons why the Government should at times pay a different price than the catalog price, such as:
  - Differences between commercial buys and the Government's requirement, such as the relative size of orders placed by private sector customers vis-a-vis orders placed by the Government.
  - Changing market conditions, bearing in mind that the price of items such as silver have been known to drop tenfold literally overnight.
  - Absence of any relationship between the catalog price and the prices paid by many private sector customers.

TOPIC: 3.2 DETERMINE APPLICABILITY OF EXEMPTIONS FROM COST OR PRICING DATA REQUIREMENTS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-32	3.2.5 Determine Exemption Based on Market Pricing h. Stress that students should exempt offerors from the requirement for certified data when the offered price is based on a catalog price — but only if the questions in VG 3-15 can be answered affirmatively **EXEMPTIONS BASED ON MARKET PRICING** **P. 3-32** • Are prices, or are prices based on *established market prices?* • Are items *commercial items*? • Are items sold in substantial quantities to *general public?* VG 3-15	
VG 3-15	• A price may be considered to be "based on" an established market price only if the item being purchased is sufficiently similar to the market priced commercial item to ensure that any difference in prices can be identified and justified without resort to cost analysis. • The market price exemption is claimed using Section II of the SF 1412. (VG 3-16) Once the SF 1412 is obtained, analyze the data carefully before granting an exemption to the submission of a Certificate of Current Cost or Pricing Data. • Refer students to pages 3-33 and 3-34 for tips on critiquing Section II.	

TOPIC: 3.2 DETERMINE APPLICABILITY OF EXEMPTIONS FROM COST OR PRICING DATA REQUIREMENTS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	3.2.5 Determine Exemption Based on Market Pricing	
TR 3-33 and 3-34	Among the issues: • Did the offeror state the market price? • Did the offeror explain the nature of the market for the item or service? • Did the offeror provide the source of the market quotation or other basis used to determine market price? • Did the offeror provide the date or period of the market quotation or other basis used to determine market price? • If the proposed price is different from the market price, did the offeror identify how the proposed price was derived from the market price?	
VG 3-16		

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b. ☐ B ☐ C			$
c. ☐ B ☐ C			$

SECTION II - MARKET PRICE (See Instructions for item 12 on revers

12. SET FORTH THE SOURCE AND DATE OR PERIOD OF THE MARKET QUOTATION OR OTHER BASE FOR MARKET PRICE, THE BASE AMOUNT,AND APPLICABLE DISCOUNTS.

SECTION III - LAW OR REGULATION (See instructions for item 13 on re

13. IDENTIFY THE LAW OR REGULATION ESTABLISHING THE PRICE OFFERED

VG 3-16

TOPIC: 3.2 DETERMINE APPLICABILITY OF EXEMPTIONS FROM COST OR PRICING DATA REQUIREMENTS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-35	3.2.6 Determine Exemptions for Regulated Pricing i. Stress that students should exempt offerors from the requirement for certified data when the offered price is a "regulated" price — but only if the questions in VG 3-17 can be answered affirmatively	
VG 3-17	**EXEMPTIONS BASED ON REGULATED PRICING P. 3-35** • Is proposed price set by periodic rulings, reviews, or similar actions of governmental body? • Is proposed price embodied in law? VG 3 -17	
	• The exemption is normally claimed using Section III of the SF 1412. Once the SF 1412 is obtained, analyze the data presented carefully before granting an exemption to the submission of a Certificate of Current Cost or Pricing Data.	
VG 3-18	Show VG 3-18. Discuss the following issues: • Did the offeror identify the law or regulation establishing the price offered? • If the price is controlled under law by periodic rulings, reviews, or similar actions of the Government, has the offeror submitted a copy of the controlling documents?	

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SECTION III - LAW OR REGULATION **(See instructions for item 13 on r**

13. IDENTIFY THE LAW OR REGULATION ESTABLISHING THE PRICE OFFERED

VG 3-18

TOPIC:	3.3 IDENTIFY ADDITIONAL DATA NEEDED FROM THE OFFEROR TO SUPPORT AN OFFERED PRICE
REF:	TR 3-37 through 3-41
OBJECTIVE:	Identify additional price-related offeror data necessary for making decisions on price reasonableness.
METHOD:	Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-38	a. Identify other types of information on pricing that COs can request from offerors.	
	QUESTION: What if the offeror is not required to submit certified cost or pricing data, based on an exemption or because the contract is under the dollar threshold. Does that mean that I cannot ask offerors for additional information with their offers to support the reasonableness of their prices?	
	ANSWER: Under certain circumstances, you can request offerors to furnish: VG 3-19.	
VG 3-19	**ADDITIONAL PRICE-RELATED DATA P. 3-38** • Marketing system • Services normally provided • Normal quantity per order • Annual volume of sales to largest customers • Major classes or customers and differences • Details on other than catalog price sales • Data regarding past contracts for similar work VG 3-19	
	• *Marketing system*—will affect the pricing structure. A firm selling through intermediaries will typically have lower prices than a firm selling directly to the ultimate customer. • *Services normally provided*—different firms provide different levels of support services including engineering and financing. The prices should be lower if Government does not require these services. • *Normal quantity per order*—larger order quantities will normally reduce price per unit.	

TOPIC:	3.3 IDENTIFY ADDITIONAL DATA NEEDED FROM THE OFFEROR TO SUPPORT AN OFFERED PRICE	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 3-38	3.3.1 Identify Other Necessary Price-Related Data • *Annual volume of sales to largest customer*—negotiate discounts, over and above normal order quantity discounts, based on total volume. Consider known Federal Government purchases from all sources as a group. • *Major classes of customers and differences*—services provided by the offeror will vary with customer needs, and so will price. Information on different classes of customers such as total sales, services provided, and discounts can be useful. • *Details on sales at other than catalog price*—if a commercial customer receives a discount because of the number of units purchased, the Government should receive a similar discount for similar purchase volume. • *Past contracts for similar work*—Historical prices are common base for price analysis.	
	b. Stress that you should not routinely require that such data be provided with the offer (although you can ask for the data in factfinding and discussions). Rather, such data are primarily necessary when: • A sole source offeror is exempt from the requirement for certified cost or pricing data based on catalog or market prices. • You are negotiating with a sole source to acquire a commercial product or service for a price below the dollar threshold for certified cost or pricing data.	

TOPIC:	3.3 IDENTIFY ADDITIONAL DATA NEEDED FROM THE OFFEROR TO SUPPORT AN OFFERED PRICE	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-17	c. Assign the case study "Hazard Cleaners" (25 minutes). In reading this case study, refer students to page 16, Section 3.2.1. • Assign students to teams. • Assign the students the case. • Allow time to complete. • Record answers to questions on the board for discussion.	

CASE ANSWER - HAZARD CLEANERS

Hazard Cleaners submitted the only proposal received under an RFP for laundry services for laundry contaminated with hazardous waste. As the incumbent, Hazard Cleaners is the only known source of these services in the area. The proposed contract is a firm fixed-price requirements contract with delivery orders to be placed by the contracting officer. The proposed contract performance period is one year with four 1- year options. Estimated quantities are constant for each year of the contract.

The annual price totals proposed by Hazard Cleaners and detailed in the Government estimate are:

	HAZARD CLEANERS	GOVERNMENT ESTIMATE
Contract Base Year:	$ 625,500	$ 588,000
Year 2 Option	$ 663,000	$ 623,300
Year 3 Option	$ 702,800	$ 660,700
Year 4 Option	$ 745,000	$ 700,400
Year 5 Option	$ 789,700	$ 742,400
Total	$3,526,000	$3,314,800

The current year contract price is $625,500 but the estimated quantities for the proposed contract are only about 94 percent of the quantities estimated for the prior contract. The Government estimate is based on the prior contract price and the reduced quantity requirements. Both Hazard and the Government base option prices on annual price increases of approximately six percent, the current level of change reflected in Government indices.

CASE ANSWER - HAZARD CLEANERS (Con't)

Because only one response was anticipated, the RFP required the offeror to submit cost or pricing data. Hazard Cleaners signed the SF 1411 but refused to provide cost data, taking the position that the form is not applicable to the firm. In a note on the SF 1411, the Hazard president stated that "Hazard Cleaners does not have a formal cost accounting system. In our business, we cannot afford an expensive staff of accountants and lawyers to meet unrealistic Government demands."

The comments on the SF 1411 reflect a long-standing position of Hazard Cleaner management. Repeated attempts to find alternative sources have failed. Another agency site has competitively awarded a contract to Hazard for similar services. Direct price comparisons are difficult because the quantities at the other site are only half of those estimated for the proposed contract. However, prices on that contract are 30 percent higher than those offered here.

Based on the available information and Hazard's refusal to submit cost or pricing data, the contracting officer decided to award a contract without further pursuit of FAR 15-804 requirements for cost or pricing data.

1. **Based on the above information, was the contracting officer's action proper?**

   The contracting officer does not have the authority to waive the requirement for Certified Cost or Pricing Data. (FAR 15.804-3(i))

2. **What other actions might the contracting officer have taken in attempting to meet the requirements of FAR 15.804?**

   The contracting officer should have processed the requirement for appropriate waiver. Only the agency head or delegated official can waive the requirement. The entire organization has the responsibility to pressure the offeror for the required data.

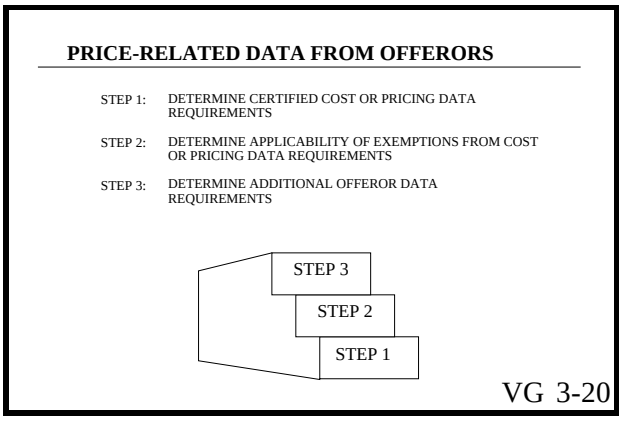
TOPIC: SUMMARY - PRICE-RELATED DATA FROM OFFERORS

REF: TR 3-1 through 3-40

OBJECTIVE: Summarize to the students the necessary steps involved in the pricing decision and introduce Lesson 4.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 3-1 through 3-40 VG 3-20	• Show VG 3-20.  a. Tell students: In this lesson, you learned: • When offerors are required to submit certified cost or pricing data with their offers. • When and how to exempt offerors from that requirement. • What additional price-related data can be required of offerors. b. The next step is to determine which price-related factors, if any, to incorporate in the solicitation. These factors will help to identify the offer that represents the lowest total cost to the Government—considering both the sticker price and all costs of acquiring and owning the deliverable not covered by the sticker price.	

LESSON 4

SELECT PRICE-RELATED FACTORS FOR AWARD

Primary Learning Objective (PLO)

Condition: Given a purchase request

Task:

1) Determine the most advantageous number of awards or possible award combinations

2) Identify price-related factors that will be applied in determining an evaluated price

3) Identify formula(s) for determining the evaluated price or prices

4) Select method of award clauses and/or provisions and applicable price-related factors to make more than one award and/or issue multiple contracts under the solicitation

Standard: Correctly determines the number of awards or possible award combinations that may yield greater competition, an overall lower price to the Government, or better meet the Government's minimum requirements. Correctly identifies all price-related factors applicable to the procurement. Correctly identifies formulas that cover every award possibility and provide for accurate comparison of offers to correctly detect the lowest evaluated price. Correctly selects clauses and/or provisions that impact the method of award.

Course Learning Objective (CLO)

4-1 Determine the most advantageous award strategy:

- Single award of all line items to one contractor
- Separate, single awards for different line items
- Progressive awards (when most firms in the market are capable of individually providing only a part of the total quantity required per the delivery schedule)
- Multiple awards (if, in commercial markets where competition is based on tradeoffs between features and price, there is no one bundle of features that will satisfy all users of an indefinite quantity contract)
- Partial set asides (for small businesses)

Course Learning Objective (CLO)	4-2	Identify price-related factors that may be applied, and when each one is used in determining an evaluated price.
	4-3	Identify circumstances that would warrant the application of specific price-related factors and identify general requirements for evaluation formula development.
	4-4	Select appropriate method of award clauses and/or provisions and applicable price-related factors to make more than one award and/or issue multiple contracts under the solicitation.
Estimated Time	2 hours — Lecture/Discussion/Case Studies.	
Method of Instruction	Lecture/Discussion with viewgraphs as visuals. Student Exercise—Case studies on strategy and factor choice.	
Student Materials	Text/Reference—Chapter Four Classroom Materials—Chapter Four	
Instructor Materials	Text/Reference—Chapter Four Instructor Guide—Lesson Four Overhead Projector Viewgraphs for Chapter Four	
Instructor References	BP 4.2, EOs A1, A2, B1, B2, and B3	

TOPIC: INTRODUCTION TO SELECTING PRICE-RELATED FACTORS FOR AWARD

REF: TR 4-1 through 4-5

OBJECTIVE: Introduce the students to the steps involved in selecting contract award criteria.

TIME: 10:35 AM, Tuesday (after morning break); 2 hours for Entire Lesson — one hour before lunch and one hour afterwards.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-1	• Allow the students some time to review the learning objectives on TR 4-1.	
TR 4-3	a. Tell students that the solicitation must inform offerors of the potential for multiple awards and identify all price-related factors that will be considered in determining the low offer. In preparing an IFB or RFP, contracting officers have two corresponding tasks to perform: Show VG 4-1.	
VG 4-1	**SELECT PRICE-RELATED FACTORS FOR AWARD P. 4-4** 1. Select possible award combinations 2. Select price-related factors for award VG 4-1	
	b. Discuss the purpose of these tasks: To minimize the total cost of the acquisition to the Government. • Sometimes, the Government can lower the total cost of an acquisition by awarding more than one contract. • Sometimes, the Government needs to consider costs of acquiring the deliverable over and above the contract price.	

TOPIC: INTRODUCTION TO SELECTING PRICE-RELATED FACTORS FOR AWARD (Con't)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-1	• For instance, suppose the Government will be responsible under the contract for the costs of transporting two ton trucks from the contractor's plant to a Government depot. [Write on the board the following two sets of figures:]	

	FIRM A	FIRM B
Unit Price	$3,000	$3,100
Transportation Cost Per Unit	$300	$100
Total Unit Cost	$3,300	$3,200

QUESTION: Which firm has offered the lowest price?

ANSWER: Firm A.

QUESTION: Assuming all other costs are equal, which truck would cost the Government less to acquire?

ANSWER: Firm B's Truck.

QUESTION: How do we write the IFB so that Firm B's offer will be considered the low offer?

ANSWER: By making transportation costs a price-related factor in the IFB.

In this lesson, you will learn how to select and incorporate price-related factors for the solicitation and how to incorporate them in the IFB. But first, we will look at possible award combinations that might save the Government money on your procurements.

TOPIC: 4.1 SELECT POSSIBLE AWARD COMBINATIONS

REF: TR 4-7 through 4-16

OBJECTIVE: Determine the most advantageous award strategy:

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-7	a. Present each type of award in turn, with emphasis on when that type of award should be used. Encourage students to provide related examples and experiences.	
	• Theoretically, the award possibilities could become almost infinite. The award criteria used to determine possible award combinations for a particular solicitation should always be clearly defined. There are a number of such combinations that can be selected as the basis for contract award: Show VG 4-2.	
TR 4-8 VG 4-2	**POSSIBLE AWARD COMBINATIONS** **P. 4-8** AGGREGATE AWARDS OF ALL LINE ITEMS TO ONE CONTRACTOR MULTIPLE AWARDS FOR DIFFERENT LINE ITEMS FAMILY OR GROUP BUYS PROGRESSIVE AWARDS FOR PORTIONS OF TOTAL LINE ITEM REQUIREMENT MULTIPLE AWARDS FOR THE SAME LINE ITEM SPLIT AWARDS PARTIAL SET-ASIDES VG 4-2	

TOPIC: 4.1 SELECT POSSIBLE AWARD COMBINATIONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-9	4.1.1 Aggregate Award for All Line Items to One Contractor Define aggregate awards and present circumstances under which award in the aggregate should be made. VGs 4-3 and 4-4.	
VG 4-3	**AGGREGATE AWARDS** **P. 4-9** Award one contract to one firm. VG 4-3	
VG 4-4	**AGGREGATE AWARDS — USE WHEN** **P. 4-9** • "All or none" prices < Sum of line item prices • Items regularly sold together • Economies of scale from bundling all line items VG 4-4	
	• Sometimes, "all or none" competitions yield lower prices than can be obtained through "line item by line item" competitions. • For example, auto dealers can generally give you a better price for a "fully equipped" car than you could get by buying a base model and later buying a radio, sun roof, et. al., from Trak Auto. This is true even though Trak Auto's unit prices generally beat auto dealer prices for accessories — when sold separately.	
	Aggregate awards — provision example Award will be made in the aggregate for all items. The low aggregate offeror will be determined by multiplying the unit price submitted on each item by the quantity specified, and adding the resultant extensions. In order to qualify for an award, prices must be submitted on all items.	

TOPIC: 4.1 SELECT POSSIBLE AWARD COMBINATIONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-10	4.1.2 Multiple Awards for Different Line Items Define "multiple awards — different line items" and present circumstances under which provision should be made for such awards. : VGs 4-5 and 4-6.	
VG 4-5	**MULTIPLE AWARDS— DIFFERENT LINE ITEMS** **P. 4-10** Reserve the right to make a separate award for each line item. VG 4-5 • If you have ten line items, this means that you can make ten awards, if: - A different firm has offered the lowest price for each of the ten line items, and - The costs of administering ten contracts would not outweigh the price break from awarding ten contracts (a matter we will discuss later). • If one firm has beat the competition on each and every line item, then you would award only one contract.	
VG 4-6	**MULTIPLE AWARDS — USE WHEN** **P. 4-10** • Item-by-item awards = lowest price • Items rarely sold together • Diseconomies of scale from bundling line items VG 4-6 • When issuing a single IFB for drills, grinders, routers, and sanders, multiple awards would probably result in a lower total cost than "all or none" pricing.	

TOPIC: 4.1 SELECT POSSIBLE AWARD COMBINATIONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-10	4.1.2 Multiple Awards for Different Line Items (Cont.) • **MULTIPLE AWARDS — PROVISION EXAMPLE** *EXAMPLE 1*_____ Award will be made on an item-by-item basis. *EXAMPLE 2:* (A) The Government intends to make awards on an item-by-item basis. However, if an "all or none" or similar type offer is received, offers on the items to which the "all or none" offer applies will be evaluated and award made in accordance with paragraph (B). (B) An offer submitted on an "all or none" or similar basis will be evaluated as follows: The lowest acceptable offer exclusive of the "all or none" offer will be selected with respect to each item (or group of items when the solicitation provides for aggregate awards) and the total cost of all items thus determined shall be compared with the total of the lowest acceptable "all or none" offer. Award will be made to result in the lowest total cost to the Government.	

TOPIC: 4.1 SELECT POSSIBLE AWARD COMBINATIONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-11	4.1.3 Family or Group Buys Define "family or group buys" and present circumstances under which provision should be made for such awards: VGs 4-7 and 4-8.	
VG 4-7	**FAMILY OR GROUP BUYS P. 4-11** Reserve the right to make a separate award for each identified family, or group, of line items. VG 4-7 • Middle ground between "all or none" and "multiple awards." • Used when buying hundreds of line items, which can be grouped into categories, such as "nails", "screws", "nuts", and "bolts."	
VG 4-8	**FAMILY OR GROUP BUYS — USE WHEN P. 4-11** • Group prices < Sum of line item prices • Family items regularly sold together • Economies of scale from grouping line items VG 4-8 • **FAMILY OR GROUP BUYS — PROVISION EXAMPLE** Award will be made in the aggregate by group. The low aggregate offeror will be determined by multiplying the unit price submitted on each item by the estimated quantity specified, and adding the resultant extensions. In order to qualify for an award on a group, prices must be submitted on each item within the group.	

TOPIC: 4.1 SELECT POSSIBLE AWARD COMBINATIONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-12	4.1.4 Progressive Awards for Portions of Total Line Item Requirement Define "progressive awards" and present circumstances under which provision should be made for such awards: VGs 4-9 and 4-10.	
VG 4-9	**PROGRESSIVE AWARDS** **P. 4-12** Reserve the right to award more than one contract for a line item if the low offeror cannot supply the entire quantity required. VG 4-9	
VG 4-10	**PROGRESSIVE AWARDS — USE WHEN** **P. 4-12** • The lowest price competitors may not be able to furnish the entire quantity required VG 4-10	
	• For example, suppose you are in the market for 10,000 air conditioning compressors. Firm A, an OEM, can fill your entire order at a price of $500 per compressor (with quantity discount). Firm B rebuilds used compressors. Its unit price is only $300. But Firm B only has 2,000 on hand. "Progressive awards" would allow you to award 2,000 to Firm B and award the remaining 8,000 to Firm A.	

	FIRM A	FIRM B
Unit Price	$500	$300
Units on hand	100,000	2000

TOPIC: 4.1 SELECT POSSIBLE AWARD COMBINATIONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-12	4.1.4 Progressive Awards for Portions of Total Line Item Requirement (Cont.) Descriptions and pricing considerations for making progressive awards: (Cont.) • **PROGRESSIVE AWARDS — PROVISION EXAMPLE** If the low responsive offeror offers a monthly quantity allocation which, when multiplied by the number of months representing the contract period, totals less than the Government's estimated annual requirements, the Government may make progressive awards to the extent necessary to meet its estimated annual requirements. In such cases, awards will be made to the low responsive offeror up to that offeror's stated monthly quantity allocation, and then progressively to other offerors to the extent necessary to cover all Government requirements. Within the limits prescribed by the offeror, the Government will apply offeror's monthly quantity allocation to any items offered, as the Government's interests require.	

TOPIC: 4.1 SELECT POSSIBLE AWARD COMBINATIONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-13	4.1.5 Multiple Awards for the Same Line Item Define "multiple awards — same line item" and present circumstances under which provision should be made for such awards. VGs 4-11 and 4-12.	
VG 4-11	**ITEM MULTIPLE AWARDS — P. 4-13** • For requirements contracts only. • Reserve the right to award more than one contract per line item • Ordering offices may select the product and contractor that best meets their needs. VG 4-11	
VG 4-12	**ITEM MULTIPLE AWARDS — USE WHEN P. 4-13** • Vendors offer similar, but not identical, items • Ordering offices differ in their needs. • The contract to be issued by a GSA activity or GSA authorized activity VG 4-12	

TOPIC: 4.1 SELECT POSSIBLE AWARD COMBINATIONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-13	4.1.5 Multiple Awards for the Same Line Item (Cont.) Descriptions and pricing considerations for making multiple awards for the same line item. • **ITEM MULTIPLE AWARDS — PROVISION EXAMPLE** *FEDERAL SUPPLY SCHEDULE (FSS)*_____ The Government intends to make multiple contract awards resultant from this solicitation to those companies it determines have submitted proposals which offer the best value to the Government, considering primarily technical scores and secondarily, offered prices. The Government reserves the right to award contracts to other than the lowest priced offers if, in its judgment, the technical superiority outweighs the cost difference. The Government reserves the right to award contracts to other than the highest ranked technical proposals if, in its judgment, the potential cost savings offset a minor difference in technical scores. If offers are determined to be technically equal, cost will be the determining factor for award.	

TOPIC: 4.1 SELECT POSSIBLE AWARD COMBINATIONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-14	4.1.6 Split Awards Define "split awards" and present circumstances under which provision should be made for such awards: VGs 4-13 and 4-14.	
VG 4-13	**SPLIT AWARDS — P. 4-14** • Reserve the right to award more than one contract per line item • Unlike progressive awards, IFB or RFP specifies fixed lots or percentages. • Lot sizes geared to economic order quantities. VG 4-13	
VG 4-14	**SPLIT AWARDS— USE WHEN P. 4-14** • No firm can supply the entire quantity, or • Necessary to create competition (e.g., dual sourcing), or • Necessary to preserve competition, or • A partial set-aside will be made VG 4-14	
	• **SPLIT AWARDS — LARGE QUANTITIES PROVISION EXAMPLE** The total requirement will be awarded in economic order lots of 50,000 units each. Bidders must indicate the number of lots the firm is willing to accept at the bid price.	

TOPIC: 4.1 SELECT POSSIBLE AWARD COMBINATIONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-14	4.1.6 Split Awards (Cont.) Descriptions and pricing considerations for making split awards: (Cont.) • **SPLIT AWARDS — UNIQUE ITEM PROVISION EXAMPLE** The Government intends to make split awards from this solicitation. Sixty percent of the total quantity will be awarded to the offeror that the Government determines to have submitted the proposal that offers the best value to the Government, considering primarily technical scores and secondarily, offered prices. Forty percent will be awarded to the remaining competitor provided that the technical evaluation determines that the technical proposal is acceptable and the offered prices are determined to be fair and reasonable.	

TOPIC: 4.1 SELECT POSSIBLE AWARD COMBINATIONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-15	4.1.7 Partial Set-Aside Awards Define "partial set asides" and present circumstances under which provision should be made for such set asides: VGs 4-15 and 4-16.	
VG 4-15	**PARTIAL SET-ASIDE AWARDS P. 4-15** Award part of the required quantity to a small business. VG 4-15	
VG 4-16	**PARTIAL SET-ASIDE AWARDS — USE WHEN P. 4-15** • Total set-aside not appropriate. • Requirement can be split into multiple economic purchase lots. • One or more small businesses can satisfy the set-aside requirement. • Acquisition not a small purchase. • Fair and reasonable prices expected VG 4-16	

TOPIC: 4.1 SELECT POSSIBLE AWARD COMBINATIONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-15	4.1.7 Partial Set-Aside Awards (Cont.) Descriptions and pricing considerations for making partial set-aside awards: (Cont.) • **PARTIAL SET-ASIDE AWARDS — PROVISION EXAMPLE** The set-aside portion of the requirements must be specifically identified. Any acceptable method of award may be used to award the set-aside portion, including aggregate, line item by line item, or family buys. Solicitations must include FAR 52.219-7, Notice of Partial Small Business Set-Aside.	
CM-19	b. Assign the case study "Strategy Choice" (20 minutes) • Assign the students the case to work individually. • Allow time to complete. • Record answers to question on the board for discussion.	

CASE ANSWER - STRATEGY CHOICE

Chapter 4 described seven different contract award strategies:

A. Aggregate award of all line items to one contractor
B. Multiple awards for different line items
C. Family or group buys
D. Progressive awards for portions of total line items
E. Multiple awards for the same line item
F. Split awards
G. Partial Set-Aside Awards

Match the following procurement situations with the appropriate contract award strategy.

1. _____ You are preparing a solicitation for spare parts for a variety of electronic systems. The parts are of similar construction but different firms typically specialize in parts for different systems. It is possible that one firm could offer the best price on all the items but it is more likely that one of the firms specializing in a particular system will offer the best price on spare parts for that system.

   B or C

2. _____ You are preparing a solicitation for custodial services to be performed at your facility. Similar services are required for several different buildings. Services for each building in the facility will be a different line item in the solicitation. The facility is located about 20 miles from the nearest city.

   A or possibly G

3. _____ You are preparing a solicitation for the first production of a major system. The two contractors that have been involved in development of the system are the only two known sources. However, you are concerned that, once you award to either source, the other will lose its competitive production capability and your agency will be left in a sole-source situation.

   F

4. _____ You are preparing a solicitation for engineering support services. There are several known sources including one or two small businesses. To maintain the greatest possible flexibility, you desire to have more than one potential source of support.

   F or possibly G

5. _____ You are a buyer responsible for establishing a contract to support the Federal Supply Schedule for copiers. The contract will be used to support Government activities nationwide. The needs of each activity will vary depending on its size, mission, and a number of other factors.

   E

CASE ANSWER - STRATEGY CHOICE (Con't)

6. _____ You are preparing a solicitation for a requirements contract for production materials to support a variety of Agency operations. The market for these materials is extremely competitive but most of the suppliers are small. Many suppliers could provide a portion of the agency's needs for a particular material but only the one or two largest could supply all the needs.

   D

7. _____ You are preparing a solicitation for food services to be performed at three locations in the same state. The contract locations are 50-100 miles apart. General contract requirements will be the same at all three locations.

   B

TOPIC: 4.2 SELECT PRICE-RELATED FACTORS FOR AWARD

REF: TR 4-17 through 4-50

OBJECTIVES:

- Identify price-related factors that may be applied, and when each one is used in determining an evaluated price.
- Identify circumstances that would warrant the application of specific price-related factors and identify general requirements for evaluation formula development.
- Select appropriate method of award clauses and/or provisions and applicable price-related factors to make more than one award and/or issue multiple contracts under the solicitation.

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-18	4.2.1 Identify Available Price-Related Factors a. Identify some of the more typical price-related factors. • Specific price related factors that can be used to adjust offered prices to consider purchase-related costs to the Government are: VG 4-17:	
VG 4-17	**PRICE-RELATED FACTORS FOR AWARD** • Application of the Buy American Act • Quality-related costs • Government furnished production and research property • Transportation costs • Options and multiyear contracting • Life-cycle costs • Energy conservation and efficiency consideration • Lease vs. Purchase considerations VG 4-17	**P. 4-18**
	b. Describe each of the above price-related factors in turn, with emphasis on (1) when the factor should be incorporated in the solicitation and (2) data necessary to apply the factor.	

TOPIC:	4.2 SELECT PRICE-RELATED FACTORS FOR AWARD (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 4-19	4.2.1.1 Application of the Buy American Act • The Act requires that only domestic end products be acquired for public use, except items — - Used outside the US. - For which the cost would be unreasonable. - For which agency head determines that domestic preference would be inconsistent with public interest. - Not mined, produced, or manufactured in the US in sufficient and available quantities. - Purchased specifically for commissary resale. • Award may be made to a firm offering a domestic end item even though the price of that item is <u>higher</u> than that of a firm offering a foreign product. • Price may be as much as <u>6%</u> higher, if the domestic offer is from a large business that is not a labor surplus concern, or as much as <u>12 %</u> higher if the domestic offer is from a small business concern or any labor surplus area concern. • Note that there are many exceptions and caveats to application of “Buy American” price breaks. • Inform offerors that the Buy American Act criteria may be applied in determining the low offer, by adding the clause at FAR 52.225-3, “Buy American Act — Supplies”, to the solicitation.	

TOPIC: 4.2 SELECT PRICE-RELATED FACTORS FOR AWARD (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-22	4.2.1.2 Quality-Related Costs • The Government incurs two types of quality-related costs — conformance costs and nonconformance costs.	
VG 4-18	**QUALITY-RELATED COSTS P. 4-22** • *CONFORMANCE COSTS* _____ Incurred to ensure things are done right the first time. • *NONCONFORMANCE COSTS* _____ Incurred because things were not done right the first time. VG 4-18	
	• The Government usually incurs some costs to inspect and accept deliverables. At issue is the amount of checking that the Government will have to do. Ideally, the Government should only have to inspect a small sample of the deliverables. But the Government often has to inspect larger samples from problem contractors. • Nonconformance costs are those NOT recoverable from the contractor - e.g., costs related to: - Determining whether to reject a nonconforming item. - Notifying the contractor that the item is being rejected. - Delay in obtaining the item while it is being repaired or replaced by the contractor. - Inspecting the repaired or replaced item. - Investigating problems with contract performance. - Preparing a cure or show cause notice, writing the notice, clearing the notice, and issuing it. - Developing and clearing the case and paperwork for a default termination.	

TOPIC: 4.2 SELECT PRICE-RELATED FACTORS FOR AWARD (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-23	4.2.1.2 Quality-Related Costs (Cont.)	
TR 4-23 VG 4-19	**QUALITY-RELATED COSTS P. 4-23** *CONSIDER USE WHEN* _____ • Continuing requirements • Competitive sources • Contractors vary in the quality of their work. G 4-19	
	• To consider quality-related costs in determining the low offer, your contracting activity has to have established some means of objectively measuring differences in the quality of contractor performance.	
VG 4-20	**QUALITY-RELATED COSTS P. 4-23** • *DATA SOURCES* _____ • Records of quality nonconformance • Records of delivery nonconformance VG 4-20	
	• There are three quality-related cost techniques: Show VG 4-21:	
VG 4-21	**QUALITY-RELATED COST APPROACHES P. 4-23** • Blue ribbon contractor programs • Vendor rating systems • Supplier performance indexes VG 4-21	

TOPIC: 4.2 SELECT PRICE-RELATED FACTORS FOR AWARD (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-24 through TR 4-27	4.2.1.2 Quality-Related Costs (Cont.) • *Blue Ribbon Contractor Programs—* • Purpose: Consider the probable dollar savings to the Government from quality performance in evaluating prices. • How: By giving standard price breaks to vendors on a Blue Ribbon Contractor List (BRCL). • Minimum requirements for placement: - Purchasing organization experience with the contractor over a specified period, measured in contract actions, dollars, or both. - Met or exceeded a published standard for on-time delivery over a specified period. A typical standard: 98% of the deliveries on-time. - Met or exceeded a published standard for defect free units or actions over a specified period. A typical standard: 98% of the units defect-free. • BRCL periodically updated, based on a continuing review of performance. • Price breaks vary in size from organization to organization: - 20% in some DLA organizations. - 15% in some Air Force organizations. • In the solicitation, you must inform offerors of the BRCL program and how prices from BRCL firms will be evaluated against prices from other offerors. . • Refer the students to TR 4-25 through 4-28 to read about Vendor Rating Systems and Supplier Performance Indexes.	

TOPIC: 4.2 SELECT PRICE-RELATED FACTORS FOR AWARD (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-29	4.2.1.3 Government Furnished Production and Research Property GOAL ONE — Eliminate any competitive advantage a vendor may enjoy by virtue of rent-free use of GFP, by: • Adjusting prices of offerors who have GFP. • Charging contractors rent for GFP.	
TR 4-31 VG 4-22	**GOVERNMENT FURNISHED PRODUCTION AND RESEARCH PROPERTY — COMPETITIVE ADVANTAGE P. 4-31** • *CONSIDER WHEN* _____ - Some offerors may predicate prices on rent-free use of GFP • *DATA SOURCES* _____ - Property records - Rental cost criteria VG 4-21	
VG 4-23	**GOVERNMENT FURNISHED PROPERTY — COMPETITIVE ADVANTAGE P. 4-31** *AWARD PROVISION EXAMPLE* _____ For purposes of offer evaluation, any offer predicated on rent-free use of Government furnished property (GFP) will be adjusted to eliminate possible competitive advantage. The adjustment will be made using a rental equipment adjustment factor equal to the allocable rent that would otherwise be charged for the GFP. Rent will be computed in accordance with FAR 52.245-9, Use and Charges. VG 4-22	

TOPIC: 4.2 SELECT PRICE-RELATED FACTORS FOR AWARD (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-31	4.2.1.3 Government Furnished Production and Research Property (Cont.) GOAL TWO — Encourage offerors to use GFP when that would be the Government's financial advantage.	
VG 4-24	**GOVERNMENT FURNISHED PRODUCTION AND RESEARCH PROPERTY — COSTS AND SAVINGS** • *CONSIDER USE WHEN* _____ There would be a net savings to the Government if GFP is used for the contract. • *DATA SOURCES* _____ - Government estimates VG 4-24	**P. 4-31**
	• **GOVERNMENT FURNISHED PRODUCTION AND RESEARCH PROPERTY — COSTS AND SAVINGS** *AWARD PROVISION EXAMPLE* _____ In addition to any other proposal adjustments, $9,000 will be deducted from any offers proposing to use the GFP identified in Solicitation Paragraph L-XX. The $9,000 represents the costs that the Government will avoid if the identified GFP is not placed in storage.	

TOPIC: 4.2 SELECT PRICE-RELATED FACTORS FOR AWARD (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-32	4.2.1.4 Transportation Costs GOAL: Ensure that transportation costs are considered in determining the low offer. • The term *free on board (f.o.b.) indicates the point to which delivery will be made, and if necessary, placed on board a carrier without additional charge.* Usually, the F.O.B. point is either the place of shipment origin or shipment destination, but it can be any place in between.	
TR 4-35	• When the FOB point reads "Origin", the Government is responsible for paying the costs of transporting the item from the contractor's loading dock. Therefore —	
VG 4-25	**TRANSPORTATION COST P. 4-35** • *CONSIDER USE WHEN* _____ - Prices can be F.O.B. origin • *DATA SOURCES* _____ - Transportation officer - Offerors VG 4-25	
	• **TRANSPORTATION COST — AWARD PROVISION EXAMPLE** Award will be made F.O.B. destination or F.O.B. origin to the offeror with the lowest evaluated price. F.O.B. origin offers will be evaluated on the basis of unit price bids plus transportation cost to destination based on the most economical rates available to the Government, in accordance with FAR 47.306-2.	

TOPIC: 4.2 SELECT PRICE-RELATED FACTORS FOR AWARD (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-39	4.2.1.5 Options	
	GOAL: Ensure that award is based on the total cost of acquiring the required items, when the contract will include options that are likely to be exercised.	
VG 4-26	• **Options** are unilateral rights prescribed in a contract, which, for a specified time, permit the Government to elect to purchase additional supplies or services called for in the contract or to elect to extend the term of the contract.	

OPTIONS **P. 4-39**

CONSIDER WHEN _____
- Reasonable estimates of future requirements
- Funds not currently available
- Options will accomplish one of the following:
  - -- More effective competition
  - -- Reduced support disruptions
  - -- Provide greater continuity

DATA SOURCES _____
- Offeror's proposal

VG 4-26

• **OPTIONS — PROVISION EXAMPLE**

EVALUATION OF OPTIONS (JUL 1990)
Except when it is determined in accordance with FAR 52.217-5 not to be in the Government's best interests, the Government will evaluate offers for award purposes by adding the total price for all options to the total price for the basic requirement. Evaluation of options will not obligate the Government to exercise the option(s).

TOPIC: 4.2 SELECT PRICE-RELATED FACTORS FOR AWARD (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-36	4.2.1.5 Multiyear Contracting GOAL: Base award on the total cost of acquiring the items over a period of years. • **Multiyear Contracting** is a special contracting method for acquiring known quantity and cost requirements that do not exceed planned requirements over five years (unless otherwise authorized by statute). This contracting technique can be employed even though the total funds ultimately to be obligated are not available at the time of contract award.	
TR 4-39 VG 4-27 TR 4-40	**MULTIYEAR CONTRACTING P. 4-39** *CONSIDER WHEN* _____ - Reasonable estimates of future requirements - Multiyear contracting is authorized - Multiyear contracting will benefit the government *DATA SOURCES*_____ - Offeror's proposal VG 4-27	

TOPIC: 4.2 SELECT PRICE-RELATED FACTORS FOR AWARD (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-40	4.2.1.6 Life Cycle Costs GOAL: Base award on total cost of the item over its full life, including all costs related to: • Development • Production, Delivery, Installation, and Training • Operation, Maintenance, and Repair • Disposal.	
TR 4-43 VG 4-28	**LIFE-CYCLE COSTS** **P. 4-43** *CONSIDER WHEN* _____ - Significant operation, maintenance, disposal costs *DATA SOURCES*_____ - Users - Offerors VG 4-28	
	Life Cycle Cost — Buying typewriters [Write each element of cost on the board]: Offers will be evaluated on the basis of the lowest cost to the Government based on the SUM of the following: - *Purchase Price* - *Repair Cost*—derived from the mean time between failure rate* and repair prices from applicable maintenance contracts. - *Ribbon Cost*—derived from ribbon life* and the unit price for ribbons. - *Energy Cost*—derived from the published electrical requirements of the motor and the current unit price for electricity. LESS the value of the machine after 10 years—derived from historical resale prices. Ribbon life and failure rates will be determined by testing a sample typewriter on an automatic typing machine.	

TOPIC: 4.2 SELECT PRICE-RELATED FACTORS FOR AWARD (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-44	4.2.1.7 Energy Conservation and Efficiency GOAL: Ensure that the energy costs are considered when determining the low offer for supplying equipment.	
TR 4-45 VG 4-29	**ENERGY CONSERVATION AND EFFICIENCY P. 4-45** *CONSIDER USE WHEN* _____ • Meaningful results • Practical results • Consistent with agency programs and needs *DATA SOURCES* _____ • Energy use and efficiency labels • Energy efficiency standards VG 4-29	
VG 4-30	**ENERGY CONSERVATION AND EFFICIENCY P. 4-45** *PROVISION EXAMPLE* _____ Award will be made to the firm whose offer will provide the lowest total cost of acquisition and ownership to the Government during the first year of operation, considering price and energy cost. Estimates of energy cost will be based on the Energy Use and Efficiency Label provided by the manufacturer under 42 U.S.C. 6296. VG 4-30	

TOPIC: 4.2 SELECT PRICE-RELATED FACTORS FOR AWARD (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-46	4.2.1.8 Lease vs. Purchase Considerations GOAL: When some offerors may propose leasing rather than selling equipment to the Government, ensure that the true cost of leasing vs. buying is considered. As a minimum, consider the following factors in calculating the full cost of leasing: • Estimated length of time that the equipment will be used and the extent of use during that period. • Discounted value of cumulative rental payments for the estimated period of use • Purchase price of offers to sell (less the expected discounted salvage value of the equipment when the Government is finished with it.)	
VG 4-31	**LEASE VS. PURCHASE** **P. 4-47** *CONSIDER USE WHEN* _____ - Lease or purchase equally attractive - Maximize competition *DATA SOURCES* _____ - Offerors - Users VG 4-31	
	Allowing vendors to submit offers to lease may attract more competition and more price competitive offers than when the Government only considers offers of sale.	

TOPIC: 4.2 SELECT PRICE-RELATED FACTORS FOR AWARD (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-47	4.2.1.8 Lease vs. Purchase Considerations (Cont.)	
VG 4-32	**LEASE VS. PURCHASE — AWARD PROVISION EXAMPLE P. 4-47** The Government will acquire the equipment identified in Section B by either lease or purchase. The method of acquisition and the successful offeror will be determined based on the lowest discounted total cost to the Government for acquisition and disposition. Operation and maintenance costs will not be considered in offer evaluation. VG 4-32	
CM-21	c. Assign the case study "Factor Choice" (20 minutes) • Assign the students the case to work individually. • Allow time to complete. • Record answers to questions on the board for discussion.	

CASE ANSWER - FACTOR CHOICE

Chapter 4 described eight different price-related factors that should be considered for possible solicitation use.

A. Quality-Related Costs
B. Government Furnished Production and Research Property
C. Transportation Costs
D. Options or Multiyear Contracting
E. Life-Cycle Costs
F. Energy Efficiency and Conservation
G. Lease vs. Purchase Considerations

Match the following procurement situations with the appropriate price related factor. If no factor is applicable, indicate by marking the space with an "N/A."

1. _____ You are preparing a solicitation for a large contract for complex electronic equipment built specifically to meet a Government requirement. The current requirement is for 100 units, one at each of 100 agency operating locations. If the product achieves the expected level of operational success, there may be a requirement for 150 additional units for other operating locations.

D

2. _____ You are preparing a monthly solicitation for common electronic components. You have received requests for the solicitation from about 50 electronics firms around the country. Even though clear quality requirements have been the same in all past contracts for these parts, users have frequently complained that quality has varied significantly between contractors. Quality assurance personnel confirm the variation but state that all products accepted were within "acceptable limits."

A

3. _____ The agency is remodeling facilities in the tri-state central offices. As part of this effort the agency must acquire large quantities of furniture and office equipment. One of the major concerns is space utilization. The agency is under direction to demonstrate its dedication to efficient Government operation by minimizing space requirements even though everyone agrees on the number of personnel required to staff the new office.

E

4. _____ You are preparing a solicitation for a contract to furnish and install a new heating system in your current operating location. The architect-engineer has prepared detailed minimum efficiency standards for the new equipment. You have sent out a draft request for proposals (RFP) and several firms have responded, noting that the specifications do not represent the "state-of-the-art in heating efficiency."

F

CASE ANSWER - FACTOR CHOICE (Con't)

5. _____ You have a requirement for equipment to support current operations at your location. The equipment represents a sizable investment, especially since your organization may be phased out in the next year, in the name or efficiency. The equipment can be leased but management is concerned about the added cost to the government.

G

TOPIC:	SUMMARY - SELECT PRICE-RELATED FACTORS FOR AWARD
REF:	TR 4-1 through 4-50
OBJECTIVE:	Summarize the steps involved in selecting contract award criteria.
METHOD:	Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 4-1 through 4-50	Summary. a. Show VG 4-1. b. Repeat to the students the two price-related considerations of particular importance in attracting competition and obtaining a fair and reasonable price in selecting contract award criteria:	
VG 4-33	**SELECT PRICE-RELATED FACTORS FOR AWARD** **P. 4-4** 1. Select possible award combinations 2. Select price-related factors for award VG 4-33	
	c. Tell the students that in this lesson they have finished the solicitation by incorporating all price-related factors necessary to evaluate prices. They are now ready to solicit offers and analyze them. • When analyzing offered prices, the first step is to identify the low offer or offers. This is done by applying the solicitation's price-related factors.	

LESSON 5

APPLY PRICE-RELATED FACTORS

Primary Learning Objective (PLO)	Condition:	Given several offers that have one or more price related factors
	Task:	Apply all price-related factors in the procurement and determine the lowest evaluated price
	Standard:	Correctly identifies all price-related factors and applies them to the procurement to determine the lowest evaluated price.

Course Learning Objective (CLO)

5-1 Apply all price-related factors in the procurement and determine the lowest evaluated price, for example:

- Assumed Administrative Cost
- Application of the Buy American Act
- Quality-Related Factors
- Government Furnished Production and Research Property
- Transportation Costs
- Energy Consumption and Efficiency
- Lease vs. Purchase

Estimated Time

1 hour 40 minutes

Begins 1:55 PM Tuesday, continuing for 95 minutes.

Concluding session begins 8:00 AM Wednesday, continuing for 25 minutes.

Method of Instruction

Lecture/Discussion with viewgraphs as visuals.
Student Exercise— Case studies on selecting strategies and price-related factors for award.

Student Materials

Text/Reference—Chapter Five
Classroom Materials—Chapter Five

Instructor Materials

Text/Reference—Chapter Five
Instructor Guide—Lesson Five
Overhead Projector
Viewgraphs for Chapter Five

Instructor References

BP 17.4, EO 1, 2, 3; and BP 21, EO 2, 3

TOPIC: INTRODUCTION TO APPLY PRICE-RELATED FACTORS

REF: TR 5-1 through 5-5

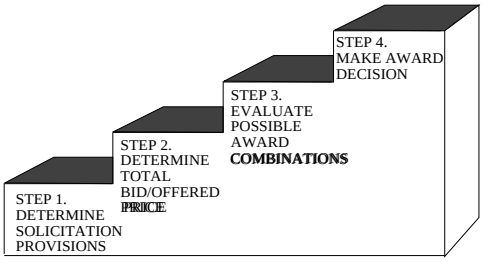
OBJECTIVE: Introduce the students the seven price-related factors in the award decision.

TIME: 1:55 p.m., Tuesday; 1 hour 40 minutes for entire Lesson.

- Begin following afternoon break on Tuesday.
- Conclude on Wednesday, 8:00 - 8:25 a.m.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 5-1	a. Allow the students some time to review the learning objectives on TR 5-1. b. Inform students that in this lesson, they will learn how to apply four (highlighted in VG 5-1) of the price-related factors discussed in the prior lesson:	
VG 5-1	**PRICE-RELATED FACTORS FOR AWARD P. 5-1** • **Assumed administrative costs** • Buy American act • **Quality-related factors** • Government furnished production and research property • **Transportation cost factors** • **Energy consumption and efficiency factors** • Lease vs. Purchase VG 5-1	
	c. Present 4 steps in applying a price-related factor	
VG 5-2	**GENERAL STEPS IN FACTOR EVALUATION P. 5-7**  VG 5-2	

TOPIC:	5.1 APPLY ASSUMED ADMINISTRATIVE COST FACTORS
REF:	TR 5-7 through 5-10
OBJECTIVE:	Apply all price-related factors in the procurement and determine the lowest evaluated price, e.g. assumed administrative cost.
METHOD:	Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 5-7	5.1 Apply Assumed Administrative Cost Factors a. Present this factor and discuss its applicability. In the last lesson, we talked about the possibility of awarding two or more contracts for the solicitation's requirements. Unfortunately, each additional contract you award means additional work on Federal contract administrators. If you award three contracts, that means three contract files, three post-award orientations, three receiving reports, three invoices, three closeouts, and the like. For this reason, you must consider the "assumed administrative costs" of each potential award as a price-related factor in determining whether to make more than 1 award. The 4 steps in applying this factor: b. Present steps in applying this factor. Step 1: Ensure that the solicitation empowers you to make more than one award, and that it includes either FAR clauses 52.214-22 or FAR clause 52.215-34. These clauses notify offerors that $500 is the assumed administrative cost of each award. Step 2: When all bids/offers have been received, determine the total bid or offered price for each item for each bidder/offeror. Step 3: Add $500 for assumed administrative costs to the total price for each potential award. Step 4: Award to that offer, or to that combination of offers, with the lowest total evaluated price. July	

TOPIC: 5.1 APPLY ASSUMED ADMINISTRATIVE COST FACTORS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 5-8	5.1 Apply Assumed Administrative Cost Factors (Cont.) c. Walk students through a sample application. Step 1: Determine Solicitation Provisions Assume the clause shown in VG 5-3 was included in the solicitation:	
VG 5-3	**EVALUATION OF BIDS FOR MULTIPLE A** (MAR 1990) [FAR 52.214.22] In addition to other factors, bids will be evaluated on the basis of advantages and disadvantages to the Government that might result from making more than one award (multiple awards). It is assumed, for the purposes of evaluating bids, that $500 would be the administrative cost to the Government for issuing and administering each contract awarded under this solicitation, and individual awards will be for the items or combinations of items that result in the lowest aggregate cost to the Government, including the assumed administrative costs. VG 5-3 Step 2: Determine Total Bid/Offered Price Bids on three different line items in the solicitation were received from two bidders. The extended line item totals, unit price multiplied by quantity, are shown in VG 5-4:	

TOPIC: 5.1 APPLY ASSUMED ADMINISTRATIVE COST FACTORS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 5-9	5.1 Apply Assumed Administrative Cost Factors (Cont.)	

VG 5-4

APPLY ASSUMED ADMINISTRATIVE COST FACTORS P. 5-9

STEP 2: DETERMINE TOTAL BID/OFFERED PRICE _____

ITEM	BIDDER #1	BIDDER #2
1	$74,000	$74,450
2	$94,750	$94,250
3	$22,125	$21,500

VG 5-4

Step 3: Evaluate Possible Award Combinations

There are three possible methods of contract award:

VG 5-5

APPLY ASSUMED ADMINISTRATIVE COST FACTORS (CONTINUED) P. 5-9

STEP 3: EVALUATE POSSIBLE AWARD COMBINATIONS _____

- Multiple awards
- Award all items to bidder #1
- Award all items to bidder #2

VG 5-5

TOPIC: 5.1 APPLY ASSUMED ADMINISTRATIVE COST FACTORS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 5-10	5.1 Apply Assumed Administrative Cost Factors (Cont.)	

<u>Multiple Awards</u>

Awards to both Bidders #1 and #2. Absent the $500 evaluation factor, multiple awards would be the logical choice. But this decision may change once you factor administrative costs into the equation.

VG 5-6

APPLY ASSUMED ADMINISTRATIVE COST FACTORS (CONTINUED) **P. 5-9**

STEP 3: EVALUATE POSSIBLE AWARD COMBINATIONS _____

MULTIPLE AWARDS

ITEM	BIDDER #1 AWARD	BIDDER #2 AWARD	TOTAL
1	$74,000		$74,000
2		$94,250	$94,250
3		$21,500	$21,500
Admin Cost	$500	$500	$1,000
Evaluation Price	$74,500	$116,250	**$190,750**

VG 5-6

Let's now see how the bottom lines would read first if we were to award all line items to Bidder 1, then all line items to Bidder 2.

TOPIC: 5.1 APPLY ASSUMED ADMINISTRATIVE COST FACTORS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 5-10	5.1 Apply Assumed Administrative Cost Factors (Cont.)	

Award All Items to Bidder #1

VG 5-7

APPLY ASSUMED ADMINISTRATIVE COST FACTORS (CONTINUED) **P. 5-10**

STEP 3: EVALUATE POSSIBLE AWARD COMBINATIONS _____

AWARD ALL ITEMS TO BIDDER #1

ITEM	BIDDER #1 AWARD	BIDDER #2 AWARD	TOTAL
1	$74,000		$74,000
2	$94,750		$94,750
3	$22,125		$22,125
Admin Cost	$500		$500
Eval. Price	$191,375		**$191,375**

VG 5-7

Award All Items to Bidder # 2

VG 5-8

APPLY ASSUMED ADMINISTRATIVE COST FACTORS (CONTINUED) **P. 5-10**

STEP 3: EVALUATE POSSIBLE AWARD COMBINATIONS _____

AWARD ALL ITEMS TO BIDDER #2

ITEM	BIDDER #1 AWARD	BIDDER #2 AWARD	TOTAL
1		$74,450	$74,450
2		$94,250	$94,250
3		$21,500	$21,500
Admin Cost		$500	$500
Eval. Price		$190,700	**$190,700**

VG 5-8

TOPIC:	5.1 APPLY ASSUMED ADMINISTRATIVE COST FACTORS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 5-10	5.1 Apply Assumed Administrative Cost Factors (Cont.) Step 3: Evaluate Possible Award Combinations (Cont.) On the board, write the results of the prior three slides: Evaluated price for multiple awards: **$190,750** Evaluated price, all to Bidder 1: **$191,375** Evaluated price, all to Bidder 2: **$190,700** In summary, once "assumed administrative costs" becomes part of the equation, multiple awards no longer have the advantage. All line items would instead go to Bidder #2.	
CM-23	d. Assign the case study "Loadstar" (20 minutes). • Assign the students the case to work individually. • Allow time to complete. • Record answers to questions on the board for discussion.	

CASE ANSWER LOADSTAR

Three vendors responded to a solicitation for delivery of commercial electronic components for the LOADSTAR Material Handling System.

SOOPER Electronics	Item #1	20 @ $4,500	$ 90,000
	Item #2	20 @ $3,150	$ 63,000
	Item #3	20 @ $6,280	$125,600
			$278,600
GAG Systems	Item #1	20 @ $4,000	$ 80,000
	Item #2	20 @ $3,000	$ 60,000
	Item #3	20 @ $6,400	$128,000
			$268,000
Reflex Industries	Item #1	20 @ $4,200	$ 84,000
	Item #2	20 @ $2,990	$ 59,800
	Item #3	20 @ $6,800	$136,000
			$279,800

FAR 52.214-10 and FAR 52.214-22 were included in the solicitation.

FAR 52.214-10, Contract Award — Sealed Bidding states, in part, that the Government "may (1) reject any or all bids, (2) accept other than the lowest bid, and (3) waive informalities or minor irregularities in bids received."

FAR 52.214-22, Evaluation of Bids for Multiple Awards states, in part, that it "is assumed, for the purpose of evaluating bids, that $500 would be the administrative cost to the Government for issuing and administering each contract awarded under this solicitation, and individual awards will be for the items or combinations of items that result in the lowest aggregate cost to the Government, including the assumed administrative costs."

1. **Evaluate the bids and determine which firm or firms should receive award under the solicitation.**

   Evaluated prices include $500 for each contract awarded, including the first one.

All to SOOPER	$279,200
All to GAG	$268,500
All to Reflex	$280,300
#1 to GAG; #2 to Reflex; #3 to SOOPER	$266,900
#1 and #2 to GAG; #3 to SOOPER	$266,600
#1 and #2 to Reflex; #3 to SOOPER	$270,400
#1 and #3 to GAG; #2 to Reflex	$268,800

2. **What would be the contract price?**

Award #1 and #2 to GAG	$140,000
Award #3 to SOOPER	$125,600

TOPIC: 5.3 APPLY QUALITY-RELATED FACTORS

REF: TR 5-17 through 5-26

OBJECTIVE: Apply all price-related factors in the procurement and determine the lowest evaluated price, e.g. quality-related factors.

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 5-17	a. Present steps in using the Blue Ribbon Contractor Program as a price-related factor.	
	Step 1: Determine Solicitation Provisions	
	• Ensure that the following provision was included in the solicitation:	
VG 5-9	**BLUE RIBBON CONTRACTOR — AWARD PROVISION EXAMPLE P. 5-18** Award will be made to the firm whose offer provides the greatest value to the Government, price, quality, delivery performance, and other factors considered. Based on demonstrated dependable quality and delivery performance, as evidenced by membership on the Agency's Blue Ribbon Contractor List (BRCL), the contracting officer may award to a BRCL offeror at a price up to 10 percent higher than a lower offeror who is not on the BRCL. VG 5-9	
	Step 2: Determine Total Bid/Offered Price	
VG 5-10	**BLUE RIBBON CONTRACTOR PROGRAMSP. 5-19** *STEP 2: DETERMINE TOTAL BID/OFFERED PRICE* _____	

OFFEROR	BRCL?	OFFER
1	YES	$131,000
2	NO	$120,000
3	NO	$122,000
4	YES	$134,000

VG 5-10

TOPIC: 5.3 APPLY QUALITY-RELATED FACTOR (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 5-20	5.3.1 Blue Ribbon Contractor Programs (Cont.)	
	Step 3: Evaluate Possible Award Combinations	
VG 5-11		

BLUE RIBBON CONTRACTOR PROGRAMS (CONTINUED) **P. 5-20**

STEP 3: EVALUATE POSSIBLE AWARD COMBINATIONS _____

OFFEROR	BRCL?	OFFEROR	EVALUATED PRICE
1	**YES**	**$131,000**	$131,000
2	**NO**	**$120,000**	$132,000
3	NO	$122,000	$134,200
4	YES	$134,000	$134,000

VG 5-11

Note that it is not reasonable to reduce the BRCL offer by 10 percent for two reasons:

- Reducing the larger BRCL offer by 10 percent would result in a larger adjustment than originally intended. For example, 10 percent of $120,000 is $12,000, but 10 percent of $131,000 is $13,100.
- Reducing unequal offers by a common percentage will result in unequal treatment. If two offers are both reduced by 10 percent the larger number will receive a larger adjustment for the same BRCL achievement. If Offer #1 is reduced by 10 percent, the reduction will be $13,100. If Offer #2 is reduced by 10 percent, the reduction will be $13,400.

TOPIC: 5.3 APPLY QUALITY-RELATED FACTOR (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
CM-24	b. Assign the case study "Agency Blue Ribbon" (15 minutes). • Assign the students the case to work individually. • Allow time to complete. • Record answers to questions on the board for discussion.	

AGENCY BLUE RIBBON

You are one of the first buyers in your agency to evaluate a major proposal under the Agency's new Blue Ribbon Contractor Program (BRCP). Under the program, a contract may be awarded to a firm on the Agency's Blue Ribbon Contractor List (BRCL) if that firm's price is within 10 percent of the price offered by a low offeror not on the BRCL.

Firms that achieve 98 percent on-time delivery and deliver products that meet Government requirements 98 percent of the time are eligible for the Agency's BRCL. Firms are evaluated for BRCL status by Federal Stock Class. As result, a firm can be considered as a Blue Ribbon contractor for one item and considered as a non Blue Ribbon contractor for another item.

You received six responses to your solicitation. Two are from firms on the BRCL. The prices and BRCL status of the six responses are outlined in the following table:

OFFEROR	BRCL?	OFFER	EVALUATED PRICE
Able Products	Yes	$198,000	
Baker Sales	No	$185,500	
Central Supply	No	$178,000	
DARTRON Corp.	Yes	$194,700	
Equine Ltd.	No	$181,000	
Fox Industries	No	$188,000	

1. Given the BRCL award criteria, which firm should receive the contract award?

Evaluated Prices

$198,000
$204,050
$195,800
$194,700
$199,100
$206,800

Award to DARTRON Corp.

2. Does a Blue Ribbon Contractor Program such as the one described above make sense for the Government?

Yes, it reduces the total cost of acquisition and quality related costs.

TOPIC: 5.5 APPLY TRANSPORTATION COST FACTORS

REF: TR 5-35 through 5-38

OBJECTIVE: Apply all price-related factors in the procurement and determine the lowest evaluated price, e.g. transportation cost.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 5-35	a. Present steps in applying transportation price-related factors. Whenever bids/offers are not submitted f.o.b. destination, transportation-related costs must be considered as part of bid/offer evaluation. Step 1: Determine Solicitation Provisions	
VG 5-12	**APPLY TRANSPORTATION COST FACTORSP. 5-35** STEP 1: DETERMINE SOLICITATION PROVISION _____ • F.O.B. ORIGIN • F.O.B. DESTINATION • **BOTH** F.O.B. Origin and F.O.B. Destination • **EITHER** F.O.B. Origin or F.O.B. Destination VG 5-12	
	• Assume the following provision was included in the solicitation:	
TR 5-37 VG 5-13	**TRANSPORTATION COST — AWARD PROVISION EXAMPLE P. 5-37** Award will be made f.o.b. destination or f.o.b. origin to the offeror with the lowest evaluated price. F.o.b. origin offers will be evaluated on the basis of unit price bids plus transportation cost to destination based on the most economical rates available to the Government, in accordance with FAR 47.306-2. VG 5-13	

TOPIC: 5.5 APPLY TRANSPORTATION COST FACTORS

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 5-38	Step 2: Determine Total Bid/Offered Price	
VG 5-14		

APPLY TRANSPORTATION COST FACTORS (CONTINUED) **P. 5-38**

STEP 2: DETERMINE TOTAL BID/OFFERED PRICE _____

OFFEROR	F.O.B. POINT	OFFER
1	Origin	$434,000
2	Destination	$450,000
3	Origin	$436,000

VG 5-14

Step 3: Evaluate Possible Award Combinations

TR 5-38

VG 5-15

APPLY TRANSPORTATION COST FACTORS (CONT)P. 5-38

STEP 3: EVALUATE POSSIBLE AWARD COMBINATIONS _____

OFFEROR	F.O.B. POINT	OFFER	TRANSPORTATION COST	EVALUATED PRICE
1	Origin	$435,000	$2,600	$437,600
2	Destination	$450,000	N/A	$450,000
3	Origin	$436,000	$1,500	$437,500

VG 5-15

After applying transportation as a price-related factor, the low offer is #3.

TOPIC: 5.6 APPLY ENERGY CONSERVATION AND EFFICIENCY FACTORS

REF: TR 5-39 through 5-41

OBJECTIVE: Apply all price-related factors in the procurement and determine the lowest evaluated price, e.g. energy conservation and efficiency factors.

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 5-39	a. Present steps in applying this factor. Whenever the results would be meaningful, practical, and consistent with agency programs and needs, energy criteria must be applied to price-related decisions. Step 1: Determine Solicitation Provisions • Determine that the following provision was included in the solicitation for 100 hot water heaters with 50 gallon capacity:	
VG 5-16	**ENERGY CONSERVATION AND EFFICIENCY** **P. 5-40** *AWARD PROVISION EXAMPLE* _____ Award will be made to the firm whose offer will provide the lowest total cost of acquisition and ownership to the Government during the first year of operation, considering price and energy cost. Estimates of energy cost will be based on the Energy Use and Efficiency Label provided by the manufacturer under 42 U.S.C. 6296. VG 5-16	
VG 5-17	• State that, for the purposes of this provision, the following formula will be used:	

CALCULATING ENERGY COST **P. 5-40**

Energy Cost = Kilowatt Hours Used Per Hour of Operation x Projected Hours of Operation x Energy Cost Per Kilowatt Hour

VG 5-17

TOPIC: 5.6 APPLY ENERGY CONSERVATION AND EFFICIENCY FACTORS

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	• Using this formula, the following represents energy costs of the products from the two offerors:	
VG 5-18		**APPLY ENERGY CONSERVATION A**

STEP 2: DETERMINE TOTAL BID/OFFERED PRICE _____

OFFEROR	OFFER	ENERGY COST
1	$36,000	$56,000
2	$37,000	$52,000

VG 5-18

Step 3: Evaluate Possible Award Combinations

APPLY ENERGY CONSERVATION AND EFFICIENCY FACTORS (CONTINUED) **P. 5-40**

VG 5-19

STEP 3: EVALUATE POSSIBLE AWARD COMBINATIONS _____

OFFEROR	OFFER	ENERGY COST	EVALUATED PRICE
1	$36,000	$56,000	$92,000
2	**$37,000**	$52,000	$89,000

VG 5-19

Note that offer #2 is low, even though its asking price is $1,000 than that of offer #1. The difference is the energy costs of the two competing products, where offeror #2 has a clear advantage.

TOPIC:	5.6 APPLY ENERGY CONSERVATION AND EFFICIENCY FACTORS	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-25	b. Assign the case study "Cool Window." (20 minutes) • Assign students to teams. • Assign the students the entire case. • Allow time to complete. • Record answers to questions on the board for discussion.	

CASE ANSWER - COOL WINDOW

You are developing a requirements contract for an estimated quantity of 1,000 window air conditioners. The purchase description calls for an: "Air Conditioner, Window with a cooling capacity of not less than 7,000 but less than 8,000 BTUs."

Energy costs are a substantial part of total cost of window air conditioner ownership over the unit's expected life of 15 years. As a result, you included the following award clause in the solicitation:

> Award will be made to the firm whose offer will provide the lowest cost of acquisition and ownership to the Government during the lifetime of ownership, considering both price and energy cost. Estimates of energy will be based on BTU output, unit Energy Efficiency Rating (EER), and the estimated hours of operation.

The following formula will be used in offer evaluation:

$$L = A + B(X)$$

Where:

L = Life Cycle Cost (present value dollars) of a product
A = Initial cost of the product based on the price offered
B = Sum of discount factors for the life of the air conditioner. (B = 7.61 for a constant flow of dollars over the expected 15-year air conditioner life discounted at 10 percent, (i.e. a discounted cost of $1.00 cost each year for 15 years would be $7.61).

$$X = \frac{(BTU)\,(PC)\,(OH)}{EER} = \frac{(BTU)\,(\$.00008)\,(1{,}000)}{EER} = \frac{(BTU)\,(\$.08)}{EER}$$

for this evaluation

BTU = Minimum cooling capacity for the unit measured in British Thermal Units (BTUs). Furnished by the manufacturer for models offered
PC = Power Cost (Dollars per watt-hour). [PC = .00008 in your area]
OH = Operating hours per year. (OH = 1,000 in your area based on technical estimates).
EER = Energy Efficiency Ratio. Furnished by the manufacturer for the models offered

CASE ANSWER - COOL WINDOW (Con't)

You have received the following offers:

OFFEROR	BTU	EER	UNIT PRICE
Wholesome Air	7,000	9	$220.00
Air Movement	7,500	10	$325.00
Joe's Air Conditioning	7,500	8.7	$335.00
Plotnic Air	7,000	9	$400.00

1. Calculate discounted energy cost.

OFFEROR	B	$\frac{(BTU)\ (\$.08)}{EER}$	DISCOUNTED ENERGY COST
Wholesome Air			
Air Movement			
Joe's Air Conditioning			
Plotnic Air			

7.61	$62.22	$473.49
7.61	$60.00	$456.60
7.61	$68.97	$524.86
7.61	$62.22	$473.49

2. Calculate total of unit price and discounted energy cost to the Government.

OFFEROR	UNIT PRICE	DISCOUNTED ENERGY COST	TOTAL
Wholesome Air			
Air Movement			
Joe's Air Conditioning			
Plotnic Air			

$220.00	$473.49	$693.49
$325.00	$456.60	$781.60
$335.00	$524.86	$859.86
$400.00	$473.49	$873.49

3. Based on your evaluation of total price and discounted energy cost, which firm should receive the contract award?

Wholesome Air

TOPIC:	SUMMARY - APPLY PRICE-RELATED FACTORS
REF:	TR 5-1 through 5-47
OBJECTIVE:	Summarize to the students the seven price-related factors in the award decision.
METHOD:	Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 5-1 through 5-47 VG 5-20	Summary. a. Show VG 5-23: **PRICE-RELATED FACTORS FOR AWARDP. 5-1** • **ASSUMED ADMINISTRATIVE COSTS** • BUY AMERICAN ACT • **QUALITY-RELATED FACTORS** • GOVERNMENT FURNISHED PRODUCTION AND RESEARCH PROPERTY • **TRANSPORTATION COST FACTORS** • **ENERGY CONSUMPTION AND EFFICIENCY FACTORS** • LEASE VS. PURCHASE VG 5-20 b. Summarize to the students what they learned in this lesson: They learned how to apply price related factors in determining the low offer or offers. • Now you must compare the low offer with other prices to determine how close the low offer comes to the price that the Government should reasonably expect to pay for the contract.	

LESSON 6

COMPARE PRICES

Primary Learning Objective (PLO)

Condition: Given RFP, proposals, technical data, purchase requests (including cost estimates, market data or results of actual research), historical data, and evaluated prices bid

Task:

1) Determine the type(s) of data to use as the basis for analyzing offered prices to include:

   - Competitive Prices
   - Catalog/Market/Regulated Prices
   - Historical Prices
   - Pricing Yardsticks and Cost Estimating Relationships
   - Government Estimates

2) Select the applicable technique(s) as the basis for projecting "Should Pay" prices to compare with offered prices to include:

   - Index Numbers
   - Economic Trend Analysis
   - Price-Volume Relationships
   - Improvement Curve
   - Pricing rules of thumb and CERs
   - Ratio of Price to Estimated Direct Costs

Standard: Correctly identifies types of data which affect the price comparability of data collected for analysis. Correctly selects the types of data as the basis for projecting "should pay" prices to compare with offered prices and techniques of projection that will yield the best estimate of the "Should Pay" price.

Course Learning Objective (CLO)

6-1 Identify steps in making price comparisons.

- Select Prices for Comparison
- Identify Factors that Affect Comparability
- Determine the Effect of the Factors Identified
- Adjust the Prices Selected for Comparison
- Compare Adjusted Prices to the Offer in Line for Award

Classroom Learning Objective (CLO)	6-2 Compare the low offer to: • Competitive Prices • Commercial Prices • Historical Prices • Pricing Yardsticks and Cost Estimating Relationships • Government Estimates
Estimated Time	2 hours 30 minutes —Lecture/Discussion/Case Studies.
Method of Instruction	Lecture/Discussion with viewgraphs as visuals. Student Exercise—Case studies on types of price comparison and price reasonableness.
Student Materials	Text/Reference—Chapter Six Classroom Materials—Chapter Six
Instructor Materials	Text/Reference—Chapter Six Instructor Guide—Lesson Six Overhead Projector Viewgraphs for Chapter Six
Instructor References	BP 17.4, EO 3 (bullet 2,3); BP 21, EO 5; FAR 15.805-2

TOPIC:	INTRODUCTION TO COMPARE PRICES
REF:	TR 6-1 through 6-6
OBJECTIVE:	Introduce the students to the steps in making price comparisons.
TIME:	8:25 a.m. Wednesday; 2 hours 30 minutes for the entire Lesson (excluding time for the morning break). • Provide a morning break round about 9:25. • Conclude at 11:15 a.m.
METHOD:	Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-1	a. Allow the students some time to review the learning objectives on TR 6-1.	
	b. State the purpose of this lesson: Learn how to select and apply comparison bases for price analysis. • First, we will first cover general rules for making price comparisons. • Second, we will look at each comparison base in greater detail, in terms of applying that base in determining price reasonableness.	
VG 6-1	**LESSON 6 OVERVIEW** **P. 6-3** • General steps in making comparisons • Types of comparisons VG 6-1	

TOPIC:	6.1 MAKE COMPARISONS
REF:	TR 6-7 through 6-20
OBJECTIVE:	Identify steps in making price comparisons.
METHOD:	Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-8 VG 6-2	**STEPS IN MAKING A PRICE COMPARISON P. 6-8** 1. SELECT PRICES FOR COMPARISON. 2. IDENTIFY FACTORS AFFECTING COMPARABILITY. 3. DETERMINE POTENTIAL IMPACT OF IDENTIFIED FACTORS ON PRICE ANALYSIS COMPARISONS. 4. ADJUST PRICES SELECTED FOR COMPARISON. 5. COMPARE ADJUSTED PRICES WITH OFFER IN LINE FOR AWARD. VG 6-2 a. State the purpose for price comparisons: Determine whether the low offer is "fair and reasonable" — in terms of being at or near the "should-pay" price. • Define "should pay" price as the price that, in your best judgment, the Government should reasonably expect to pay based on offers, commercial prices, historical prices, yard-sticks, and Government estimates. • Stress that the should pay price is an estimate, which means that, by definition, it is inexact. Hence, don't sweat over small variations between the low offer and your estimate of a should pay price. • If the low offer is <u>significantly</u> higher or lower than your should pay estimate: - Determine **WHY** (Chapter 8), and then, given likely reasons for the variance, - Make the price related decisions described in Lessons 9 (Sealed Bidding) and 10 (Negotiated procurements) b. Present the five general steps in making price comparisons.	

TOPIC: 6.1 MAKE COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-11	**STEP 1 Select Prices for Comparison** (6.1.1) When preparing to perform a price analysis, ask three related questions • What information is available on comparative prices? • Given the available data, which comparison bases would give me the best perspective on the low offer's reasonableness? • Which specific prices from each comparison base should I consider? That is, which of the competitive prices? Historical prices from which specific prior contracts? Commercial prices from which firms and for what products? Which of the available yardsticks would be the best measure of the low offer? The next slide, ONE, lists the five standard comparison bases and, TWO, issues in selecting prices from each base for comparison to the low offer.	

VG 6-3

BASIC STEPS IN MAKING A PRICE COMPARISON P.6-8

STEP	ACTION	QUESTIONS TO CONSIDER
1	Select prices for comparison: • Competitive prices • Commercial prices • Historical prices • Price estimates based on pricing relationships (e.g., "yardsticks") • Government estimates	Would this comparison be valid? Are more comparable prices available?

VG 6-3

TOPIC: 6.1 MAKE COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-12	**STEP 2 Identify Factors that Affect Comparability** (6.1.2) Prices can compared only when all other things have been equalized. The following slide shows lists factors to consider before using any given competitive, commercial, historic, or estimated price as an indicator of price reasonableness.	

VG 6-4

BASIC STEPS IN MAKING A PRICE COMPARISON P.6-8

STEP	ACTION	QUESTIONS TO CONSIDER
2	Identify factors that affect comparability.	Have I considered all potentially significant factors, including differences in— • Market Conditions • Quantity or size • Geographic location • Purchasing power of the dollar • Extent of competition • Technology • Terms and conditions VG 6-4

	Explain the impact that differing Market Conditions can have on a price comparison. • The passage of time usually is accompanied by changes in supply, demand, technology, product designs, pricing strategies, and laws that affect vendor pricing decisions. • An effort to equate two prices five years apart by simply adjusting for inflation may be misleading. Too many characteristics of the market are likely to have changed. Do not stretch data beyond their limits.	

TOPIC:	6.1 MAKE COMPARISONS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 6-13	6.1.2 Identify Factors that Affect Comparability (Cont.) Differing market conditions (continued) • To minimize the impact of market conditions on price comparisons: - Select prices for comparison that were established under market conditions as similar as possible to those of the present acquisition. - When market conditions for two prices appear roughly similar, use the most recent of the prices for comparison to the low offer. Explain the impact that differences in size can have on a price comparison. • Generally, unit prices drop as the size of an order increases. • However, that is not true once suppliers are near or at full capacity. Market forces may also dictate higher near term prices regardless of quantity. • For commodities sold in huge numbers to the general public, such as pencils, producers may already have reflected maximum economies of scale in their commercial prices; the fact that the Government wants 100 or 1,000 pencils may be of little consequence to producer prices. • To minimize the impact of quantity variations on price comparisons: - Where possible, select prices for comparison from contracts for the same quantity as the present acquisition. - Otherwise, you will have to estimate the impact that quantity has had on price. - In the service area, variations in size can sometimes be neutralized by reducing the comparison to price per square foot or price per productive labor hour.	

TOPIC: 6.1 MAKE COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-14	6.1.2 Identify Factors that Affect Comparability (Cont.) Explain the impact that geographic differences can have on a price comparison. • Prices may vary widely from one locality to another, because of differences in market conditions between the two localities. • Where possible, compare prices from the same area. • When you have to compare prices across geographic boundaries: - Check extent of competition, which can vary from place to place. - Determine extent to which variations in price of labor must be neutralized. - Check freight requirements and accompanying costs. - Identify geographic anomalies or trends. Explain the impact that differences in the purchasing power of the dollar can have on a price comparison. • Inflation undermines comparability by eroding the real value of money. • Deflation likewise undermines comparability. • You can make adjustments for changes in the value of the dollar, using the techniques that will be taught in the next lesson. Explain the impact that differences in the extent of competition can have on a price comparison. • Sole source prices are usually a poor standard for judging competitive prices. • Another issue is whether a past competition was adequate, as we will discuss later in the lesson.	

TOPIC: 6.1 MAKE COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-14	6.1.2 Identify Factors that Affect Comparability (Cont.) Explain the impact that differences in technology can have on a price comparison. • Prices from dying industries can rise because technologies don't keep pace with rising costs. • Technological advances in growth industries can drive prices down, e.g. the computer industry. Hence, last year's price for a computer is probably a poor base for judging this year's prices or estimating next year's prices. • Engineering or design changes must be taken into account. Explain the impact that differences in Government requirements can have on a price comparison. • Often, the Government's specifications vary to some degree from that for the commercial counterparts. The question is the impact these variations have on price. • A Government buyer must often include provisions that are not required in the usual market transactions, e.g. Davis-Bacon Act, the Service Contract Act, clean air and water, and many other special conditions. These tend to inflate prices charged the Government, compared to commercial prices. In summary, what you <u>don't know</u> can lead you to the wrong conclusion on whether the low price is fair and reasonable. Be aware of all factors that can throw off a price comparison and take them into account when comparing prices.	

TOPIC: 6.1 MAKE COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-16	**STEP 3 Determine the Effect of the Factors Identified** (6.1.3)	

BASIC STEPS IN MAKING A PRICE COMPARISONP.6-8

STEP	ACTION	QUESTIONS TO CONSIDER
3	Determine the potential impact of these factors on prices selected for comparison.	How substantial is the impact? In view of these factors and their impact: • Would the contemplated comparison have any credibility? • How much weight should I place on each price vis-a-vis other comparable prices? VG 6-5

VG 6-5

- Don't waste time on price comparisons that strain credibility.
  - If differences in market conditions, quantities, technology, geology or Government requirements are too many or too great, how much faith can you place in a price comparison?
  - Some differences between the current acquisition and comparative acquisitions are beyond the power of quantitative techniques to reconcile.
- Also bear in mind that not all comparative prices deserve equal weight as a basis for judging the low offer. You will have to determine the weight to place on each, given the data in hand on the acquisitions being compared.

TOPIC: 6.1 MAKE COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-17	**STEP 4 Adjust the Prices Selected for Comparison** (6.1.4)	

VG 6-6

BASIC STEPS IN MAKING A PRICE COMPARISONP.6-8

STEP	ACTION	QUESTIONS TO CONSIDER
4	Adjust prices selected for comparison.	Have I accounted for all factors that can be dollarized? What techniques should be applied in making the adjustment? How much reliance can I place on the resulting estimate? VG 6-6

	You will learn how to adjust prices for comparison in Lesson 7.	
TR 6-18	**STEP 5 Compare Adjusted Prices to the Offer in Line for Award** (6.1.5)	

VG 6-7

BASIC STEPS IN MAKING A PRICE COMPARISONP.6-8

STEP	ACTION	QUESTIONS TO CONSIDER
5	Compare adjusted prices to the offer in line for award.	If the adjusted prices differ substantially from the low offer, what price should the Government reasonably expect to pay? What accounts for differences between this "should-pay" price and the offer in line for award? VG 6-7

	The issue: how close do the adjusted prices come to the low offer? In Lesson 8, you will learn how to account for significant differences, and in Lessons 9 and 10 you will learn what to make of them.	

TOPIC: 6.2 TYPES OF COMPARISONS

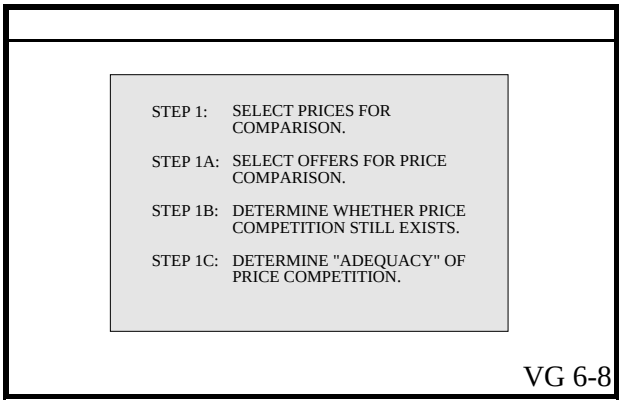
REF: TR 6-21 through 6-50

OBJECTIVE: Compare the low offer to:

- Competitive Prices
- Catalog/Market/Regulated Prices
- Historical Prices
- Pricing Yardsticks and Cost Estimating Relationships
- Government Estimates

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-24	6.2.1 Use Competitive Prices a. Present steps in comparing competitive prices.	
VG 6-8		**COMPETITIVE PRICES AS COMPARIS**
	Step 1: Select prices for comparison **Step 1A: Select offers for the price comparison.** QUESTION: Do you have to compare all offers to the low offer? If not, which offers can you dismiss? ANSWER: NO. In sealed bidding, you must reject: • Nonresponsive bids. • Bids from nonresponsible bidders. In negotiated procurements, do not consider proposals that are technically outside the competitive range.	

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-24	6.2.1 Use Competitive Prices	

Step 1B. Determine if price competition still exists.

GENERALLY ASSUME THAT PRICE COMPETITION EXISTS when the answer is **YES** to **ALL** of the following questions:

- Are there two or more offerors?
- Are there two or more offerors responsive to the terms of the solicitation?
- Are the two or more responsive offers from responsible firms?
- Are the offerors competing independently?
- Will award be made to the offeror with the lowest evaluated price?

VG 6-9

DETERMINE WHETHER PRICE COMPETITION EXISTS **P. 6-25**

IF...	THEN....
There is only one offer.	Price competition does not exist.
There is only one responsive offer from a responsible offeror	Price competition does not exist.
The offerors did not compete independently (e.g., were collusive)	Price competition does not exist no matter how many offers are received.
Only one brand name and part number is acceptable.	Price competition does not exist .
Offers all come from different divisions of the same corporation.	Price competition does not exist. Offers are not independent.

VG 6-9

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-24	6.2.1 Use Competitive Prices (continued)	

Cont. IF...	**P. 6-25** THEN....
Award will be made based on greatest value, considering both price-related and technical ranking factors.	Price competition exists only if price is a substantial evaluation factor.
Award will be made based solely on technical factors.	Price competition does not exist. VG 6-10

TR 6-26

Step 1C: Determine the "adequacy" of the price competition.

Price competition is not adequate if any of the following is true:

- The solicitation was made under conditions that unreasonably denied one or more known and qualified offerors an opportunity to compete.
- The low offeror has such a decided advantage that it is practically immune from competition.
- Other price comparisons (or a cost realism analysis) show that the low offer is unreasonable.

QUESTION: What if price competition either doesn't exist or was not adequate?

ANSWER: If the dollar value of the acquisition exceeds the threshold for certified data and no other exemption applies, you would have to require submission of certified cost or pricing data.

TOPIC:	6.2 TYPES OF COMPARISONS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 6-26	6.2.1 Use Competitive Prices (Cont.) **Some indicators that offerors were unreasonably denied an opportunity to compete:** • The solicitation restricted competition to a particular brand. • The solicitation restricted competition to an item with unique features. • The solicitation restricted competition to items that are compatible with an item that has unique features.	
TR 6-27	**Some indicators of possible unfair competitive advantage:** • Competitors or independent market analysts allege that a firm has an unfair market advantage. • One firm always wins. • One offeror's price is substantially lower than the other competitors' prices. • The low offeror has a disproportionate market share. **If these indicators point to an unfair competitive advantage, investigate:** • Whether the low offeror has an edge in production technology? • Whether the low offeror has a significant edge in production tooling? • Whether the low offeror controls a key component.	

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-28	6.2.1 Use Competitive Prices (Cont.)	
VG 6-11	**COMPETITIVE PRICES AS COMPARISON BASE (Continued)** **P. 6-28** STEP 2: IDENTIFY FACTORS THAT AFFECT COMPARABILITY. STEP 3: DETERMINE THE POTENTIAL IMPACT OF THESE FACTORS ON COMPETITIVE PRICES. STEP 4: ADJUST PRICES SELECTED FOR COMPARISON. STEP 5: COMPARE ADJUSTED PRICES TO THE LOW OFFER. VG 6-11	
	Step 2: Identify factors that affect comparability. In sealed bidding, you must consider the IFB's stated price-related factors. In competitive negotiations, you must consider the RFP's price-related factors plus the impact of: • Changes in the RFP's requirements proposed by offerors. • The type of specification, and • The type of competition (i.e., "greatest value" or "lowest price, technically acceptable.") **Step 3: Determine the potential impact of these factors on competitive prices.** Comparing proposals may not be as simple as comparing bids, when: • The offer in line for award departs form the RFP's stated requirements. • Offers differ in their approach to meeting performance of functional specifications. • Technical proposals in "greatest value" competitions differ in promised capabilities and performance.	

TOPIC:	6.2 TYPES OF COMPARISONS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 6-29	6.2.1 Use Competitive Prices (Cont.) **Step 4: Adjust prices selected for comparison.** • Apply price-related factors, as described in Chapter 5, to adjust the offered prices for comparison with one another. **Step 5: Compare adjusted prices to the low offer.** Comparing offers is the easiest form of price analysis. However, place less weight on competitive prices and more weight on other comparison bases when: • Price competition does not exist. • Relatively few responsible firms submitted responsive offers (especially if the others had no real chance to compete). • The low offeror appears to enjoy an unfair competitive advantage. • Given a performance or functional spec., the low offer's technical approach is more comparable to (a) to work performed under prior contracts or (b) to commercial counterparts. • In a "greatest value" competition, the deliverable in line for award is more comparable to (a) those acquired under prior contracts or to (b) commercial counterparts. • The low offer is significantly out of line with other offers. • The low offer is significantly out of line with estimates of the should-pay price from other types of comparisons. • The cost of the acquisition is substantial. The larger the dollar value, the more importance you should place on sizable dollar differences between different comparison bases.	

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
CM-27	b. Assign the case study "Tuff and Hardy Tools" (20 minutes). • Assign the students the entire case. • Allow time to complete. • Record answers to questions on the board for discussion.	

CASE ANSWER - TUFF AND HARDY TOOLS
(Based on a real case)

Two offers were received under a request for proposals (RFP) for 1,000 each of several general purpose wrenches. As shown in the table below, Tuff Tools was low on all items. During discussions with Tuff Tools, the contracting officer determined that the firm was planning to provide wrenches purchased from Loggins Tools. Loggins was the successful offeror on the last contract but was subsequently defaulted for failure to make timely deliveries. Because of the recent default, the contracting officer advised Tuff Tools that Loggins Tools was an unacceptable source of supply. As a result, Tuff Tools decided to provide tools produced in-house.

Tuff Tools' Best and Final Offer (BAFO) revised its price as a result of the negotiations. However, Tuff Tools remained the low offeror on all items. Hardy Tools' BAFO confirmed the firm's original offer. The following table summarizes relevant pricing information.

ITEM NO.	PREVIOUS UNIT PRICE	TUFF TOOLS UNIT PRICE ORIGINAL	TUFF TOOLS UNIT PRICE REVISED	HARDY TOOLS UNIT PRICE
1	$2.70	$5.15	$7.30	$ 8.40
2	$2.75	$5.20	$6.35	$7.60
3	$3.20	$5.45	$8.00	$10.00
4	$3.75	$6.55	$7.50	$8.65
5	$4.20	$7.55	$9.45	$10.40

In performing the price analysis, the contracting officer considered comparisons with both historical prices paid and the prices quoted by the two competitors.

ITEM NO.	COMPARISON TUFF TOOLS ORIGINAL UNIT PRICE/PREVIOUS UNIT PRICE	COMPARISON TUFF TOOLS REVISED UNIT PRICE/ PREVIOUS UNIT PRICE	COMPARISON HARDY TOOLS UNIT PRICE/TUFF TOOLS REVISED
1	+ 90%	+ 170%	+ 15%
2	+ 89%	+ 131%	+ 20%
3	+ 70%	+ 150%	+ 25%
4	+ 75%	+ 100%	+ 15%
5	+ 80%	+ 125%	+ 10%

The contracting officer found that Tuff Tools' prices were fair and reasonable based on the available competition. The price determination noted that the price increases are due, in part, to the change in manufacturer as a result of the previous termination. The determination further noted that it is in the best interest of the Government to pay higher prices to obtain better quality supplies in a timely manner.

CASE ANSWER - TUFF AND HARDY TOOLS (Con't)

1. **Do you concur in the contracting officer's decision?**

   No, not based on the information presented in the case. No measure of inflation is given, but the proposed prices are substantial increases over prices in the last contract. There is also a reasonably large gap between the successful offeror and the only other offeror. For an item such as wrenches, competition should be intense.

   BOTTOM LINE — a 200% increase in price deserves more than a one line justification.

2. **What other actions might the contracting officer have taken in determining price reasonableness?**

   Survey potential offerors to determine why they did not submit an offer.

   Review the solicitation to determine whether its terms and conditions had restricted competition — was there anything in the specs, delivery terms, warranty terms, inspection and acceptance requirements that discouraged competition?

   Compare offered prices with catalog and market prices.

   Compare prices with prices paid for these wrenches from other than the defaulted firm.

   Investigate the Loggins default. Was its price unreasonably low? In that case, its price for the last contract would not constitute a valid benchmark for judging the prices offered by Tuff Tools. In particular, the contracting officer should examine prices offered by Loggins's competitors on the last contract — to determine whether the award price was out of line even then with competitive prices.

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
CM-29	c. Assign the case study "Wagner Works" (20 minutes). • Assign the students the entire case. • Allow time to complete. • Record answers to questions on the board for discussion.	

CASE ANSWER - WAGNER WORKS

Four firms submitted offers to produce 2,000 units of a cutting device made to Government specification. The four offers are summarized in the following table:

PRICE SOURCE	UNIT PRICE
Last Price (12 months ago)	$10.00
Careless Cuts	$10.50
Cuts Unlimited	$10.60
Cut to Fit	$11.45
Sharps	$98.25

Careless Cuts was the low offeror. However, the firm received an unsatisfactory preaward survey. As result the firm was referred to the Small Business Administration (SBA) for a Certificate of Competency (COC) determination. By letter, the SBA advised the contracting office that Careless Cuts decided not to apply for a COC.

The second low offeror, Cuts Unlimited, received a positive preaward survey.

Cut Unlimited's price is 6 percent higher than the last price paid. Review of the appropriate Producer Price Index (PPI) revealed a 12 percent price increase since the last purchase.

Based on adequate price competition and price comparisons with historical prices adjusted for inflation, the contracting officer awarded to Cuts Unlimited.

1. **Do you concur in the contracting officer's decision?**

   Yes, the price appears fair and reasonable.

   The only question might be whether the prior price was fair and reasonable, since the justification places such great weight on the past price as an indicator of price reasonableness.

2. **What other actions might the contracting officer have taken in determining price reasonableness?**

   It seems strange that one firm was so far outside the competitive range. Possibly the contracting officer should have determined why their price was so high.

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
CM-30	d. Assign the case study "McPeak University" (20 minutes). • Assign students to teams. • Assign the students the entire case. • Allow time to complete. • Record answers to questions on the board for discussion.	

CASE ANSWER - McPEAK UNIVERSITY
(Based on a real case)

McPeak University is currently providing specialized education support services to an agency under a 1-year contract with four 1- year options. The contract is in the final option year. McPeak offers full college credit to all personnel who complete the courses offered under the contract.

To continue the required services, the agency issued a request for proposals (RFP) under full and open competition. Two institutions responded to the solicitation, McPeak and Mail Order Tech (MOT).

Pricing information is provided in the table below.

	PRIOR CONTRACT	GOVERNMENT ESTIMATE	MCPEAK UNIVERSITY	MAIL ORDER TECH
Prior contract Year	$ 900,000			
Base Contract		$ 990,000	$1,200,000	$1,200,000
Option 1		$1,089,000	$1,300,000	$1,200,000
Option 2		$1,197,900	$1,400,000	$1,200,000
Option 3		$1,317,690	$1,525,000	$1,200,000
Option 4		$1,449,459	$1,750,000	$1,200,000
Total		$6,044,049	$7,175,000	$6,000,000

After review of the technical proposal the source selection panel found that the proposal from MOT was technically unacceptable. The team found that the proposal demonstrated a lack of understanding of the statement of work to the extent that it would require a complete revision, tantamount to submission of a new proposal. The proposal was based on inadequate resumes, staffing, and experience in conducting training at the level and magnitude required. MOT was advised, in writing, that the technical deficiencies in its proposal were so great that it had been excluded from the competitive range.

An SF 1411 was not requested because the RFP was issued under conditions of full and open competition and McPeak University was not aware of its single source status. The McPeak compensation plan was reviewed in accordance with FAR 52.222-45 and 52.222-46 and found to be acceptable.

CASE ANSWER - McPEAK UNIVERSITY (Con't)

The price was found to be fair and reasonable based on price competition and previous contract price history. This decision was further supported by the compensation plan review.

1. **Do you concur in the contracting officer's decision?**

   No. There was no competition. The low offeror was found to be technically unacceptable. As a result the acquisition is sole source. The price also shows a 33% increase over the prior contract and is 21% above the Government estimate.

2. **What other actions might the contracting officer have taken in determining price reasonableness?**

   The contracting officer should have determined why there were no other offerors. Is the requirement restrictive? Does McPeak have a lock on the competition? In any event, Certified Cost or Pricing Data should have been required.

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-31	6.2.2 Use Commercial Prices	
	e. Define "commercial" price and present steps in comparing the low offer to commercial prices. • Commercial prices are prices being paid by the general public for a product. • The following steps show how to use commercial prices as a base for price analysis:	
VG 6-12	**COMMERCIAL PRICES P 6-31** STEP 1: IDENTIFY AND SELECT COMMERCIAL PRICES FOR COMPARISON WITH OFFERED PRICES. STEP 1A: DETERMINE WHETHER COMPETING FIRMS HAVE COMMERCIAL PRICES FOR SAME OR COMPARABLE PRODUCTS. STEP 1B: DETERMINE WHETHER OTHER FIRMS HAVE PUBLISHED PRICES FOR SAME OR COMPARABLE PRODUCTS. STEP 2: IDENTIFY FACTORS THAT AFFECT COMPARABILITY. STEP 3: DETERMINE POTENTIAL IMPACT OF IDENTIFIED FACTORS ON PRICE ANALYSIS COMPARISONS. STEP 4: ADJUST PRICES SELECTED FOR COMPARISON. STEP 5: COMPARE ADJUSTED PRICES TO OFFER IN LINE FOR AWARD. VG 6-12	
	Step 1. Identify and select commercial prices for comparison with offered prices.	
	Step 1A. Determine whether the <u>competing firms</u> have commercial prices for the same or comparable products.	
	• When acquiring supplies from a sole source vendor at a price that exceeds the dollar threshold for certified data, the vendor must either: - Submit certified cost or pricing data, or - Furnish information on catalog, market, or regulated prices on Standard Form 1412, as the basis for exempting it from the requirement for certified data.	

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-32	6.2.2 Use Commercial Prices • Even if the offeror is exempt from submitting certified cost or pricing data, one can compare the offered price to the firm's catalog or market price for sales to the general public. As a minimum, the following questions should be considered: • When comparing the vendor's offer to that vendor's catalog price, does the catalog price meet the tests of Lesson 3 for commerciality? - Are the catalog items regularly used for other than Government purposes and sold or traded to the general public in the course of normal business operations? - Are the items sold in substantial quantities to the general public? - Are sales to the public generally at the catalog price? If not, what prices are actually paid by commercial customers? • When comparing the vendor's offer to that vendor's market price, does the market price meet the tests of Lesson 3 for commerciality? - Are market prices established in the courses of ordinary and usual trade between multiple buyers and sellers who are free to bargain? - Can the prices be substantiated by data from sources independent of the producer or vendor? • Is the price based on a regulated price?	

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-33	6.2.2 Use Commercial Prices (Cont.) **Step 1B. Determine whether <u>other firms</u> have published prices for the same or comparable products.** • Address all the concerns outlined in Step 1A above. • Provide evidence that the "comparable product" is truly comparable to the product that is being procuring. **Step 2. Identify factors that affect comparability.** • Time — are catalog or published prices out of date? Has there been any significant change in market conditions? In the purchasing power of the dollar? • Type of prices that have been published (Retail? Wholesale? Sale Prices?) • Correlation between historical prices (i.e., prices actually paid by different buyers) and published prices (i.e., does anyone in fact pay the suggested "retail" price?) • Multiple customer classes (e.g., are there different prices for different classes of customers—public vs. brokers vs. retailers?) • Soft discounts? • Rebates and discounting practices? • Extras—does the firm often, for promotional purposes, throw in "extras" (e.g., free packaging, free transportation, free insurance, etc.) for the same price? • Other differences between the terms of commercial sales versus the terms and conditions of the IFB or RFP?	

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-34	6.2.2 Use Commercial Prices (Cont.) **Step 3. Determine the potential impact of identified factors on price analysis comparisons.** • Will comparing the offer in line for award with available commercial prices provide credible evidence of price reasonableness? • How much weight can be put on available commercial price comparisons? **Step 4. Adjust prices selected for comparison.** Valid reasons for not paying the commercial price. In particular: • Buying much larger quantities than any other customer. • Not need the "extras" provided to commercial customers.	
TR 6-35	**Step 5. Compare the adjusted prices to the offer in line for award.** • Can the offeror explain any differences? • Is your purchase situation different from the typical commercial market situation? • Do other price analysis bases confirm that the offered price is reasonable?	

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
CM-32	f. Assign the case study "Leonard's Linens." (20 minutes) • Assign students to teams. • Assign the students the entire case. • Allow time to complete. • Record answers to questions on the board for discussion.	

CASE ANSWER - LEONARD'S LINENS
(Based on an actual case)

Your organization issued an RFP for hospital linen rental under procedures for full and open competition. A total of 30 firms requested copies of the solicitation. However, only one firm actually submitted a proposal, the incumbent contractor, Leonard's Linens.

The total proposed price for the 1-year contract is $98,000. As part of the contracting officer's efforts to determine price reasonableness, Leonard's was asked to submit "any available pricing data." Leonard's submitted the attached SF 1412 with a single attachment, a price list for hospital linens.

ITEM	QUANTITY ESTIMATE	PROPOSED UNIT PRICE	PROPOSED PRICE	CATALOG UNIT PRICE	PRICE AT CATALOG	GOVT ESTIMATE UNIT PRICE	GOVT PRICE ESTIMATE
Sheets	40,000	$ .45	$18,000	$1.35	$54,000	$ .41	$16,400
Operating Room Sheets	10,000	$ .95	$ 9,500	$2.70	$27,000	$ .75	$ 7,500
Pillow Cases	40,000	$ .26	$10,400	$ .55	$22,000	$ .20	$ 8,000
Bath Towels	40,000	$ .32	$12,800	$ .45	$18,000	$ .25	$10,000
Operating Room Towels	30,000	$ .55	$16,500	$ .65	$19,500	$ .50	$15,000
Hand Towels	40,000	$ .12	$ 4,800	$ .30	$12,000	$ .08	$ 3,200
Patient Gowns	40,000	$ .40	$16,000	$1.00	$40,000	$ .36	$14,400
Lab Coats	5,000	$2.00	$10,000	$5.00	$25,000	$2.10	$10,500
Total			$98,000		$217,000		$85,000

Leonard's did not provide any information on possible discounts from the catalog prices outlined abov
The Government estimate is based on the prior contract unit prices and the proposed contract quantitie

CASE ANSWER - LEONARD'S LINENS (Con't)

The contracting officer determined that the proposed price is reasonable, "based on comparisons of the proposed prices with current prices and the prices published in an existing catalog."

1. Do you concur in the contracting officer's decision?

No. There is no evidence to support the existence of catalog pricing in a commercial market. The proposed price exceeds the Government estimate by 15%.

There also is no evidence that the contracting officer adjusted the Government estimate, which was based on the last contract price, for inflation.

Again, this justification is poorly documented.

2. What other actions might the contracting officer have taken in determining price reasonableness?

- The basis for the Government estimate should be examined. Why was it based on past contract prices alone? Were past prices reasonable?
- A greater effort should be made to determine commercial prices. The contracting officer could have asked other sources for copies of their catalogs or published prices.
- The contracting officer should determine why the other possible sources did not submit an offer.
  - Does Leonard alone have the capacity to handle the Government's requirement? Would progressive or split awards have encouraged greater competition?
  - Were other aspects of the solicitation restrictive of competition? Inspection requirements? Performance deadlines?
- Note that Leonard's price is below the dollar threshold for certified data, which means that the contracting officer could have requested submission of limited or partial cost data, rather than complete data. Hence, the contracting officer should have considered asking for selective data on costs to verify price reasonableness in the absence of sufficient data to verify reasonableness through price analysis alone.
- Alternatively, the CO should have asked Leonard to submit a complete SF 1412.

CLAIM FOR EXEMPTION FROM SUBMISSION OF CERTIFIED COST OR PRICING DATA

FORM APPROVED OMB NO. 3090-0116

1. OFFEROR (Name, address, ZIP Code) Leonard's Linens 1204 E. Washington St. Beta, OH	3. SOLICITATION NO. WK 453218 4. ITEM OF SUPPLIES AND/OR SERVICES TO BE FURNISHED Rental of Linen Services
2. DIVISION(S) AND LOCATION(S) WHERE WORK IS TO BE PERFORMED Price List - See Attached	5. QUANTITY Various 6. TOTAL AMOUNT PROPOSED FOR ITEM $

By submission of this form the offeror claims exemption from requirements for submitting certified cost or pricing data on the basis that the price offered is based on an established catalog or market price of a commercial item sold in substantial quantities to the general public or is a price set by law or regulation (see FAR 15.804-3). Complete Section I, II, or III below as applicable.

SECTION I - CATALOG PRICE (See instructions for items 7 thru 11 on reverse.)

7. CATALOG IDENTIFICATION AND DATE	8. SALES PERIOD COVERED FROM	TO

9. CATEGORIES OF SALES	TOTAL UNITS SOLD*	10. REMARKS
a. U.S. Government sales		
b. Sales at catalog price to general public		
c. Other sales to general public		

* If your accounting system does not provide precise information, insert your best estimate and explain the basis of it in item 10, REMARKS. Continue on a separate sheet ,if necessary.

11. LIST THREE SALES OF THE ITEM OFFERED

SALES CATEGORY	DATE	NO. OF UNITS SOLD	PRICE/UNIT
a. ☐ B ☐ C			$
b. ☐ B ☐ C			$
c. ☐ B ☐ C			$

SECTION II - MARKET PRICE (See Instructions for item 12 on reverse.)

12. SET FORTH THE SOURCE AND DATE OR PERIOD OF THE MARKET QUOTATION OR OTHER BASE FOR MARKET PRICE, THE BASE AMOUNT, AND APPLICABLE DISCOUNTS.

SECTION III - LAW OR REGULATION (See instructions for item 13 on reverse.)

13. IDENTIFY THE LAW OR REGULATION ESTABLISHING THE PRICE OFFERED

REPRESENTATION (See instructions for item 14 on reverse.)

The offeror represents that all statements made above and on attachments submitted are accurate and are submitted for the purpose of claiming exemption from requirements for submitting certified cost or pricing data. The offeror also represents that, except as stated in an attachment, a like claim for exemption involving the same or a substantially similar item has not been denied by a Government Contractiong Officer within the last 2 years. Pending consideration of the proposal supported by this submission and, if this proposal or modification of it is accepted by the Government, until the expiration of 3 years from the date of final payment under a contract resulting from this proposal, the Contracting Officer or any other authorized employee of the United States Government is granted access to books, records, documents, and other supporting data that will permit verification of the claim.

14. TYPED NAME, TITLE, AND FIRM	15. SIGNATURE	16. DATE OF SUBMISSION
Leonard Da Vince PRESIDENT	Leonard Da Vince	July, 28 1988

NSN 7540-01-142-9846
1412-101

STANDARD FORM 1412 (10-83)
Prescribed by GSA
FAR (48 CFR) 53.215-2(b)

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-37	6.2.3 Use Historical Prices g. Present general issues and steps in comparing historical prices to the low offer. • General issues: - Was the price ever fair and reasonable? - Has there been price creep over time? Example: One contracting activity had an arbitrary rule that any price within 10% of the prior price would be considered reasonable. Vendors responded by raising prices 9.9% every year. - How do historical prices compare <u>after</u> adjustment for changes in the dollar's purchasing power over time? (In the next lesson, you will learn techniques for making such adjustments.)	
VG 6-13	**HISTORICAL PRICES AS BASE FOR PRICE ANALYSIS P. 6-37** STEP 1: IDENTIFY AND SELECT HISTORICAL PRICES FOR COMPARISON. STEP 2: IDENTIFY FACTORS THAT AFFECT COMPARABILITY. STEP 3: DETERMINE POTENTIAL IMPACT OF IDENTIFIED FACTORS ON PRICE ANALYSIS COMPARISON. STEP 4: ADJUST PRICES SELECTED FOR COMPARISON. STEP 5: COMPARE ADJUSTED PRICES TO OFFER IN LINE FOR AWARD. VG 6-13	
	Step 1. Identify and select historical prices for comparison. Ask yourself these questions: • Has the product been purchased before? • What was the historical price? • Was the historical price fair and reasonable?	

TOPIC:	6.2 TYPES OF COMPARISONS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 6-38	6.2.3 Use Historical Prices (Cont.) **Step 2. Identify factors that affect comparability.** • To what extent have market conditions changed with time? • Are there differences in the quantities being acquired? • Has the dollar gained or lost purchasing power since the last acquisition? • Are there any differences in terms and conditions? • Have there been technological changes in the product it self or in how the product is made? - Does the historical price reflect start-up costs that should not be reflected in current pricing? - Have there been changes in production or delivery rates?	
TR 6-39	**Step 3. Determine the potential impact of identified factors on price analysis comparisons.** • Will comparing the offer in line for award with available historical prices provide credible evidence of price reasonableness? • How much weight will you be able to put on available historical price comparisons?	
	Step 4. Adjust prices selected for comparison. Adjust historical prices for comparison with the offer in line for award.	

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-39	6.2.3 Use Historical Prices (Cont.) **Step 5. Compare the adjusted prices to the offer in line for award.** • How does the offered price compare with the historical price, considering changes in the contracting situation? • Do other price analysis bases confirm that the offered price is reasonable?	
TR 6-41	6.2.4 Use Pricing Yardsticks h. Present steps in using yardsticks to compare prices. • In the next lesson, you will learn how to develop and apply yardsticks and cost estimating relationships. • Pricing yardsticks and cost estimating relationships (CERs) are extensions of the use of historical prices when determining whether an offered price is fair and reasonable.	
VG 6-14	**PRICING YARDSTICKS P. 6-41** STEP 1: SELECT PRICING YARDSTICKS OR CERs FOR COMPARISON WITH OFFERED PRICES. STEP 2: IDENTIFY FACTORS THAT AFFECT COMPARABILITY. STEP 3: DETERMINE POTENTIAL IMPACT OF IDENTIFIED FACTORS ON PRICE ANALYSIS COMPARISONS. STEP 4: ESTIMATE PRICE USING APPROPRIATE PRICING YARDSTICK OR CER. STEP 5: COMPARE ESTIMATED PRICE WITH OFFER IN LINE FOR AWARD. VG 6-14	

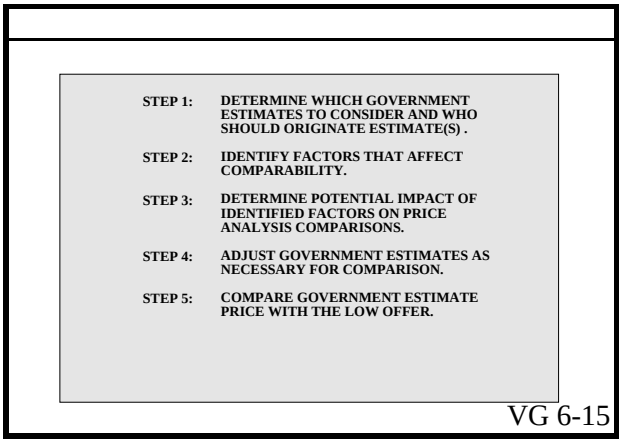
TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-43	6.2.4 Use Pricing Yardsticks (Cont.) **Step 1. Select pricing yardsticks or CERs for comparison with offered prices.** • For the rough yardstick, can the formulation of the rule of thumb be documented and its acceptance in the market place be verified? • For a CER, can the development process be validated? (Lesson 7) **Step 2. Identify factors that affect comparability.** • Have market conditions changed? • Has technology changed? • Has the production efficiency of the industry changed? • Has the purchasing power of the dollar changed? • Are there any differences in terms and conditions?	
TR 6-44	**Step 3. Determine the potential impact of identified factors on price analysis comparisons.** • Will comparing the offer in line for award with estimates developed using pricing yardsticks or CERs provide credible evidence of price reasonableness? • How much weight will you be able to put on estimates developed using pricing yardsticks or CERs?	

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-44	6.2.4 Use Pricing Yardsticks (Cont.)	
	Step 5. Compare the estimated price with the low offer.	
	• How does the offered price compare with the price developed using the pricing relationship?	
TR 6-46	• Do other price analysis bases confirm that the offered price is reasonable — bearing in mind that historical prices, by definition, can only give you a ballpark estimate of what the price should be under current conditions.	
	6.2.5 Use Government Estimates	
	i. Present steps in using Government estimates.	
	• Emphasize that Government estimates are created for different purposes and with different degrees of competence.	
VG 6-15		**GOVERNMENT ESTIMATES** **P. 6-4**
	• **The purchase request estimate** is the most common form of Government estimate and the only price analysis base that is available to you in every contracting situation.	

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-46	6.2.5 Use Government Estimates (Cont.) **Step 1. Determine which Government estimates to consider and who should originate the estimate or estimates.** • The most common is the purchase request estimate. • Estimates can come from inventory managers, program managers, users, budget officers, commodity specialists, and others. • Value **analysis is** one method of estimate development. **Step 2. Identify the factors that affect comparability.** • Budget optimism or pessimism can have a significant effect on budget estimates. • Many estimates are developed years before the actual contract action is initiated. • Changes in the contracting environment.	
TR 6-47	**Step 3. Determine the potential impact of identified factors on price analysis comparisons.** • Will comparing the offer in line for award with independent Government estimates provide credible evidence of price reasonableness? • How much weight will you be able to put on independent Government estimates?	

TOPIC: 6.2 TYPES OF COMPARISONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-47	6.2.5 Use Government Estimates (Cont.) **Step 4. Adjust Government estimates as necessary for comparison.** Proper adjustment is especially important when relying on Government estimates that are not up to date. **Step 5. Compare the Government estimate price with the offer in line for award.** The analysis may be a straightforward comparison between the Government estimate and the price in line for award. Independent Government estimates, particularly estimates based on value analysis, can also become the basis for trade-off analysis in support of contract negotiations. **Value analysis** is a specialized form of Government estimate relating the function of the product to the related price.	
VG 6-16	**VALUE ANALYSIS** **P. 6-47** STEP 1: DETERMINE WHAT PRODUCT MUST DO. STEP 2: DETERMINE WHAT TOTAL COSTS ARE RELATED TO PURCHASING CURRENT PRODUCT. STEP 3: IDENTIFY OTHER WAYS IN WHICH FUNCTION CAN BE PERFORMED. STEP 4: DOCUMENT TOTAL COSTS RELATED TO PURCHASING ALTERNATIVE PRODUCT. STEP 5: DOCUMENT REASONABLENESS OF CURRENT PRODUCT OR METHODS, OR RECOMMEND APPROPRIATE CHANGES. VG 6-16	

TOPIC:	6.2 TYPES OF COMPARISONS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-35	j. Assign the case study "Government Estimates" (20 minutes). • Assign students to teams. • Assign the students the entire case. • Allow time to complete. • Record answers to questions on the board for discussion.	

CASE ANSWER - GOVERNMENT ESTIMATES

Government estimates can be valuable bases for price analysis. In each price analysis situation, you must evaluate the value of any Government estimates that might be used as a base for price analysis. What is the value of the following Government estimates? High? Medium? Low? Why?

1. **An estimate developed by a user who simply used the contract price from the most recent purchase.**

   Low to Medium. It really provides little information when contracting files have the price of the last contract.

2. **An estimate developed as part of your organization's program to conduct an in-depth review of the value of all high dollar value items. Items are torn down and examined in detail. Price estimates are developed based on material costs and manufacturing cost estimates**.

   High. This is a detailed estimate based on detailed analysis of the contract requirement.

3. **An estimate based on the dollars budgeted for the acquisition.**

   Low. Depending on the budget estimate, it may be of value. Typically budget estimates are subject to much political manipulation raising questions about its value in analysis.

4. **An estimate developed by the user without specific documentation or support.**

   Low. This is often a number pulled out of the air. It may even be an estimate obtained from the potential contractor.

5. **An estimate including a cost breakdown of all activities required for contract performance.**

   Medium to High. This is a detailed estimate based on detailed analysis of the contract requirement. Note that users are often better at estimating the effort required (e.g., labor hours) than at current market prices for the effort.

TOPIC: SUMMARY - COMPARE PRICES

REF: TR 6-1 through 6-50

OBJECTIVE: Summarize to the students the bases from which "Should Pay" prices will be projected and to the quantitative comparison techniques.

TIME:

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 6-1 through 6-50	a. Show VG 6-1. This lesson provided the groundrules for making price comparisons — both general steps in comparing prices and specific types of comparisons. **SELECT PRICE ANALYSIS TECHNIQUES** **LESSON 6 OVERVIEW P. 6-3** • General steps in making comparisons • Types of comparisons VG 6-17 b. Summarize what students learned in this lesson and provide a transition to the next. • They learned how to compare the low offer to: - competitive prices - commercial prices - historical prices - yardsticks, and - Government estimates of the should pay price. • What if the low offer is significantly out of line with other prices? • In the next lesson, you will learn to account for differences between the low offer and estimates of the "should-pay" price.	

LESSON 7

CALCULATE THE SHOULD-PAY PRICE

Primary Learning Objective (PLO)

Condition: Given RFP, proposals, technical data, purchase requests (including cost estimates, market data or results of actual research), historical data, and evaluated prices

Task: Estimate "Should Pay" prices using:

- Index Numbers
- Economic Trend
- Price-Volume
- Pricing Rules of Thumb and Cost Estimating Relationships
- Ratio of Price to Estimated Direct Cost

Standard: Correctly applies each technique in estimating "Should Pay" prices.

Course Learning Objective (CLO)

7-1 Identify typical applications for the quantitative technique(s) covered in this chapter.

7-2 Estimate "Should Pay" prices using index numbers by collecting data, selecting a base year, calculating a price relative, and converting to an index.

7-3 Describe how trend analysis can be used in estimating "Should Pay" prices.

7-4 Estimate "Should Pay" prices using price-volume analysis.

7-5 Estimate "Should Pay" prices using pricing rules of thumb and cost estimating relationships (CERs), including determining sources of CERs and how they are developed.

7-6 Estimate "Should Pay" prices using the ratio of price to estimated direct cost by isolating the percentage markup over identifiable direct cost, and determining geographical differences and comparisons over time.

Estimated Time

5 hours 35 minutes —Lecture/Discussion/Case Studies.

- 2 hours 40 minutes on Wednesday
- 2 hours 55 minutes on Thursday

Method of Instruction	Lecture/Discussion with viewgraphs as visuals. Student Exercises—Case studies on price volume analysis and cost estimating relationships (CERs).
Student Materials	Text/Reference—Chapter Seven Classroom Materials—Chapter Seven
Instructor Materials	Text/Reference—Chapter Seven Instructor Guide—Lesson Seven Overhead Projector Viewgraphs for Chapter Seven
Instructor References	Contract Specialist Workbook, Units 33 (Bid Prices), Task 3, and 37 (Price Objectives), Task 4.

TOPIC: INTRODUCTION TO CALCULATE THE SHOULD-PAY PRICE

REF: TR 7-1 through 7-5

OBJECTIVE: Introduce the students to five different calculation techniques in developing should-pay prices.

TIME: 12:15 p.m., Wednesday; 5 hours 35 minutes for the entire Lesson.

- 2 hours 40 minutes on Wednesday (not counting afternoon break)
- 2 hours 55 minutes on Thursday (not counting morning break)

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-1	a. Allow the students some time to review the learning objectives on TR 7-1. b. Explain why quantitative techniques are of use in price analysis — Historical prices, commercial prices, and Government estimates often must be adjusted before they can be compared with the low offer. • The following techniques, among others, can be used for making such adjustments:	
VG 7-1	**CALCULATE SHOULD-PAY PRICE** **P. 7-3** • Price index numbers • Trend analysis • Price volume analysis • Cost estimating relationships (CERs) • Ratio of price to estimated direct cost VG 7-1	
	• When would you use these techniques?	

VG 7-2
TR 7-5

ADJUST COMPARABLE PRICES FOR DIFFERENCES IN:	BY USING:
Value of the $ at time of award	Index Numbers
Quantities acquired.	Price-Volume Analysis
Geographic sites of performance	Index Numbers CERs
Specifications (product features)	CERs
A known element of cost (e.g., direct labor).	Ratio of Price to Estimated Direct Cost VG 7-2

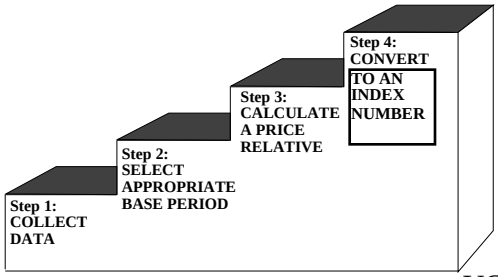
TOPIC:	7.1 PRICE INDEX NUMBERS
REF:	TR 7-7 through 7-22
OBJECTIVE:	Estimate "Should Pay" prices using index numbers by collecting data, selecting a base year, calculating a price relative, and converting to an index.
METHOD:	Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-7	a. Define "price index" and describe the role of index numbers in price analysis. • *Definition*: Price index numbers are ratios, usually expressed as percentages - measures changes in a variable over time. • Price index numbers can be used to:	
VG 7-3	**PRICE INDEX NUMBERS** **P. 7-7** • Inflate/deflate prices for direct comparison • Inflate/deflate prices for trend analysis • Adjust contract price for inflation/deflation VG 7-3	

TOPIC: 7.1 PRICE INDEX NUMBERS

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-8	7.1.1 Construct Price Index Numbers c. Identify the two basic types of indices for tracking price changes. • <u>Simple index</u> numbers calculate price changes for a single item over time. • <u>Aggregate index</u> numbers calculate price changes for a group of related items over time. d. Present the basic steps in developing a price index.	
VG 7-4	**CONSTRUCT A PRICE INDEX P. 7-8**  VG 7-4	
	• An aggregate index can be developed following the same steps, using data from several products.	
TR 7-8	**Step 1: Collect Data** For each index period, collect average price data for the product, commodity, or service. **Step 2: Select an Appropriate Base Period** Select a base period appropriate for the data available.	

TOPIC: 7.1 PRICE INDEX NUMBERS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-9	7.1.1 Construct Price Index Numbers (Cont.)	

Step 3: Calculate a Price Relative

- Calculate a price relative for each year.

A price relative is the relationship of the price in any period to the base period price.

VG 7-5

PRICE INDEX CONSTRUCTION **P. 7-9**

PRICE INDEX CONSTRUCTION

Year	Yearly Average Price	Base: 1987 Price	Price Relative Calculation	Price Relative	Index Number
1987	$84.12	$84.12	$\frac{\$84.12}{\$84.12}$	1.000	100.0
1988	$90.84	$84.12	$\frac{\$90.84}{\$84.12}$	1.080	108.0
1989	$95.06	$84.12	$\frac{\$95.06}{\$84.12}$	1.130	113.0
1990	$101.97	$84.12	$\frac{\$101.97}{\$84.12}$	1.212	121.2
1991	$107.32	$84.12	$\frac{\$107.32}{\$84.12}$	1.276	127.6

VG 7-5

Step 4: Convert to an Index Number

Convert to an index number by multiplying each price relative by 100.

TOPIC:	7.1 PRICE INDEX NUMBERS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-37	e. Assign the case study "Shade Analysis." (10 minutes) • Assign the students Question #1. • Allow time to complete. • Record answers to questions on the board for discussion.	

CASE ANSWER FOR QUESTION 1 - SHADE ANALYSIS

You have been asked to help your office's Chief of Pricing, Mr. Green I. Shade, develop price indexes for Government estimate development and analysis of product prices.

1. Develop indexes based on the following price data. Use 19X3 as the base year.

YEAR	PRODUCT PRICE	INDEX
19X3	$3,000	
19X4	$3,150	
19X5	$2,940	
19X6	$3,195	
19X7	$3,387	
19X8	$3,660	

100.0
105.0
98.0
106.5
112.9
122.0

TOPIC: 7.1 PRICE INDEX NUMBERS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-10	7.1.2 Use Government and Commercial Indexes f. Present commonly available published indices. Four of the best known Government sources of index numbers are published by the Bureau of Labor Statistics (BLS):	
VG 7-6	**GOVERNMENT INDEXES** **P. 7-10** • Producer price indexes • Consumer price index detailed report • Monthly labor review • Labor hour and earnings report VG 7-6	
	Note that you can call BLS for the late breaking indices that have not yet been published.	
TR 7-11	Probably the best known and most frequently used source of price index numbers for material pricing is *Producer Price Indexes (PPI), in particular:* • Table 5, Producer Price Indexes for the Net Output of Selected Industries and Their Products; and • Table 6, Producer Price Indexes and Percent Changes for Commodity Groupings and Individual Items.	

TOPIC: 7.1 PRICE INDEX NUMBERS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-11	7.1.2 Use Government and Commercial Indexes (Cont.) Refer the students to page 7-11 and have them look at the following table from that page.	

GOVERNMENT INDEXES

PRODUCER PRICE INDEXES
COMMODITY GROUPINGS

COMMODITY CODE	COMMODITY DESCRIPTION
01	Farm Products
02	Processed Foods and Feeds
03	Textile Products and Apparel
04	Hides, Skins, Leather, and Related Products
05	Fuels and Related Products and Power
06	Chemicals and Allied Products
07	Rubber and Plastic Products
08	Lumber and Wood Products
09	Pulp, Paper, and Allied Products
10	Metals and Metal Products
11	Machinery and Equipment
12	Furniture and Household Durables
13	Nonmetallic Mineral Products
14	Transportation Equipment
15	Miscellaneous Products

TR 7-12	The consumer price index (CPI), published monthly in the *Consumer Price Index Detailed Report*, reports on changes in consumer prices for a fixed mix of goods selected from the following categories:	

TOPIC:	7.1 PRICE INDEX NUMBERS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 7-12	7.1.2 Use Government and Commercial Indexes (Cont.) *CONSUMER PRICE INDEX DETAILED REPORT* • Food • Clothing • Shelter and fuels • Transportation • Medical services • Emphasize that the Consumer Price Index generally does not apply to commodity purchases. • It may be of value in pricing contracts that are heavily dependent on labor, especially where labor management agreements peg wages to the CPI.	
TR 7-12	*The Monthly Labor Review* includes selected data from a number of Government indexes: *MONTHLY LABOR REVIEW* • Employment cost index • Consumer price index • Producer price indexes • Export price indexes • Import price indexes SUMMARIZE THIS SECTION — by noting that, more of than not, contracting officers will use published indices rather than develop indices on their own.	

TOPIC:	7.1 PRICE INDEX NUMBERS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 7-15	7.1.3 Adjust Prices for Inflation/Deflation g. Show students how to measure price changes between years, when neither year is the base year. • Refer to TR 7-15, and demonstrate the proper method. • Emphasize that simply subtracting will produce the wrong answer.	

Table from page TR 7-9

PRICE INDEX CONSTRUCTION					
A	B	C	D	E	F
Year	Average Annual Price	1987 Base Price	Price Relative Calculation	Price Relative	Index Number
1987	$84.12	$84.12	$84.12 ÷ $84.12	1.000	100.0
1988	$90.84	$84.12	$90.84 ÷ $84.12	1.080	108.0
1989	$95.06	$84.12	$95.06 ÷ $84.12	1.130	113.0
1990	$101.97	$84.12	$101.97 ÷ $84.12	1.212	121.2
1991	$107.32	$84.12	$107.32 ÷ $84.12	1.276	127.6

Excerpts from page 7-15 (Answers may vary slightly because of rounding error in the various calculations.)

Actual Price Data. Using the actual prices, $107.35 for 1991 and $101.97 for 1990, you can see that the 1991 price is 105.3 percent of the price in 1990:

$$\frac{\text{Price in 1991}}{\text{Price in 1990}} = \frac{\$107.32}{\$101.97} = 1.053$$

Multiply 1.053 by 100 to convert to a percentage = 105.3%.

Index Numbers. Using index numbers, you can make the same calculation and get the same answer:

$$\frac{\text{Index in 1991}}{\text{Index in 1990}} = \frac{127.60}{121.20} = 1.053$$

Multiply 1.053 by 100 to convert to a percentage = 105.3%.

TOPIC: 7.1 PRICE INDEX NUMBERS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	h. Explain how index numbers can be used to compare prices over time.	
TR 7-17	• Index numbers can be used to inflate or deflate prices to allow for general price level changes when determining if cost/price is reasonable:	
VG 7-7	**ADJUST PRICES FOR INFLATION/ DE-FLATION P. 7-17** *ESTIMATE PRICE IN DETERMINING COST/PRICE REASONABLENESS _____* STEP 1: COLLECT AVAILABLE PRICE DATA. STEP 2: SELECT AN INDEX SERIES. STEP 3: ADJUST PRICE FOR INFLATION. STEP 4: MAKE DIRECT PRICE COMPARISON. VG 7-7	
	Walk students through both the formula method and ratio method for making such adjustments, using the VGs on the next page.	

TOPIC: 7.1 PRICE INDEX NUMBERS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-16	7.1.3 Adjust Prices for Inflation/Deflation (Cont.)	

VG 7-8

ADJUST PRICES FOR INFLATION/ DEFLATION (CONTINUED) **P. 7-16**

FORMULA METHOD

$$\frac{\text{Index for Period } T_2}{\text{Index for Period } T_1} \times \text{Known Price from Period } T_1 = \text{Price Estimate for Period } T_2$$

Example

$$\frac{\text{1991 Price Index}}{\text{1990 Price Index}} \times \text{1990 Price} = \text{1991 Price Estimate}$$

$$\frac{127.6}{121.2} \times \$101.97 = \$107.35$$

VG 7-8

VG 7-9

ADJUST PRICES FOR INFLATION/ DEFLATION (CONTINUED) **P. 7-16**

RATIO METHOD

$$\frac{\text{Index for Period } T_2}{\text{Index for Period } T_1} = \frac{\text{Price Estimate for Period } T_2}{\text{Known Price from Period } T_1}$$

Example

$$\frac{\text{1991 Price Index}}{\text{1990 Price Index}} = \frac{\text{Price Estimate for 1991}}{\text{Known Price in 1990}}$$

$$\frac{127.6}{121.2} = \frac{\text{Price Estimate For 1991}}{\$101.97}$$

$\$101.97 \times 127.6 = 121.2 \times$ Price Estimate for 1991
$\$13{,}011.372 = 121.2 \times$ Price Estimate for 1991
$\$107.35 =$ Price Estimate for 1991

VG 7-9

TOPIC:	7.1 PRICE INDEX NUMBERS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-37	i. Assign the case study "Shade Analysis" (Cont. from IG page 7-7) (20 minutes) • Assign questions #2 to #7, one at a time. • Record student answers on the board. • Demonstrate the correct calculations. • Go to next question. • For questions #6 and #7, discuss the other differences in the contracting situations that may affect contract price.	

CASE ANSWERS FOR QUESTIONS 2 - 7 - SHADE ANALYSIS

YEAR	PRODUCT PRICE	INDEX
19X3	$3,000	100.0
19X4	$3,150	105.0
19X5	$2,940	98.0
19X6	$3,195	106.5
19X7	$3,387	112.9
19X8	$3,660	122.0

Use the index numbers just calculated to answer the following questions:

2. How many percentage overall did the price change between 19X4 and 19X8?

122.0/105.0 = +16.2%

3. If an item was priced at $5,000 in 19X4, estimate the price of the item in 19X8.

(122.0/105.0) $5,000 = $5,809.52

Stress that this estimate is based on an assumption that $5,000 was a fair and reasonable price in 19X4.

SHADE ANALYSIS (Con't)

4. An item was priced at $3,000 per unit in 19X4, what would you estimate that the price was in 19X5?

(98.0/105.0) $3,000 = $2,800

5. An item was priced at $230 per unit in 19X6, estimate the price of the item in 19X8.

(122.0/106.5) $230 = $263.47

Price indices can be used directly in the evaluation of price reasonableness. Whenever price indices are being used, it is important to remember that the purchases are being made at two different times and the changing buying power of the dollar is only one element of the different purchase situations. Use the price indices calculated on the previous page to answer Questions 6 and 7.

6. In 19X7, your organization purchased 45 whats-its from Webster Works at a fair and reasonable price of $2,200 each. It is now 19X8 and Webster is proposing a price of $2,470 for each of the whats-its.

Based on your analysis, does the proposed price appear fair and reasonable? Why?

. (122.0/112.9) $2,200 = $2,377.33

Price reasonableness is a judgement call. The proposed price, $2,470, is only 3.9% higher than your historical price based estimate. However, the increase was 12.2% instead of the 8.1% the index numbers would indicate. That is 50% more. The buyer needs to collect other data on the changes in the acquisition situation before an intelligent decision can be made.

Stress that in negotiated procurements, you could ask “why did you raise prices at a rate significantly higher than the rate of inflation for this product”?

7. It is 19X8 and you have just received a proposal, from Brown Industries, for 1,000 gizmos at a price of $85 each. You remember that once before you purchased gizmos. You pull the contract file and see that in 19X6 you paid $65 each for 1,500 gizmos.

Based on your analysis, does the proposed price appear fair and reasonable? Why?

(122.0/106.5) $65 = $74.46

The proposed price is 14% higher than the analysis would indicate. There has been a substantial quantity change that would affect price. Would it be reasonable to expect a quantity discount for an additional 500 units? The buyer needs to collect other data on the changes in the acquisition situation before an intelligent decision can be made.

TOPIC: 7.2 TREND ANALYSIS

REF: TR 7-23 through 7-27

OBJECTIVE: Describe how trend analysis can be used in estimating "Should Pay" prices.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-23	a. Define "trend" and present the two basic types of trends most commonly tracked by price analysts. *Definition*: A trend is a general course or prevailing tendency. Two basic types: • *Time series trends* are changes that take place over time, e.g. economic forecasting. Point to page 7-25 for sources of such data. • *Other relationships* used in pricing include price-volume relationships and cost estimating relationships — which we will discuss shortly.	
VG 7-10	**TREND ANALYSIS** **P. 7-23** • General price changes • Other pricing relationships VG 7-10	
CM-39	b. Stress the importance of removing the effects of inflation on prices <u>before</u> using tools such as price-volume and cost estimating relationships. c. Assign the case study "Light Estimates" (35 minutes). • Inform students that the index, in this case, is the relevant Producer Price Index. • Assign students the case to work individually. • Allow time to complete. • Record answers to questions on the board for discussion.	

CASE ANSWER - LIGHT ESTIMATES

You are estimating a reasonable price for requirements contract for an office light fixture. There has been a requirements contract awarded for a contractor to supply this fixture in each of the past five years. Each year the estimated quantity has been approximately 1,000 units. Using this price history and available index numbers, estimate a reasonable unit price for the fixture.

YEAR	CONTRACT UNIT PRICE	INDEX NUMBER[1]	PRICE IN 19X7 $
19X2	$21.50	109.9	
19X3	$21.35	108.8	
19X4	$22.40	114.2	
19X5	$23.75	121.2	
19X6	$24.90	127.0	
19X7		133.5	

1. How can you use this information to estimate a reasonable price?

Prices can be adjusted for further analysis.

BIG ASSUMPTION — that base year prices are fair and reasonable.

2. What is your estimate of a reasonable price?

Adjust all prices to 19X7 dollars for analysis.

(133.5/109.9) $21.50 = $26.12
(133.5/108.8) $21.35 = $26.20
(133.5/114.2) $22.40 = $26.18
(133.5/121.2) $23.75 = $26.16
(133.5/127.0) $24.90 = $26.17

$26.17 appears reasonable based on the last five years of data.

MAJOR POINT — Once inflation has been removed from the equation, the trend line is flat. That's why you have to remove the effect of changes in the purchasing power of the dollar before you can reach any conclusions about the trend in prices for a specific item of supply or service.

TIP — When, after ridding numbers of any inflationary or deflationary affects, there is no trend (prices are rising and falling seemingly at random) — the best estimate is the average price over that range.

[1]From the Producer Price Index for this class of items.

TOPIC:	7.3 PRICE VOLUME ANALYSIS
REF:	TR 7-29 through 7-43
OBJECTIVE:	Estimate "Should Pay" prices using price-volume analysis.
METHOD:	Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-29	a. State that the purpose of price-volume analysis is to estimate prices for different purchase quantities. Tell students that: "For estimating purposes, we will assume that prices fall on a straight line when plotted against volume. While actual prices usually do not fall exactly on a straight line, a straight line often can closely approximate actual price behavior in the relevant range. • Define volume as the quantity in each order being tracked. • Tell students that the "relevant range" is defined by the points for which you have actual data on quantity and price. Caution students against using a price-volume equation or graph to project prices too far outside the relevant range. • Stress that, before using actual prices in a P-V analysis, students should remove the effects of changes in the dollar's purchasing power as described previously in this lesson. b. Tell students when price-volume analysis should be used — and when it should not be used. • Do NOT use this for products just introduced to the market — unit prices should continue to fall regardless of order size as the offeror expands overall volume and becomes more experienced at making the deliverable. • Do NOT use price-volume analysis for estimating unit prices when contracting for the production of large numbers of Government unique items over an extended period of time. In the Cost Analysis course, you will learn a technique called the improvement curve to estimate the change in unit costs as additional units are ordered.	

TOPIC: 7.3 PRICE VOLUME ANALYSIS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-29	• Use Price-Volume analysis for a mature product, when you have data (prices and quantities) on recent orders for the product. c. Tell students that the following represents an overview of your discussion of price-volume analysis.	
VG 7-11	**PRICE-VOLUME ANALYSIS** **P. 7-29** • Why Firms Can Live With Lower Unit Prices On Larger Orders • Price-Volume Formula • Price-Volume Graph VG 7-11	
	d. Tell students why they may be able to negotiate a lower price for a larger order (and why you may have to live with a higher unit price when you order smaller quantities than on prior buys). • Industry often can realize economies of scale in filling larger orders. • Firms may justify a higher unit price for small orders because of <u>diseconomies</u> of scale. Suppose, for example, the industry standard is 10 units to a package. If you insist on ordering only 8, the firm might charge extra, per unit, to defray the cost of breaking up a standard package and repackaging your 8. e. Tell students that, to come up with a prenegotiation position on unit price for the quantity in question, they can either use algebra or graph paper.	

TOPIC: 7.3 PRICE VOLUME ANALYSIS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-30	7.3.2 Use of Linear Price-Volume Relationship - Algebraic Analysis a. Present the algebraic form of Price-Volume analysis. • In price analysis, typically you have no information on the costs of making a unit. However, you may know the price actually paid for different quantities. • Given the price actually paid for any given quantity, you can calculate the unit price paid.	
VG 7-12	**LINEAR PRICE-VOLUME RELATIONSHIP P. 7-34** *ESTIMATE UNIT PRICE* _____ $P_U = \frac{P}{VOL}$ VG 7-12	
	• If you repeatedly apply this equation, you may discover that the unit price is not constant but rather varies with quantity. What you will now learn is how to predict the unit price for any given quantity, such as the quantity in the latest purchase request from a requiring activity. • If the relationship between price and volume is linear (our basic assumption for this exercise), you can use the standard equation for a straight line to determine Total Price for any given quantity (i.e., Volume).	

TOPIC: 7.3 PRICE VOLUME ANALYSIS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-34	7.3.2 Use of Linear Price-Volume Relationship - Algebraic Analysis (Cont.)	
VG 7-13	**LINEAR PRICE-VOLUME RELATIONSHIP GENERAL EQUATION** **P. 7-34** $P = S + Ru(Vol)$ VG 7-13	
	• In this equation, S is a constant dollar amount.	
	The text equates S to the contractor's start-up or fixed cost of providing any quantity of the deliverable. However, S generally does not exactly equal or necessarily represent such costs. Rather, for our purposes in analyzing prices, simply regard S as the constant of the standard straight line equation (Y=A+B*X).	
	• R_u is a per unit, or recurring, dollar amount. • Vol is Volume or Quantity. • Using information in hand on prices paid for different quantities, we can turn this equation around to find the value of Ru, as follows.	
VG 7-14	**LINEAR PRICE-VOLUME RELATIONSHIP (CONTINUED)** **P. 7-36** *ESTIMATE RECURRING ELEMENT OF PRICE* $R_u = \frac{\text{CHANGE IN TOTAL PRICE}}{\text{CHANGE IN VOLUME}}$ $R_u = \frac{P_2 - P_1}{Vol_2 - Vol_1}$ VG 7-14	
	• In explaining the relationship, assure that students understand that each **P** and **Vol** pair represent a price at a particular volume.	

TOPIC: 7.3 PRICE VOLUME ANALYSIS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	7.3.2 Use of Linear Price-Volume Relationship - Algebraic Analysis (Cont.)	
	• Go through the example on TR 7-36:	
	Example: You are analyzing an offeror's price proposal. As part of the proposal, the firm offered 5,000 units of the item for $60,000. The same quote offered 4,000 units for $50,000. *What is the recurring component of price per unit?*	
	$R_U = \frac{P_2 - P_1}{Vol_2 - Vol_1}$	
	$R_U = \frac{\$60,000 - \$50,000}{5,000 - 4,000}$	
	$R_U = \frac{\$10,000}{1,000}$	
	$R_U = \$10$	
	• Once you know P and R_U for any purchase quantity, you can calculate the constant, or S, in our equation.	
	• Go through the example on TR 7-37:	
	$P = S + R_U (Vol)$	
	Where: P = $60,000 R_U = $10 Vol = 5,000	
	$60,000 = S + $10(5,000)	
	$60,000 = S + $50,000	
	$60,000 - $50,000 = S	
	$10,000 = S	

TOPIC: 7.3 PRICE VOLUME ANALYSIS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	7.3.2 Use of Linear Price-Volume Relationship - Algebraic Analysis (Cont.) • Once you know the values of S and R_U, you are now ready to estimate Price for the quantity in your purchase request. For example, assume the PR was for 4,400 units.	
	• Go through the example on TR 7-37 and 7-38:	
	What is the estimated price for 4,400 units? $P = S + R_U$ (Vol) where: $R_U = \$10$ $S = \$10{,}000$ $P = \$10{,}000 + \$10(Vol)$ $P = \$10{,}000 + \$10(4{,}400)$ $P = \$10{,}000 + \$44{,}000$ $P = \$54{,}000$	
	• Once you have calculated total price (P), you can calculate price per unit by dividing total price by volume (Vol). $P_U = \frac{P}{Vol}$ Or: $P_U = \frac{54{,}000}{4{,}400} = \$12.27$	

TOPIC:	7.3 PRICE VOLUME ANALYSIS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-40	b. Assign the case study "DOE-DOE Contracting" (30 minutes). • Assign questions #2 through #4, one at a time. • Tell students that they will come back to question #1 later. • Tell students that prices have already been adjusted for inflation. • Tell students that the data are linear. • Allow time to calculate answer. • Record student answers on the board. • Demonstrate the correct calculation. • Go to next question.	

CASE ANSWER - DOE-DOE CONTRACTING (Questions 2-4)

You are the contracting officer responsible for Doe-Doe purchases for your agency. Because of declining demand for the Doe-Doe outside the Government, the number of sources is declining. Because fewer sources are available, you have become increasingly concerned about price reasonableness. As a result, you have decided to attempt to identify the price breaks offered by the two remaining sources.

The first source that you consider is Apex Doe-Doe. You collect the following data from the last three purchases from Apex:

PURCHASE QUANTITY	TOTAL PRICE
500 units	$750
1,500 units	$1,250
4,000 units	$2,500

CASE ANSWER - DOE-DOE CONTRACTING (Questions 2-4)

2. What is the apparent recurring component of total price per unit?

$$\frac{\$1{,}250 - \$750}{1{,}500 - 500} = \$.50$$

Stress that, in this example, the prices all fall on a straight line. Therefore, you will get this same answer no matter what two data points you used (e.g., 500 vs. 4,000; 1,500 vs. 4,000).

If you attend the course in Cost Analysis, you will learn what to do if the points don't fall on a straight line. For now, a shortcut you can take is to average the answers from different data points when the answers are not that different from one another.

3. What is the fixed start-up cost of total price?

[This is the question as presently phrased in the Classroom Materials. Before answering the question, tell the students to delete "fixed start-up cost of total price?" and in its place substitute "value of S?"]

$$P = S + R_U(Vol)$$

Substituting:
$\$750 = S + \$.50(500)$
$\$750 = S + \$250$
$\$500 = S$

4. What is the equation for the line that best depicts the relationship identified above?

$$P = \$500 + \$.50(Vol)$$

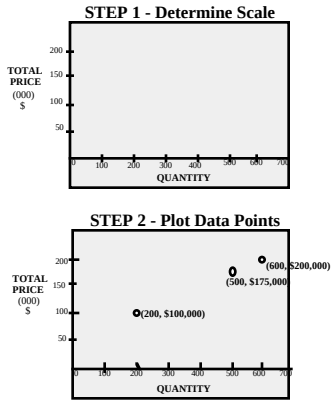
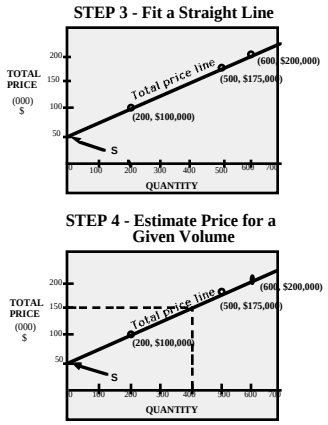
TOPIC: 7.3 PRICE VOLUME ANALYSIS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-39	7.3.3 Linear Price-Volume Relationship - Graphic Analysis a. Present the steps in graphing a linear relationship between price and volume	
VG 7-15	**LINEAR PRICE-VOLUME RELATIONSHIP - GRAPHIC ANALYSIS P. 7-39** ***STEPS IN USING GRAPH PAPER*** _____ **STEP 1: DETERMINE APPROPRIATE SCALE.** **STEP 2: PLOT AVAILABLE DATA.** **STEP 3: FIT A STRAIGHT LINE.** **STEP 4: ESTIMATE PRICE FOR GIVEN VOLUME .** VG 7-15	

TOPIC: 7.3 PRICE VOLUME ANALYSIS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-41	7.3.3 Linear Price-Volume Relationship - Graphic Analysis (Cont.) • Illustrate a price-volume relationship showing VGs 7-16 and 7-17. Refer the students to TR 7-41 and 7-42:	
VG 7-16	**LINEAR PRICE-VOLUME RELATIONSHIP - GRAPHIC ANALYSIS P. 7-41**  VG 7-16	
VG 7-17	**LINEAR PRICE-VOLUME RELATIONSHIP-GRAPHIC ANALYSIS (CONTINUED) P. 7-41**  VG 7-17	

TOPIC:	7.3 PRICE VOLUME ANALYSIS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-40	b. Assign the case study "DOE-DOE Contracting." (Cont. from IG page 25 —25 minutes) • Again remind students that prices have already been adjusted for inflation. • Work through question 1 with students. • Assign remaining questions one at a time (using the graph paper on CM-43). • Allow time to calculate answer. • Record student answers on the board. • Demonstrate the correct calculations. • Go to next question.	

CASE ANSWER - DOE-DOE CONTRACTING (Questions 1 and 5 - 7)

You are the contracting officer responsible for Doe-Doe purchases for your agency. Because of declining demand for the Doe-Doe outside the Government, the number of sources is declining. Because fewer sources are available, you have become increasingly concerned about price reasonableness. As a result, you have decided to attempt to identify the price breaks offered by the two remaining sources.

The first source that you consider is Apex Doe-Doe. You collect the following data from the last three purchases from Apex:

PURCHASE QUANTITY	TOTAL PRICE
500 units	$750
1,500 units	$1,250
4,000 units	$2,500

1. Graph the data. Is there a relationship between quantity and price?

Yes, a linear relationship.

CASE ANSWER - DOE-DOE CONTRACTING (Cont.)

- When you draw such graphs back on the job, make sure you scale the graph so that it can accommodate the largest data points in each direction (e.g., $ and volume) that you will be plotting. At the same time, scale the graph so that it fills as much of the page as possible. If the graph only occupies a small corner of the page, it will be hard to read and work with.

The other source that you consider is Baker Doe-Doe. You collect the following data from the last three purchases from Baker:

PURCHASE QUANTITY	TOTAL PRICE
1,000 units	$1,250
4,000 units	$2,000
8,000 units	$3,000

5. Graph the data . Is there a relationship between quantity and price?

Yes, a linear relationship.

Whenever analyzing more than two data points, ALWAYS draw a graph first before trying to write a straight line equation — to ensure that your data points come close enough to a straight line to justify use of a linear equation. Otherwise, you might develop an equation based on two points (or the average of points) that bears no relationship to reality.

6. What is the apparent recurring component of total price per unit?

$$\frac{\$2{,}000 - \$1{,}250}{4{,}000 - 1{,}000} = \$.25$$

CASE ANSWER - DOE-DOE CONTRACTING (Cont.)

7. What is the fixed start-up component of total price?

[This is the question as presently phrased in the Classroom Materials. Before answering the question, tell the students to delete "fixed start-up component of total price?" and in its place substitute "value of S?"]

$P = S + R_U(Vol)$

Substituting:

$1,250 = S + $.25(1,000)

$1,250 = S + $250

$1,000 = S

8. What is the equation for the line that best depicts the relationship identified above?

P = $1,000 + $.25(Vol)

9. Based on the above information, how would you describe the differences in the production methods used by the two firms.

Apex firm has a smaller constant component of price ($500 vs. Baker's $1,000) but a larger recurring amount (50¢ per unit vs. Baker's 25¢ per unit).

10. Based on the above information, what would you predict to be the most likely low offer for a quantity of: [Tell the class to guess which firm — Baker or Apex — would be likely to submit the lowest priced offer for each of the quantities below, based on their answer to question 9.]

7,000 units? Baker **Why?** Baker's unit price varies to a lesser degree with volume than Apex's . (Apex: $4,000 for 7,000 units vs. Baker: $2,750)

1,000 units? Apex **Why?** Small constant element of price. (Apex: $1,000 for 1,000 units vs. Baker: $1,250)

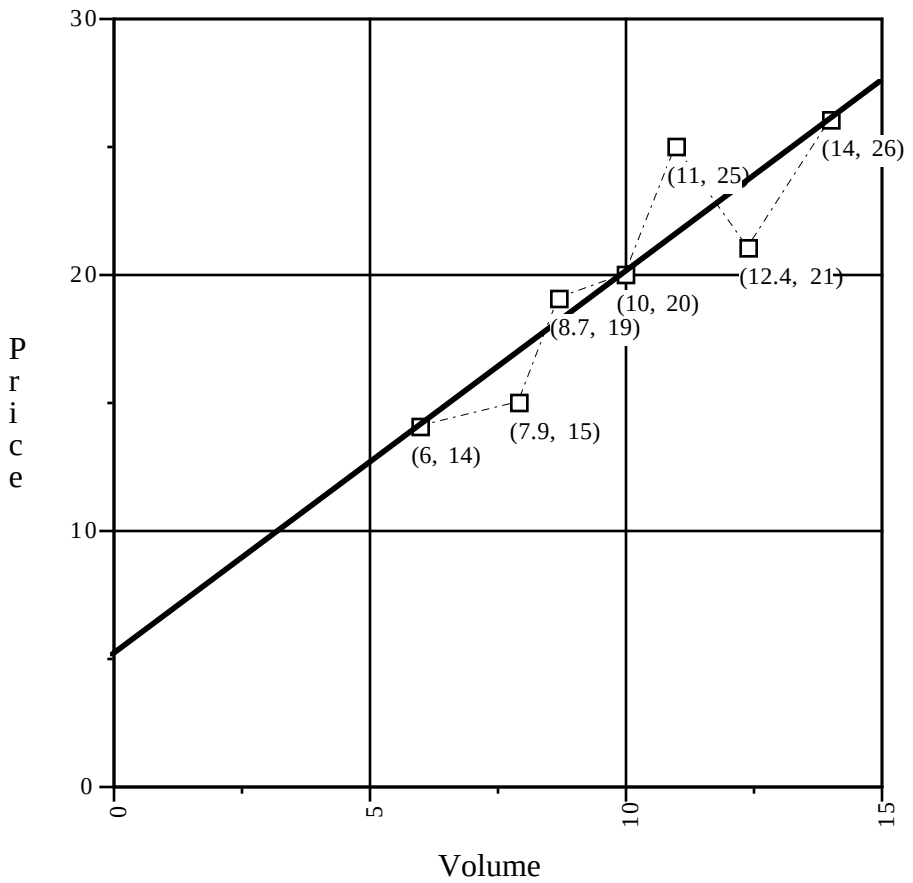
3,000 units? Baker **Why?** Baker's unit price varies to a lesser degree with volume than Apex's (Apex: $2,000 for 3,000 units vs. Baker: $1,750)

2,000 units? Indifferent **Why?** At this quantity, total prices are equal (Apex: $1,500 vs. Baker: $1,500)

TOPIC: 7.3 PRICE VOLUME ANALYSIS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	c. Define "Line-of-Best-Fit" and explain why estimators often have to "fit" lines to the points. In the "real world", data typically do not fall exactly on a straight line. Even in such cases, you may still be able to use a straight line to effectively estimate costs — especially if a linear trend seems evident when you plot the points on graph paper.	
	Stress that "fitting a line" is not covered in the text/reference and will not be tested. Students who attend the course in Cost Analysis will both practice and be tested on line of best fit.	
	d. Present steps in visually Fitting a Line	
VG 7-18	**VISUALLY FITTING A LINE** Step 1. Graph the known data. Step 2. Plot the point that = average X and average Y Step 3. Starting at that point, draw a line through the middle of the gap between the other data points. Price Analysis 7-18	
	The one point that the line should always go through is the point formed by (1) the average of the X values and (2) the average of the Y values. When drawing the line through that point, try to minimize the absolute vertical distance between the line and the points. Try drawing a number of different lines. For each line, measure the distance between every point and the line and total the differences. Pick the line that has the smallest total discrepancy from the points.	
VG 7-19	**e. Demonstrate "fitting" a line (Note — both P and V are in thousands)**	



Price Analysis 7-19

Ref.	Steps In Presenting The Topic	Instructor Notes
	f Discuss how we fit the line to the available data: **Step 1**: Plot the data points on the graph. **Step 2**: Find the average value for P and the average value for V. For V: (6+7.9+8.7+11+12.4+14) ÷ 6 = 10,000 For P: (14+15+19+11+25+26) ÷ 6 = $20,000 **Step 3**: Fit a line through the point at which V = 10,000 and P = $20,000. **Stress that, the further the points are away from the line, the less valid the line as an indication of the price that should be paid for any given quantity.**	

TOPIC: 7.3 PRICE VOLUME ANALYSIS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	Also tell students to always obtain a graphical representation of any line of best fit, to ensure that points fall reasonable close to the line.	
	g. On the board, demonstrate how students can calculate Ru and S in our Price Value Equation. [First, write the P/V equation on the board: Price = S + (Ru X Volume)]	
	Step 1: Determine the P and V values of any two points on the line. From the graph in VG 7-19: Point 1: P=$14,000 & V=6,000 Point 2: P=20, 000 & V = 10,000	
	Step 2: Calculate Ru, using the formula: $Ru = \frac{(P \text{ at Point 2} - P \text{ at Point 1})}{(V \text{ at Point 2} - V \text{ at Point 1})}$ Calculating the slope of the line in VG 7-19: $Ru = \frac{(20{,}000 - 14{,}000)}{(10{,}000 - 6{,}000)} = \frac{6}{4} = 1.5$	
	Step 3: Calculate the Y Intercept or S in our PV equation, using the formula S = (P at Point 1) - (Ru times V at Point 1) S = 14,000 - (1.5 times 6,000) = 14,000 - 9,000 = 5,000	
	Step 4: Plug the values of Ru and S into the equation P=S+(Ru * V), which you can then use to find the value of P for any value of V. In the graph from VG -19, the formula for the line-of-best-fit reads: P = 5,000 + 1.5V	
	Tell students that "this same process can be used to determine the equation for any line of best fit for any linear cost estimating relationship — which brings us to our next topic.	

TOPIC: 7.4 COST ESTIMATING RELATIONSHIPS (CERs)

REF: TR 7-45 through 7-54

OBJECTIVE: Estimate "Should Pay" prices using pricing rules of thumb and cost estimating relationships (CERs), including determining sources of CERs and how they are developed.

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-45	a. Define "cost estimating relationship (CER)" as an equation in which the Price estimate is a function of one or more independent variables. Tell students that they have just finished working with one CER: Volume. Price/Volume graphs and equations are an example of a CER. b. Present the two basic types of CERs: • Parametric CERs (e.g., CERs which relate price to one or more characteristics, e.g. square feet, weight, dollar, horsepower, of the end item.). • Cost-to-price (e.g., section 7.5's ratio of direct cost to price. c. Tell students that, in this lesson, they will learn about rules of thumb, developing more formal cost estimating relationships, and applying CERs in estimating prices:	
VG 7-20	**COST ESTIMATING RELATIONSHIPS (CER) P. 7-45** • Use rule of thumb • Develop cost estimating relationship (CERs) • Estimate should-pay price VG 7-20	
	7.4.1 Use Rule of Thumb d. Present "rules of thumb". • Like any CER, a rule of thumb can be based on performance or on physical characteristics of the item being priced.	

TOPIC: 7.4 COST ESTIMATING RELATIONSHIPS (CERs)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-48	7.4.2 Develop Cost Estimating Relationships (CERs) • Unlike other CERs, rules of thumb typically have not been validated for use in specific estimating situations. Before using a rule of thumb, it has to be validated for the estimating situation. e. Present steps in developing CERs.	
VG 7-21	**COST ESTIMATING RELATIONSHIPS (CER) P. 7-48** STEP 1: DESIGNATE/DEFINE DEPENDENT VARIABLE. STEP 2: SELECT INDEPENDENT VARIABLES TO BE TESTED AGAINST DEPENDENT VARIABLE. STEP 3: COLLECT DATA ON RELATIONSHIP BETWEEN DEPENDENT/ INDEPENDENT VARIABLES. VG 7-21	
	Step 1: Designate and define the dependent variable. • Define "dependent" variable as Price, for the purposes of this lesson. State that CERs are also have been developed for estimating labor hours and other elements of cost.	
	Step 2: Select independent variables to be tested against the dependent variable. • Define "independent" variable as the parameter that will be used to predict Price (e.g., $ per square feet). Refer the students to TR-51 for examples of other independent variables. • Performance parameters are generally a better choice than physical parameters. • Independent variables must be quantitatively measurable.	

TOPIC: 7.4 COST ESTIMATING RELATIONSHIPS (CERs)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-49	7.4.2 Develop Cost Estimating Relationships (CERs) **Step 3: Collect data on the relationship between the dependent and independent variables.** Double check all data to ensure that it is relevant, comparable, and relatively free of unusual costs.	
VG 7-22	**COST ESTIMATING RELATIONSHIPS (CER) P. 7-48** STEP 4: EXPLORE RELATIONSHIP BETWEEN DEPENDENT AND INDEPENDENT VARIABLES. STEP 5: SELECT RELATIONSHIP THAT BEST PREDICTS DEPENDENT VARIABLE. STEP 6: DOCUMENT FINDINGS. VG 7-22	
	Step 4: Explore the relationship between the dependent and independent variables. Determine the nature and degree of relationship — how accurately has the independent variable predicted actual prices and what, if anything, tends to throw it off. **Step 5: Select the relationship that best predicts the dependent variable.** Select the one that has best predicted actual prices. **Step 6: Document your findings.** Should include parameters tested, data gathered, sources of data, time period of data, and any adjustments made to the data.	

TOPIC: 7.4 COST ESTIMATING RELATIONSHIPS (CERs)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-52	7.4.2 Develop Cost Estimating Relationships (CERs) • Once you validate a CER for your situation, you can use it to estimate prices of similar items in similar circumstances. Walk students through the example on pages 7-52 and 7-53. <u>Example:</u> Consider the application of the CER to estimate the price of office buildings. The building that you are considering purchasing has 2,600 square feet of office space. Prior validation has assured you that the CER can be applied in this situation, and that the actual price should not, in all likelihood, vary more than ± 2% from the CER estimate. Price = $117,750 + $17.70 (S) Where: S = Square Feet of Office Space Price = $117,750 + $17.50 (2600) Price = $117,750 + $45,500 Price = $163,250 estimated price (± $3,265) • Use judgment when applying CERs. CERs represent historical relationships between price and the parameter, which might be meaningless at this time because of changes in market conditions, technology, et. al.	
CM-44	f. Assign the case study "Magic Electronic Systems" (25 minutes). • Assign questions one at a time. • Allow time to determine the answer. • Record student answers on the board. • Demonstrate the correct calculations. • Go to next question.	

CASE ANSWER — MAGIC ELECTRONIC SYSTEMS

Magic Electronic Systems (MES) is a long-time supplier for electronics systems and spare parts to the Government. Your organization is responsible for contracting for spare parts for the MES 100. Until now, you have contracted for three different boards, Part Numbers SS124200, SS124300, and SS124350. You recently received your first request for Part Number SS124440, a total of 100 units. The Government has never bought this item as a spare part before, but design data indicates that the manufacturing process is similar that used to produce the other three MES 100 boards.

You have decided to attempt to use the available data to estimate the price of the new part. Government engineers advise that the best independent variable to use in your analysis is total parts. They have provided you with the following information:

PART NUMBER	PRICE	TOTAL PARTS	PRICE PER PART
SS124200	$210	40	$5.25
SS124300	$360	70	$5.15
SS124350	$260	50	$5.20
SS124440		60	

1. Given the available data, what range of prices per part appear reasonable?

The price should be in the range of $5.15 to $5.25 per part. Given the limited data, there appears to be a trend with lower prices per part as the number of parts increases. As a result, it appears that the price can be narrowed further to between $5.15 and $5.20.

2. Without detailed analysis, what price per part would be the best estimate?

$5.20

3. Using graphic analysis, what price per part would be the best estimate?

Based on a graph, total price would be $310.
(Price = $10 + $5(Parts))
Price per part should be $5.17.

TOPIC:	7.4 COST ESTIMATING RELATIONSHIPS (CERs)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-46	g. Assign the case study "Justin Janitorial" (25 minutes). • Assign questions one at a time. • Allow time to determine the answer. • Record student answers on the board. • Demonstrate the correct calculations. • Go to next question.	

CASE ANSWER — JUSTINS JANITORIAL

	Tell students that the contract price offer is $448,000. (Some early versions of the Classroom Materials, in the opening paragraph of this case, erroneously report that the price is $350,000.)	

Your organization is about to move to a new facility. You have been assigned the job of negotiating a Small Disadvantaged Business [8(a)] set-aside contract for janitorial services. The Small Business Administration has selected, Justins Janitorial, to receive the contract. The contract price offer is $448,000. As you prepare for negotiations, you must determine if the price is fair and reasonable. In order to assist you in your analysis of price reasonableness, you have obtained data on custodial services contracts at "similar nearby facilities." That information and the Government estimate are summarized in the following table:

LOCATION	CONTRACT PRICE	SQUARE FEET	PRICE PER SQUARE FOOT
Site 1	$400,000	300,000	$1.33
Site 2	$420,000	325,000	$1.29
Site 3	$425,000	370,000	$1.15
Site 4	$450,000	420,000	$1.07
Govt Estimate	$437,500	350,000	$1.25
Justins	$448,000	350,000	$1.28

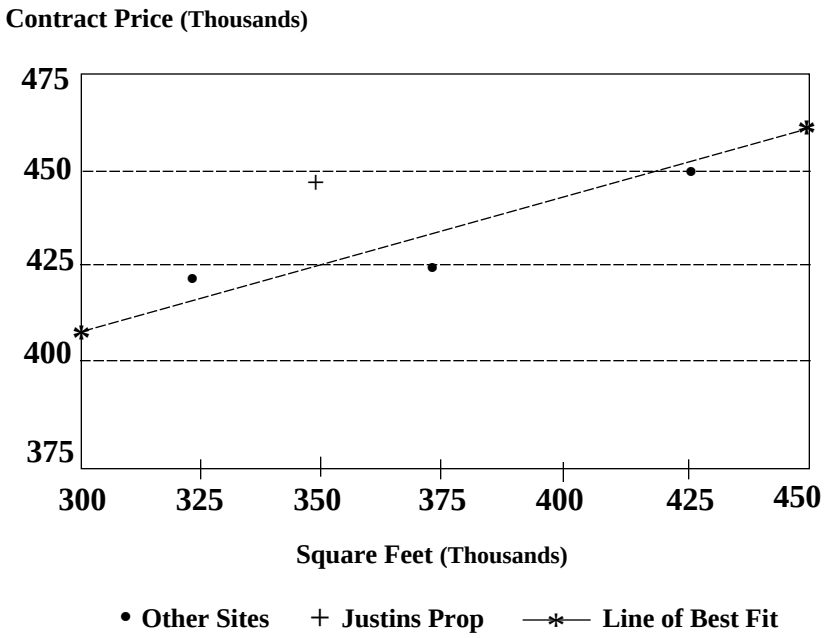
1. **Given the available data, what range of prices per square foot appears reasonable?**
   $1.07 to $1.33

2. **Without detailed analysis, what price per square foot would be the best estimate?**
   $1.15 to $1.29 These prices are from facilities slightly larger and slightly smaller than the one for which we are contracting.

JUSTINS JANITORIAL (Con't)

3. Examine the following graphical presentation of the data gathered from the other nearby facilities and the Justins proposal. What does the graph indicate?

JANITORIAL SITE PRICE COMPARISON



There a trend in contract price related to size of the facility.

4. Does the proposed price appear to be fair and reasonable? Why?

No, it falls substantially above the trend line.

5. Using graphic estimating relationship depicted above, what price per square foot would be the best estimate?

A total price of about $425,000 appears reasonable. That is about $1.21 per square foot.

TOPIC: 7.5 RATIO OF PRICE TO ESTIMATED DIRECT COST

REF: TR 7-55 through 7-58

OBJECTIVE: Estimate "Should Pay" prices using the ratio of price to estimated direct cost by isolating the percentage markup over identifiable direct cost, and determining geographical differences and comparisons over time.

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-55	a. Describe this technique as a form of CER commonly used in situations where direct labor cost is a significant portion of contract price. • This technique can be used to compare prices from different localities that are subject to different Service Contract Act or Davis-Bacon wage rates. b. Present the four steps in applying price/direct cost ratios:	
VG 7-23	**RATIO OF PRICE TO ESTIMATED DIRECT COST** **P. 7-56** *ESTIMATE PRICE/DIRECT COST RATIO* _____ STEP 1: COLLECT DATA ON SIMILAR CONTRACTS. STEP 2: IDENTIFY DIRECT LABOR REQUIREMENTS. STEP 3: ESTIMATE DIRECT LABOR COST USING SERVICE CONTRACT ACT DETERMINATIONS. STEP 4: ESTIMATE PRICE/DIRECT COST RATIO. VG 7-23	

TOPIC: 7.5 RATIO OF PRICE TO ESTIMATED DIRECT COST

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-56	c. Work through the following example with the students: Refer students to TR 7-56. Assume that you are negotiating a guard service contract for your facility. You have collected information on prices and minimum manning requirements for the guard service contract at your facility for the last three years. The minimum manning requirement for the current contract totals 75,000 hours. The Service Contract Act (SCA) Labor Rate for the current year is $6.00. What is your estimate of should-pay contract price?	

VG 7-24

RATIO OF PRICE TO ESTIMATED DIRECT COSTP. 7-56

EXAMPLE _____

A	B	C	D	E	F
Year	Estim-ated Direct Labor Hours	SCA Min. Labor Rate	Estimated Direct Labor Cost	Contract Price	Ratio Price to Direct Labor Cost
1	87,600	$5.15	$451,140	$757,740	1.68
2	78,840	$5.45	$429,678	$717,444	1.67
3	70,040	$5.50	$385,220	$651,043	1.69
Current	75,000	$6.00	$450,000		

VG 7-24

CM-48	d. Assign the case study "Paladin Protection" (20 minutes). • Review Price/First-Line Wage Ratio calculations. • Assign questions, one at the time. • Allow time to determine answer. • Record student answers on the board. • Demonstrate the correct calculations. • Go to next questions.	

CASE ANSWER - PALADIN PROTECTION

In response to an RFP for guard services, you received three offers. The low offer, $380,000 came from Paladin Protection. The other offers are $390,000 and $425,000. In order to assist you in your analysis of price reasonableness, you have obtained data on guard service contracts at "similar facilities" at nearby locations. That information and the Government estimate are summarized in the following table:

LOCATION	TOTAL CONTRACT PRICE	TOTAL LABOR-HOURS	FIRST-LINE LABOR-HOURS	PRICE PER FIRST-LINE LABOR-HOUR	DOL LABOR RATE	PRICE/ FIRST-LINE WAGE RATIO
1	$500,000	40,000	35,400	$14.12	$8.25	1.71
2	$375,000	26,850	24,790	$15.13	$8.25	1.83
3	$450,000	33,460	30,270	$14.87	$8.50	1.75
4	$425,000	31,690	29,320	$14.50	$8.30	1.75
Govt Est	$400,000	32,553	24,950	$16.03	$8.60	1.86
Paladin	$380,000	32,553	24,950	$15.23	$8.60	1.77

1. **Given the available data, what range of price/first-line wage ratios appears to be reasonable?**

   1.71 to 1.86

   (Stress that students should only consider the first four rows in answering these questions. You should not judge Paladin's estimate by Paladin's estimate. Nor should you use the Government estimate in this calculation. Also point out that each firm's price can be viewed as a markup of 71% to 83% over direct labor. Because of the Service Contract Act, typically price competition for service contracts centers on how good a job each company can do at holding down its overheads).

2. **Given the available data, what price/first-line wage ratio appears to be the most reasonable?**

   The simple average ratio is 1.76. However, as the number of first-line hours increases, the ratio appears to decline. That often happens, given that certain costs are fixed and others have fixed components. If there is class time, a graph will verify the trend. Since there is a trend a ratio for a similar size job could be more reasonable, 1.83. Again this can be confirmed by a trend line.

3. **Does the price appear to be fair and reasonable? Why?**

   The price appears to be fair to the buyer using either of the ratios identified in Question 2 above.

TOPIC: SUMMARY - CALCULATE THE SHOULD-PAY PRICE

REF: TR 7-1 through 7-58

OBJECTIVE: Summarize to the students the five different calculation techniques in developing should-pay prices.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 7-1 through 7-58	a. In this lesson, students learned how to apply a variety of quantitative techniques that may be required to adjust benchmark prices for comparison to the low offer. b. Five analytical techniques in developing should-pay prices were covered:	
VG 7-25	**CALCULATE SHOULD-PAY PRICE P. 7-3** • Price index numbers • Trend analysis • Price volume analysis • Cost estimating relationships • Ratio of price to estimated direct cost VG 7-25	
	c. In the next lesson the students will learn how to account for differences between the low offer and estimates of the "should-pay" price.	

LESSON 8

ACCOUNT FOR DIFFERENCES

Primary Learning Objective (PLO)	Condition	Given estimated "Should Pay" prices
	Task	Account for differences between estimated "Should Pay" prices and the offered prices
	Standard	Correctly identifies reasons that might explain differences between estimated "Should Pay" prices and actual prices bid, offered, or proposed

Course Learning Objective (CLO)

8-1 Identify and account for significant differences (if any) between estimated "Should Pay" prices and offered prices, including:

Vendor differences:
- Responsibility
- Understanding of the Requirements
- Technology
- Efficiency
- Strategy
- Mistakes

Market differences:
- Market Conditions
- Defective Specifications
- Contract Terms

Estimated Time

1 hour 15 minutes—Lecture/Discussion/Case Studies.

Method of Instruction

Lecture/Discussion with viewgraphs as visuals.
Student Exercise—Case study on differences between estimated should-pay prices.

Student Materials

Text/Reference—Chapter Eight
Classroom Materials—Chapter Eight

Instructor Materials

Text/Reference—Chapter Eight
Instructor Guide—Chapter Eight
Overhead Projector
Viewgraphs for Chapter Eight

Instructor References

BP 17.4, EO 3 (bullet 3); BP 21, EO 5; ASPM 2, Section 14.4 and Chapter 17

TOPIC:	INTRODUCTION ACCOUNT FOR DIFFERENCES
REF:	TR 8-1 through 8-5
OBJECTIVE:	To introduce to the students the various reasons for and types of differences between price comparison bases and bid/offered prices.
TIME:	12:00 p.m. (following lunch) Thursday; 1 hour 15 minutes for the entire lesson.
METHOD:	Lecture/Discussion

LESSON PLAN

a. Tell students that, "in this lesson, you will why low offers are sometimes much higher or lower than your estimate of the "should -pay price." Present an overview of the reasons addressed in this Lesson.

- Sometimes, the reason is the vendor.

VG 8-1

WHY DO VENDORS SOMETIMES OFFER PRICES THAT ARE LOWER OR HIGHER THAN EXPECTED? P. 8-1

BECAUSE THE VENDOR _____

- Is nonresponsible.
- Misunderstood the requirement.
- Has made a breakthrough in technology.
- Is more efficient than better known rivals.
- Has offered below cost (or above cost) prices as a market strategy.
- Has made mistakes in estimating costs.

VG 8-1

- Explain that, at other times, your price estimates may be at fault, having run afoul of market realities.
- In these cases, unexpected prices result from circumstances that are beyond the control of any one firm and that affect all firms, but not always in the same way.

VG 8-2

WHY DO VENDORS SOMETIMES OFFER PRICES THAT ARE LOWER OR HIGHER THAN EXPECTED? P. 8-1

BECAUSE OF _____

- Changing market conditions
- Government mistakes (e.g., defective specifications; non-commercial terms)

VG 8-2

TOPIC: 8.1 REASONS FOR DIFFERENCES

REF: TR 8-7 through 8-25

OBJECTIVE: Identify and account for differences between estimated "Should Pay" prices and the bid/offered prices.

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 8-9	8.1.1 Vendor Differences - Responsibility	
	a. Explain the relationship between responsibility and offered prices.	
VG 8-3	**NONRESPONSIBLE VENDORS P. 8-9** *EFFECT ON CONTRACT PRICING* _____ • Unrealistic price • Risks high to both parties VG 8-3	
	• Define responsibility as “ability to perform the work” (refer students to the more complete definition of "responsible offeror" in Appendix A). • There may be a direct connection between the low price and the firm's ability to perform. • The burden is on the offeror to affirm its ability to perform at that price. - Sealed bidding - "mistake in bid" procedure to verify that a bidder can perform at the stated price (as students will learn in Lesson 9) - Negotiations - ask directly the offeror to affirm its ability to perform at the proposed price (as students will learn in Lesson 10). • Remind students that responsibility is not only a matter of price — even bad vendors often submit "realistic" prices.	
	Remember that a contractor who cannot perform is never a good deal at <u>any</u> price.	

TOPIC: 8.1 REASONS FOR DIFFERENCES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 8-10	8.1.1 Vendor Differences - Understanding Requirements b. Explain the relationship between the vendor's reading of the requirement and offered prices.	
VG 8-4	**MISUNDERSTOOD REQUIREMENTS P. 8-10** *EFFECT ON CONTRACT PRICING* _____ • Wide price differences between vendors • Prices much lower than expected • Prices much higher than expected • Risks high to both parties VG 8-4	
	• Offerors are especially likely to misunderstand the solicitation if it contains unusual requirements . - A firm that does not understand that solicitation requirements have changed will bid/offer a price based on its expectations about the contract requirements. • Offerors may also vary in their interpretations of the requirement, especially when performance specifications are used. - A firm that devises a more costly solution to meet the requirements of a performance specification will offer a higher price than a firm who devised a simpler solution.	

TOPIC: 8.1 REASONS FOR DIFFERENCES (Cont.)

LESSON PLAN

TR 8-12

8.1.1 Vendor Differences - Technology

c. Explain the relationship between technological change and offered prices.

VG 8-5

BREAKTHROUGHS IN PRODUCTION TECHNOLOGY **P. 8-12**

EFFECT ON CONTRACT PRICING _____

- May or may not mean lower prices,
- Risky if not fully debugged
- If one firm controls the new technology, price competition might be inadequate Vg 8-5

- Warn students that changing technology does not always mean lower prices.
  - The change may improve quality, reduce pollution, or attain some other socioeconomic goal.
  - Or the change in technology may be have been made to comply with Government-unique specifications.
- Another concern is whether the firm that made the breakthrough is now practically immune from competition. (Is the firm gearing prices to those of its rivals OR to unit costs?)

8.1.1 Vendor Differences - Efficiency

d. Explain the relationship between differences in vendor efficiency and offered prices.

VG 8-6

EFFICIENT PERFORMERS **P. 8-14**

EFFECT ON CONTRACT PRICING _____

- Lower prices than expected
- Risks minimal

VG 8-6

- Unexpectedly low prices are not always risky —some firms may simply be that much more efficient than better known competitors.

TOPIC: 8.1 REASONS FOR DIFFERENCES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 8-15	8.1.1 Vendor Differences - Strategy e. Explain the relationship between market strategies and offered prices.	
VG 8-7	**MARKET STRATEGIES P. 8-15** *EFFECT ON CONTRACT PRICING* _____ • Some strategies result in "below cost" prices • Other strategies lead to "above cost" prices VG 8-7	
VG 8-8	**"BUY-IN" STRATEGIES P. 8-15** • Market-Share Pricing • Current-Revenue Pricing • Promotional Pricing • Market-Competition Pricing Vg 8-8	
	• Some firms price below cost to win a larger share of the market. When they attain the desired market share, prices may rise to recover lost profit. • Some firms price below cost to maximize current revenue — especially if financially strapped and worried about covering current liabilities. • Some firms price below cost as a promotion for its other products, hoping that you will end up buying them as well. Example: the copier may be cheap, but ink cartridges, maintenance, and repairs may be available <u>only</u> from that same firm at a steep price. • Some firms price below cost to keep pace with its competitors (e.g., latest air fare wars).	

TOPIC: 8.1 REASONS FOR DIFFERENCES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	8.1.1 Vendor Differences - Strategy (Cont.)	
?	QUESTION: Ask “Should COs automatically reject "below cost" prices?” ANSWER: No.	
?	QUESTION: When should a CO reject a buy-in price? ANSWER: When the buy-in price represents an unacceptable performance risk. Stress that some vendors press their luck, price too aggressively —given their financial situation— and take on too much risk. ISSUE: Does the firm have sufficient resources to cover its bets if the “below cost” strategy backfires? OR has the firm taken on too much risk with its below cost price? (Example — airlines in bankruptcy courts as a consequence of fare wars).	
?	QUESTION: Why would an offeror submit a much higher price than necessary? ANSWER: Because that is in line with its market strategy.	

TOPIC: 8.1 REASONS FOR DIFFERENCES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	8.1.1 Vendor Differences - Strategy (Cont.)	
VG 8-9	**"SELL-HIGH" STRATEGIES P. 8-15 •** Market-share pricing • Market skimming • Current-revenue pricing • Target-profit pricing • Promotional pricing • Demand-differential pricing • Market-competition pricing Vg 8-9	
	QUESTION: When might a "sell-high" strategy pay off for a vendor? AMONG POTENTIAL ANSWERS: • When the Government plans to make more than one award for the line item (e.g., progressive or split awards). In this case, a firm may price to win the last piece of the pie. This is especially likely when the offeror knows that its rivals cannot supply the total quantity required. • In greatest value competitions, when the offeror knows that it has the technical edge. In this case, the firm may price to skim the market. • Market skimming might also be the pricing strategy of choice when the offeror's deliverables are the only ones that are likely to be considered responsive or technically acceptable. • When lower priced competitors are not likely to submit offers, because they already have more orders than they can fill. When demand outstrips supply, the offeror may price to cash in on the tight market (e.g., current revenue pricing).	

TOPIC: 8.1 REASONS FOR DIFFERENCES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 8-17	8.1.1 Vendor Differences - Strategy (Cont.)	
	QUESTION: When might a "sell-high" strategy pay off for an offeror? (continued)	
	AMONG POTENTIAL ANSWERS: • When potential competitors have no knowledge of or interest in the Government market (e.g., from failure to publicize the requirement beyond the CBD). In this case, the offeror may follow a demand differential pricing strategy — charging the Government more than commercial customers. • When commercial prices are far higher than the offeror's unit costs (e.g., because the offeror has made a breakthrough in production technology). In this case, the firm may use market competition pricing to the disadvantage of the Government — pricing its goods just low enough to beat the competition but far higher than its costs.	
	8.1.1 Vendor Differences - Mistakes	
	f. Explain that vendor mistakes can throw off their prices.	
VG 8-10	**VENDOR DIFFERENCES - MISTAKES P. 8-17** *EFFECT ON CONTRACT PRICING* _____ • Unreasonably high prices OR • Unreasonably low prices VG 8-10	
	QUESTION: Do vendors always know what they are doing when forecasting such pricing determinants as supply, demand, and unit costs?	
	ANSWER: No. In fact, when you examine their offers, you may sometimes doubt their ability to add 2 + 2.	

TOPIC: 8.1 REASONS FOR DIFFERENCES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 8-19	8.1.2 Market Differences g. Inform students that unexpected prices cannot always be blamed on the vendor.	
VG 8-11	**WHY DO VENDORS SOMETIMES OFFER PRICES THAT ARE LOWER OR HIGHER THAN EXPECTED? P. 8-19** *BECAUSE OF* _____ • Changing market conditions • Government mistakes (e.g., defective specifications) • Non-commercial terms and conditions VG 8-11	
	8.1.2 Market Differences - Market Conditions h. Explain the relationship between changing market conditions and offered prices.	
VG 8-12	**CHANGING MARKET CONDITIONS P. 8-19** *EFFECT ON CONTRACT PRICING* _____ • Prices may unexpectedly rise or fall • May be turnover in suppliers VG 8-12	
	• Define **market condition** as any factor affecting the prices offered and accepted for goods and services. - Demand. - Supply. - Contract law. - Any other laws and regulations affecting the cost of providing the good or service. - Others.	

TOPIC: 8.1 REASONS FOR DIFFERENCES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 8-20	8.1.2 Market Differences - Market Conditions (Cont.) i. Stress that here is where failure to do market research can really hurt you. If you enter the market at the wrong time—such as when demand has recently skyrocketed relative to supply—you may pay many times more per unit than paid by the Government in the past—through no fault of the contractors. 8.1.2 Market Differences - Defective Specifications j. Explain the relationship between defective specifications and offered prices.	
VG 8-13	**DEFECTIVE SPECIFICATIONS** **P. 8-22** *EFFECT ON CONTRACT PRICING* _____ • Underestimation of contract requirements • Overestimation of contract requirements • Wide price ranges • High risks to both parties VG 8-13 • For our purposes, read the term "specification" as synonymous with the entire "Contract Schedule" (Sections A through H of the Uniform Contract Format). • A "defective **specification"** is one that is fundamentally flawed—in terms of being vague, ambiguous, internally inconsistent, or impossible. • Price estimates based on defective specifications are likely to be correspondingly defective.	

TOPIC: 8.1 REASONS FOR DIFFERENCES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 8-23	8.1.2 Market Differences - Contract Terms k. Explain the relationship between offered prices and the presence of noncommercial terms in Government solicitations.	
VG 8-14	**NONCOMMERCIAL CONTRACT TERMS P. 8-23** *EFFECT ON CONTRACT PRICING* _____ • Generally increases the contractor's risks • Generally means higher prices (relative to other customers pay) VG 8-14	

TOPIC: 8.1 REASONS FOR DIFFERENCES (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	l. Summarize potential reasons why offered prices might vary unexpectedly from your best estimate of the should pay price.	

VG 8-15

Potential Reasons	If the offer in line for award is substantially:		
	Lower than other competitive offers	Lower than expected*	Higher than expected*
Vendor not responsible	X	X	
One or more vendors misunderstand the requirement	X	X	X
Only one vendor has necessary technology	X	X	X
No vendor has the necessary technology			X
Some vendors are more efficient than others		X	
One vendor is far more efficient than others	X	X	X
One or more vendors has a market strategy other than merely recovering costs at a reasonable profit.	X	X	X
Vendor has made a mistake in pricing	X	X	
Demand is falling relative to supply		X	
Demand is rising relative to supply			X
The Government has entered the market at the wrong point in its cycle			X
Vendors are in collusion			X
Some vendors are located in localities with depressed economic conditions		X	
The specification is defective		X	X
Relative to commercial terms or past contracts, the IFB or RFP's terms increase the contractor's risks and/or impose extra costs			X

* Based on comparison with Should-Pay prices developed using historical prices, commercial prices, Government estimates, or CERs.

TOPIC:	8.1 REASONS FOR DIFFERENCES (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-49	m. Assign the case study "Quality Training." (25 minutes) • Assign questions one at a time. • Allow time to determine answer. • Record student answers on the board. • Demonstrate the correct calculations. • Go to next question.	

QUALITY TRAINING

Your agency is contracting for training services to present a course entitled Total Quality for Managers.

Offerors are required to submit firm fixed-prices for 10 offerings of the 5-day course, at various locations. Prices must include instructor compensation, travel, and lodging required to present the offerings. Courses will be offered according to the following schedule:

Pittsburgh, PA	Jan 7 - - Jan 11
Little Rock, AR	Jan 22 - Jan 26
Dayton, OH	Jan 29 - Feb 2
Washington, DC	Jan 29 - Feb 2
Detroit, MI	Feb 4 - Feb 8
Washington, DC	Apr 8 - Apr 12
Dayton, OH	Jul 15 - Jul 19
New York, NY	Aug 19 - Aug 23
Los Angeles, CA	Sep 16 - Sep 20
Little Rock, AR	Nov 4 - Nov 15

Each offer must include a management plan that demonstrates the location and availability of at least 10 qualified instructors. Each instructor must have a masters degree in engineering, 10 years of successful quality assurance related experience, and four years successful teaching experience.

Award criteria state in part:

> Award will be made to the technically acceptable offeror with the lowest aggregate total price.

Four offers were received.

QUALITY TRAINING (Con't)

The following table summarizes the results of the initial technical evaluation:

CRITERIA	LOS ANGELES QUALITY	WASHINGTON INDEPENDENTS	WASHINGTON CENTRAL	DAYTON/DC ASSOCIATES
Number of Instructors	11	10	10	10
Engineering Education	All have masters degrees	8 with masters degrees 2 with Ph.D	2 with bachelors* 8 with masters degree	10 with masters degrees
QA Experience	All have 10 years Average 15 years	All have 10 years Average 14 years	All have 10 years* Average 15 years	All have 10 years Average 16 years
Teaching Experience	All at least 4 years Average 6 years	All at least 4 years Average 7 years	All at least 4 years* Average 6 years	All at least 4 years Average 5 years
Location & Availability	All in LA Head-quarters All permanent employees	At least 1 within 15 miles of each training location Consultants currently under contract	All in DC Head-quarters All permanent employees	5 in Dayton 5 in DC Consultants currently under contract

* The two instructors with bachelors degrees both have over 20 years of excellent quality assurance experience including extensive consulting. One has 7 years teaching experience, the other 6 years.

The following table summarizes the proposed prices:

OFFERING	GOV'T EST	LA QUALITY	WASH IND	WASH CENTRAL	DAY/DC ASSOC
Pittsburgh	$4,278	$4,578	$2,925	$2,978	$4,297
Little Rock	$4,294	$4,294	$2,925	$2,994	$4,013
Dayton	$4,272	$4,572	$2,925	$2,972	$2,969
Washington	$3,250	$4,262	$3,250	$2,925	$2,969
Detroit	$4,436	$4,636	$2,925	$3,136	$4,355
Washington	$3,250	$4,262	$3,250	$2,925	$2,969
Dayton	$4,272	$4,572	$2,925	$2,972	$2,969
New York	$4,632	$4,632	$3,250	$3,332	$4,351
Los Angeles	$4,220	$3,250	$3,250	$2,920	$3,939
Little Rock	$4,294	$4,294	$2,925	$2,994	$4,013
Total	$41,198	$43,352	$30,550	$30,148	$36,842

CASE ANSWERS - QUALITY TRAINING

1. **If you were to award without negotiations, given the award criteria provided and the information provided, which offeror would you select for award? Why?**

   Given only the information provided, the logical choice is the low acceptable offeror, Washington Independents.

2. **The Government estimate was developed assuming that the work would be performed by a contractor located in the Washington, DC area, with instructors traveling from Washington to the offering sites. Washington Central proposes to operate in that manner yet the firm's proposed price is $11,050 less than the Government estimate. What factors do you think affect this difference?**

   Washington Central proposes to provide personnel that do not meet contract requirements. Possibly, they pay them less than estimated by the Government. In this case, Washington Central has either misunderstood the requirement and/or made a mistake (unintentional or deliberate) in reading the requirement.

3. **The proposal of Washington Independents is $10,648 less than the Government estimate. What factors do you think affect this difference?**

   Washington Independents does not plan to use permanent staff traveling from Washington, DC. Instead they will hire local consultants at great savings. In short, Washington Independent has found a way to meet the requirement more efficiently and economically than we expected.

4. **Los Angeles Quality has the highest proposed price. What factors do you think affect this difference?**

   Travel is a major cost. All other offerors are located closer to the training sites. It is also likely that salaries for a staff in the Los Angeles area would be higher than most areas. Los Angeles Quality has thus proposed a far less efficient and economical approach than its rivals.

TOPIC:	SUMMARY - ACCOUNT FOR DIFFERENCES
REF:	TR 8-1 through 8-25
OBJECTIVE:	To summarize to the students what has been covered in this lesson.
METHOD:	Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 8-1 through 8-25	n. Tell students that, in this lesson, they learned how to account for significant differences between the low offer and the estimates of "should-pay" prices that result in comparisons with commercial prices, historical prices, yardsticks, and Government estimates. • In the next lesson they will learn about pricing-related decisions that must be considered in contracting using sealed bidding procedures. Lesson 10 covers price-related decisions in negotiated acquisitions. • In sealed bidding, the decision to be made depends on whether the low bid seems unreasonably low or unreasonably high. If the low bid appears to be unreasonably low or unbalanced, a decision whether to reject it must be made. If the low bid appears to be unreasonably high, a decision whether to cancel the IFB must be made. In Lesson 9, the students will learn how to make these decisions.	

LESSON 9

PRICE-RELATED DECISIONS IN SEALED BIDDING

Primary Learning Objective (PLO)	Condition	Given bids.
	Task	Determine whether to accept the low bid, reject individual bids, or cancel the IFB.
	Standard	Correctly determines whether to accept the low bid, reject individual bids, or cancel the IFB to only award to the lowest price bid, if that price is fair and reasonable in accordance with FAR 14.404 and 14.406.
Course Learning Objective (CLO)	9-1	Determine whether to reject a bid that is unreasonably low or materially unbalanced.
	9-2	Identify the price-related reasons for canceling an IFB.
Estimated Time	1 hour 55 minutes—Lecture/Discussion/Case Studies.	
Method of Instruction	Lecture/Discussion with viewgraphs as visuals. Student Exercise—Case study on examining individual bid.	
Student Materials	Text/Reference—Chapter Nine Classroom Materials—Chapter Nine	
Instructor Materials	Text/Reference—Chapter Nine Instructor Guide—Chapter Nine Overhead Projector Viewgraphs for Chapter Nine	
Instructor References	BP 18, EO A1, A2, and A5; BP 17.4, EO4; BP 16.2, EO 1, 2	

TOPIC:	INTRODUCTION TO PRICE-RELATED DECISIONS IN SEALED BIDDING
REF:	TR 9-1 through 9-4
OBJECTIVE:	Introduce the students to making the necessary decision about possible mistakes, the reasonableness of any individual bid, or the adequacy of the solicitation process.
TIME:	1:35 p.m.; 1 hour 55 minutes (for entire Lesson)
METHOD:	Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 9-1 VG 9-1	a. Allow the students some time to review the learning objectives on TR 9-1. **SEALED BIDDING PRICE-RELATED DECISIONS** **P. 9-3** • **INDIVIDUAL BIDS** - Suspected mistakes - Unbalanced bids • **SOLICITATION** - Price-related reasons for cancellation - Negotiation after cancellation VG 9-1 b. Inform the students that "COs must reject bids that are unreasonably low or unbalanced. Here, "reasonableness" is a matter of — • The extent to which the low bid varies from the "should pay" price, and • Reasons for the variance, as revealed by the "bid verification" procedure. " c. Inform the students that "COs may cancel IFBs if all bids are unreasonably high. Here also, "reasonableness" is a matter of — • The extent to which the low bid varies from the "should pay" price, and • Reasons for the variance.	

TOPIC: 9.1 EXAMINE INDIVIDUAL BIDS

REF: TR 9-5 through 9-14

OBJECTIVE: Determine whether to reject a bid that is unreasonably low.

TIME:

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 9-5	9.1.1 Suspected Mistakes in Bids a. Define "mistake in bid" and present the bid verification process. • Before award, the CO may correct any clerical error apparent in the bid.	
VG 9-2	**MISTAKES IN BIDS** **P. 9-6** *OBVIOUS CLERICAL ERROR* _____ • Misplacement of decimal point • Incorrect discounts • Reversal of price F.O.B. Origin, and Price F.O.B. Destination VG 9-2	
	QUESTION: What if the low bid is $35,000, the next low bid is $90,000, and your estimate of the "should pay" price is $120,000. Is the low bid of $35,000 a mistake? ANSWER: Perhaps. The FAR therefore allows you to ask that very question of the low bidder.	
TR 9-7 VG 9-3	**SUSPECTED MISTAKES IN BIDS** **P. 9-7** *WHEN A MISTAKE IS SUSPECTED ADVISE THE BIDDER* _____ • An error indicated because bid is much lower than other bids or government estimate • Important or unusual characteristics associated with specifications • Changes in requirements since last purchase • Other information indicates mistake in bid VG 9-3	

TOPIC: 9.1 EXAMINE INDIVIDUAL BIDS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 9-8	9.1.1 Suspected Mistakes in Bids (Cont.) • It is not enough merely to state that you suspect a mistake — you must express the basis for your suspicion. • Refer students to the tables on TR 9-8 through 9-10. These tables describe the Government's options when the bidder admits to having made a mistake.	
TR 9-11	b. Present the COs right to reject a "verified" but unreasonably low bid. • What if, however, the bidder denies that any mistake was made and verifies a bid that is extremely low?	

SUSPECTED MISTAKES IN BIDS (CONTINUED) **P. 9-11**

BIDDER VERIFIES BID AS SUBMITTED

SITUATION	IF	THEN....
1	The bidder verifies the original bid and denies that a mistake was made.	Accept or reject the bid as originally submitted. VG 9-4

• If the bidder verifies the original bid, you must accept the bid as originally submitted…

… UNLESS accepting it would be “unfair to the bidder or to other bona fide bidders”.

TOPIC: 9.1 EXAMINE INDIVIDUAL BIDS

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 9-11	9.1.1 Suspected Mistakes in Bids (Cont.) • Accepting the low bid would be unfair to the bidder and other bidders when the following are true:	
VG 9-5	**"VERIFIED" BIDS ARE NOT FAIR WHEN:P. 9-11** • DOLLAR AMOUNT OF BID IS FAR OUT OF LINE WITH THE: - Dollar amounts of other bids, - Government price estimate, OR the - Dollar amount determined by the CO to be reasonable VG 9-5	
	OR	
VG 9-6	**"VERIFIED" BIDS ALSO ARE NOT FAIR WHEN: P. 9-11** • THE CONTRACTOR IS UNABLE OR UNWILLING TO: - Demonstrate clear understanding of contract requirements. - Demonstrate reasonableness of price bid by presenting original work sheets • Explain how the work can be completed at bid price VG 9-6	

TOPIC: 9.1 EXAMINE INDIVIDUAL BIDS

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 9-12	9.1.1 Suspected Mistakes in Bids (Cont.)	
VG 9-7	**REASONABLENESS OF LOW BID P. 9-12** *REJECT BID WHEN BIDDER _____* • Is nonresponsive, • Misunderstands requirement, OR • Has grossly underestimated the costs and risks of performance. *ACCEPT BID WHEN BIDDER _____* • Demonstrates that it can perform at the price bid VG 9-7	
CM-53	c. Assign the case study "Well-Built." (20 minutes) • Assign all questions, one at a time. • **Advise students to use the tables on pages 9-8 through 9-11 in preparing their answers.** • Allow time to determine answer. • Record student answers on the board. • Demonstrate the correct calculations. • Go to next question.	

WELL-BUILT

You are the contracting officer for construction of a new garage facility. The Government price estimate and the four bids received are compared in the table below:

SOURCE	TOTAL PRICE
Government Estimate	$275,000
DARMIN Construction	$280,500
Well-Built Construction	$175,000
Bolton Builders	$260,000
Carlton Construction	$265,750

CASE ANSWERS - WELL BUILT

1. **You are concerned about the price bid by Well-Built Construction. It appears that Well-Built may have made a mistake. What should you do?**

   Ask Well-Built Industrial to verify its bid.

QUESTION: How would you phrase the request for verification?

ANSWER: “Your bid is so much lower than the other bids and the Government's estimate as to indicate the possibility of error. ” Of course, bids have already been publicly opened, so you are not revealing information not otherwise available to the low bidder.

CASE ANSWERS - WELL BUILT (continued)

2. Well-Built alleges that the firm made a mistake in the bid. They further allege that the bid should have been $259,500. Under what conditions would the firm be permitted to correct the mistake?

QUESTION: Which table and situation applies to Well-Built's request?

ANSWER: The table on page 9-8, Situation 1.

VG 9-8

SUSPECTED MISTAKES IN BIDS **P. 9-8**

BIDDER REQUESTS PERMISSION TO CORRECT THE MISTAKE

SITUATION	IF ...	THEN....
1	You have clear and convincing evidence of a mistake **AND** You have clear and convincing evidence of the bid intended **AND** Lower bidders would NOT be displaced by the correction	Agency head, or delegated official, may permit the bidder to CORRECT the mistake. VG 9-8

If permitted to change its bid to $259,500 — Well-Built would remain the low bidder, and its bid would not displace any other bid. Hence, the head of the agency, or his designee, might permit Well-Built to correct the bid BUT ONLY IF:

1. You have clear and convincing evidence of a mistake, **AND**

2. You have clear and convincing evidence of the bid intended.

QUESTION: What type of evidence would provide "clear and convincing" proof of the bid intended?

AMONG THE POTENTIAL ANSWERS:

- The bidder's file copy of the bid.
- The original work sheets and other data used in preparing the bid.
- Subcontractors' quotations, if any.
- Published price lists.

Stress that the burden of proof is on the bidder. The bidder must provide evidence sufficient to convince you that a mistake was made and the bid price really intended.

CASE ANSWERS - WELL BUILT (continued)

3. In your review of the Well-Built bid and the data submitted to support their claim of a mistake, you determine that the firm most likely made a mistake but you cannot determine the actual bid intended. What should you do?

An official above the contracting officer may permit Well Built to withdraw its bid.

QUESTION: Which table and situation supports this answer?

ANSWER: The table on page 9-9, Situation 4.

VG 9-9

TR 9-9

SUSPECTED MISTAKES IN BIDS **P. 9-8**

BIDDER REQUESTS PERMISSION TO CORRECT THE MISTAKE

SITUATION	IF	THEN....
4	You have clear and convincing evidence of mistake **AND** There is NO clear and convincing evidence of bid intended	An official above the contracting officer may permit the bidder to WITHDRAW the bid. VG 9-9

4. Well-Built confirms the bid as originally submitted, but the management refuses to provide working papers to support the bid. The Government engineer reviews the bid and advises you that the work cannot be done for the price bid. What should you do?

The bid may be rejected if the contracting officer determines in writing that the bid is unreasonable. It appears that you are justified in making that conclusion because the bid is far out of line with the Government estimate and the other bids received.

TOPIC: 9.1 EXAMINE INDIVIDUAL BIDS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 9-13	d. Define "Unbalanced Bid" (9.1.2) and present criteria for determining whether to reject them.	
VG 9-10	**UNBALANCED BIDS** **P. 9-13** *IN TERMS OF* _____ • Total bid price • Separate line items VG 9-10	
VG 9-11	**UNBALANCED BIDS (CON'T)** **P. 9-13** *TO BE UNBALANCED THE BID MUST BE* ____ • Mathematically unbalanced • Materially unbalanced VG 9-11	
	• As an example, show VG 9-15. Inform students that prices are for a one-year services contract with three one-year options, with award to the lowest total price for the basic item and the three options.	
VG 9-12	**UNBALANCED BIDS (continued)**	

CONTRACT ITEM	GOVT.	BID #1	BID #2
Base Year	$22,000	$22,500	$ 4,000
Option #1	$22,500	$22,500	$28,500
Option #2	$23,000	$23,500	$28,500
Option #3	$23,500	$23,500	$28,500
Total	$91,000	$92,000	$89,500

VG 9-12

QUESTION: Could the CO award to Bid #2?

ANSWER: YES. Bid #2 is mathematically unbalanced, NOT materially unbalanced. Why? The mathematical imbalance actually <u>favors</u> the Government. However, the buyer's primary concern should be the responsibility of the firm in performing for $4,000.

TOPIC: 9.1 EXAMINE INDIVIDUAL BIDS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 9-13	9.1.2 Unbalanced Bids (Cont.) • Show VG 9-11:	

VG 9-13

UNBALANCED BIDS (continued)

CONTRACT ITEM	GOVT.	BID #1	BID #2
Base Year	$22,000	$22,500	$28,500
Option #1	$22,500	$22,500	$28,500
Option #2	$23,000	$23,500	$28,500
Option #3	$23,500	$23,500	$ 4,000
Total	$91,000	$92,000	$89,500

VG 9-13

QUESTION: Could the CO award to Bid 2?

ANSWER: NO. Bid 2 is both mathematically and MATERIALLY unbalanced. Acceptance of the Bid #2 would have the effect of making advance payments in the Base Year and first two Option years for Option #3.

CM-55

e. Assign the case study "Brown, Smith, and Jones." (15 minutes)

- Assign students to teams.
- Assign the students the entire case.
- Allow time to complete.
- Record answers to questions on the board for discussion.

BROWN, SMITH, AND JONES

You are evaluating bids for a requirements contract to supply materials for operational repairs. The Government quantity estimate is based on the Government's expected item use during "normal operations." In the past, actual requirements of individual items have varied by as much as ±80 percent.

The Government unit price estimate is based on the current requirements contract with Jones Products.

The award criteria in the invitation for bids (IFB) provide for an aggregate award to the firm with the low responsive, responsible, bid.

ITEM NUMBER	GOVERNMENT QUANTITY ESTIMATE	GOVERNMENT UNIT PRICE ESTIMATE	BROWN WAREHOUSE UNIT PRICE	SMITH SUPPLY UNIT PRICE	JONES PRODUCTS UNIT PRICE
1	5,000	$1.45	$1.45	$1.50	$0.30
2	12,750	$2.05	$2.05	$2.00	$1.75
3	24,500	$0.30	$0.30	$0.32	$0.64
4	30,600	$0.22	$0.22	$0.20	$0.40
5	6,250	$2.00	$2.00	$2.00	$0.25
6	10,300	$0.50	$0.50	$0.45	$0.90

Your assistant has calculated the total Government estimate and bid prices by line item.

ITEM NUMBER	GOVERNMENT TOTAL PRICE ESTIMATE BY ITEM	BROWN WAREHOUSE PRICE BY ITEM	SMITH SUPPLY PRICE BY ITEM	JONES PRODUCTS PRICE BY ITEM
1	$7,250.00	$ 7,250.00	$ 7,500.00	$ 1,500.00
2	$26,137.50	$26,137.50	$25,500.00	$22,312.50
3	$7,350.00	$ 7,350.00	$ 7,840.00	$15,680.00
4	$6,732.00	$6,732.00	$ 6,120.00	$12,240.00
5	$12,500.00	$12,500.00	$12,500.00	$ 1,563.50
6	$5,150.00	$5,150.00	$ 4,635.00	$ 9,270.00
Total	$65,119.50	$65,119.50	$64,095.00	$62,565.00

CASE ANSWERS - BROWN, SMITH, AND JONES

1. Based only on the information presented above, which firm would you recommend for contract award? Why?

Smith. The Jones bid is low but the prices appear unbalanced. Jones should be questioned concerning a possible mistake. If the prices are confirmed and the firm cannot provide a satisfactory explanation of price reasonableness, the Jones bid should be rejected.

2. Outline the major points that you would use to support your decision.

Prices on Items #1, 2, and 5 are far below the Government estimate and competitor prices.

Prices on Items #3, 4, and 6 are far above the Government estimate and competitor prices.

It appears that Jones is trying to use its knowledge of Government requirements to "game" the bidding, underestimate prices on overestimated Government requirements and overestimate prices on underestimated Government requirements. The second element would be confirmed by any unsupported verification of price.

If Jones has "guessed right", then there is a strong likelihood that awarding to Jones will NOT result in lowest total acquisition cost to the Government. If the Government actually places far more orders for items 3, 4 and 6 then it has estimated, Jones stands to make a killing — with the taxpayers playing the role of victim.

There is also the risk that Jones may have guessed wrong. If the Government orders far more of the "underbid" items than Jones anticipates, Jones may not be able to deliver. Hence, the necessity of verifying the "apparent mistake" by Jones in pricing items 1, 2, and 5.

3. What documentation would be required to support your decision?

- Government estimate.
- Competitive bids.
- Jones response to request for bid verification.
- Any other available price analysis data.

4. What additional information would you normally attempt to obtain before making your decision?

- Historical prices.
- Commercial pricing information.
- Jones response to request for bid verification.
- Any other available price analysis data.

TOPIC: 9.2. DETERMINE NEED TO CANCEL THE IFB

REF: TR 9-15 through 9-19

OBJECTIVE: Identify the price-related reasons for canceling an IFB.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 9-16	a. Present "Price Related Reasons for Canceling Bids" (9.2.1). • Refer students to tables on TR 9-17 through 9-20.	
VG 9-14	**PRICE-RELATED REASONS FOR IFB CANCELLATION** **P. 9-16** • IFB did not consider all factors of cost • Government needs can be satisfied with less expensive product • Unacceptable prices for otherwise acceptable bids • Bids not arrived at independently • More economical government performance VG 9-14	
	EXAMPLE OF HAVING IGNORED A FACTOR: An RFP for air conditioners that did not include energy efficiency as a factor.	
TR 9-22	9.2.2 Negotiation After Cancellation • Five possible cancellation situations:	
VG 9-15	**NEGOTIATION AFTER CANCELLATION**	**P. 9-22**

POSSIBLE CANCELLATION SITUATION	NEGOTIATION AUTHORIZED AFTER CANCELLATION?
IFB Did Not Consider All Factors of Cost	NO
Government Needs Can be Satisfied With Less Expensive Product	NO
Unacceptable Prices for Otherwise Acceptable Bids	YES
Bids Not Arrived at Independently	YES
More Economical Government Performance	N/A VG 9-15

TOPIC:	9.2. DETERMINE NEED TO CANCEL THE IFB (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-57	b. Assign the case study "Janitorial Price." (15 minutes) • Assign the students the entire case. • Allow time to complete. • Record answers to questions on the board for discussion.	

JANITORIAL PRICE

Your office is responsible for contracting for janitorial services for your facility. For years, the annual janitorial service contract has been set-aside for small business.

You are currently evaluating bids for the next annual contract due to begin in two months.

SOURCE	TOTAL PRICE
Government Estimate	$255,000
Small Janitorial Services	$298,000
Little Custodians	$310,000
Micro Cleaning	$297,000
Large Janitorial	$250,000

As you can see the low bidder is Large Janitorial at a price $5,000 below the Government estimate and $47,000 below the second low bidder. Unfortunately, Large Janitorial is a large business, and is therefore nonresponsive to the terms of the IFB.

The Government estimate is based on the historical contract price plus an adjustment for inflation.

CASE ANSWERS - JANITORIAL PRICE

1. Given the above information, what actions might you take?

Award to Micro Cleaning

Cancel the solicitation and negotiate with the small businesses

Cancel and resolicit small business only

Cancel and resolicit large and small business

2. What additional information would be useful in making your decision as to what action to take?

How do the bid prices compare to prices charged commercial firms?

How do the bid prices compare to prices charged similar Government installations?

Is Large Janitorial a responsible firm? Is their price in line with their other contracts?

3. Given only the information above, what action appears to be most advantageous to the Government?

Cancel and resolicit large and small business

Comptroller General Decision B-238969; B-238971, Matter of: American Imaging Services

July 19, 1990

An agency properly may dissolve a small business set-aside on the basis that award to a small business would be above the fair market price, that is, unreasonable. Federal Acquisition Regulation (FAR) 19.506(a). A determination of price reasonableness of an offer on a small business set-aside is within the discretion of the procuring agency; we will not disturb such a determination unless it lacks a rational basis or there is a showing of fraud or bad faith on the part of the contracting officer. See R.G. Dunn & Assocs., Inc., B-230831, B-230832, July 8, 1988, 88-2 CPD P 28; Warren/Dielectric Communications, B-212609, Jan. 26, 1984, 84-1 CPD P 121. In making this determination, the contracting officer may consider pricing history or other relevant factors revealed by the bidding, including prices submitted by an otherwise ineligible large business in a courtesy bid. Flagg Integrated Sys. Technology, B-214153, Aug. 24, 1984, 84-2 CPD P 221.

FAR 19.506 Withdrawing or modifying set-asides.

(a) If, before award of a contract involving a set-aside for small business, the contracting officer considers that award to a small business concern would be detrimental to the public interest (e.g., payment of more than a fair market price), the contracting officer may withdraw the set-aside determination whether it was unilateral or joint. The contracting officer shall initiate a withdrawal of an individual set-aside by giving written notice to the agency small and disadvantaged business utilization specialist and the SBA procurement center representative, if one is assigned, stating the reasons. In a similar manner, the contracting officer may modify a unilateral or joint class set-aside to withdraw one or more individual acquisitions.

(b) If the agency small and disadvantaged business utilization representative does not agree to a withdrawal or modification, the case shall be promptly referred to the SBA representative (if one is assigned) for review. If an SBA representative is not assigned, disagreements between the agency small and disadvantaged business utilization representative and the contracting officer shall be resolved using agency procedures. However, the procedures are not applicable to automatic dissolutions of set-asides (see 19.507) or dissolution of small business-small purchase set-asides (see 13.105).

(c) The contracting officer shall prepare a written statement supporting any withdrawal or modification of a set-aside and include it in the contract file.

19.505 Rejecting Small Business Administration recommendations.

(a) If the contracting officer rejects a recommendation of the SBA procurement center representative or breakout procurement center representative, written notice shall be furnished to the appropriate SBA center representative within 5 business days of the contracting officer's receipt of the recommendation.

(b) The SBA procurement center representative may appeal the contracting officer’s rejection to the head of the contracting activity (or designee) within 2 business days after receiving the notice. The head of the contracting activity (or designee) shall render a decision in writing, and provide it to the SBA representative within 7 business days. Pending issuing the decision to the SBA procurement center representative, the contracting officer shall suspend action on the acquisition.

(c) If the head of the contracting activity agrees that the contracting officer’s rejection was appropriate, the SBA procurement center representative may—

(1) Within 1 business day, request the contracting officer to suspend action on the acquisition until the SBA Administrator appeals to the agency head (see paragraph (f) below); and

(2) The SBA shall be allowed 15 business days after making such a written request, within which the Administrator of SBA (i) may appeal to the Secretary of the Department concerned, and (ii) shall notify the contracting officer whether the further appeal has, in fact, been taken. …

(d) When the contracting officer has been notified within the 15-day period … The contracting officer shall suspend contract action until notification is received that the SBA appeal has been settled.

(e) The agency head shall reply to the SBA within 30 business days after receiving the appeal. The decision of the agency head shall be final.

(f) A request to suspend action on an acquisition need not be honored if the contracting officer determines that proceeding to contract award and performance is in the public interest. The contracting officer shall include in the contract file a statement of the facts justifying the determination, and shall promptly notify the SBA representative of the determination and provide a copy of the justification.

TOPIC: SUMMARY - PRICE-RELATED DECISIONS IN SEALED BIDDING

REF: TR 9-1 through 9-24

OBJECTIVE: Summarize to the students the necessary decision about possible mistakes, the reasonableness of any individual bid, or the adequacy of the solicitation process.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 9-1 through 9-24 VG 9-16	a. Tell the students that, in Lesson 9, they learned to make price-related decisions in sealed bidding. **SEALED BIDDING PRICE-RELATED DECISIONS** **P. 9-3** • **INDIVIDUAL BIDS** - Suspected mistakes - Unbalanced bids • **SOLICITATION** - Price-related reasons for cancellation - Negotiation after cancellation VG 9-16 b. Tell the students that, in the next lesson, they will learn to make price-related decisions in negotiated procurements.	

LESSON 10

PRICE-RELATED DECISIONS IN NEGOTIATIONS

Primary Learning Objective (PLO)	Condition	Given RFPs, proposals, technical data, purchase requests (including cost estimates, market data or results of actual research), and historical data
	Task	Apply the findings of the price analysis in determining: • The need for a cost breakdown • The need for discussions • The competitive range • The need for factfinding sessions • Prenegotiation price positions • Potential tradeoffs between price and other terms and conditions
	Standard	Only awards to an offer that is fair and reasonable. Performs task in accordance with FAR 15.6 and 15.8.

Course Learning Objective (CLO)

10-1 Determine need for cost breakdowns.

10-2 Determine need for discussions.

10-3 Identify criteria for establishing the competitive range and determine whether to exclude an offer from the range based on price-related concerns.

10-4 Identify price-related aspects of the proposal that are unclear and require a factfinding session to prepare for negotiations.

10-5 Establish prenegotiation positions on price (lowest reasonable price, the highest reasonable price, and the target price) by applying selected techniques.

10-6 Identify potential trade-offs between price and other terms and conditions.

10-7 Determine need to cancel and resolicit.

Estimated Time	1 hour 45 minutes—Lecture/Discussion/Case Studies.
Method of Instruction	Lecture/Discussion with viewgraphs as visuals. Student Exercise—Case studies on determining need for cost data and on potential trade-offs between price and other terms.
Student Materials	Text/Reference—Chapter Ten Classroom Materials—Chapter Ten
Instructor Materials	Text/Reference—Chapter Ten Instructor Guide—Chapter Ten Overhead Projector Viewgraphs for Chapter Ten
Instructor References	BP 21, EO 6, 7; BP 24, EO 1, 2; BP 23, EO 1; BP 25, EO 3, 4

TOPIC:	INTRODUCTION TO PRICE-RELATED DECISIONS IN NEGOTIATIONS
REF:	TR 10-1 through 10-5
OBJECTIVE:	Introduce the students to the requirements of price-related decisions in negotiations.
TIME:	8:00 a.m. Friday; 1 hour 45 minutes (for entire Lesson)
METHOD:	Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 10-3 VG 10-1	a. Emphasize that Contracting by negotiation requires a broader range of price-related decisions than in sealed bidding: **PRICE-RELATED DECISIONS** **P. 10-3** • Determine need for cost data • Determine need for discussions • Determine competitive range • Determine need for fact-finding • Establish pre-negotiation positions • Consider potential trade-offs • Determine need to cancel and resolicit VG 10-1 b. Inform the students that "these decisions all flow from your analysis of — • The extent to which the proposals vary from the "should pay" price, and • Reasons for the variance, as revealed in part through discussions with offerors. "	

TOPIC: 10.1 DETERMINE THE NEED FOR COST DATA

REF: TR 10-7 through 10-11

OBJECTIVE: Determine need for cost breakdowns.

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	a. Explain why COs at times request cost data <u>after</u> evaluating proposals.	
TR 10-7	QUESTION: When might you need cost data from an offeror to determine whether the offeror's proposed price is reasonable? ANSWER: When: • Only One Offer • Inadequate Competition • A Suspected Mistake	
	QUESTION: Do you always need to require cost data in these cases? ANSWER: No—especially if the price is under the dollar threshold for certified data. Only request cost data when (a) you cannot exempt offerors from the requirement for certified data OR (b) when price analysis alone is not sufficient to establish reasonableness.	
TR 10-8	10.1.1 Cost Realism Analysis b. Define "cost realism analysis" as “a review of an offeror's cost estimates to determine whether the proposed price is consistent with the level of effort required for the work.” Present circumstances under which a cost realism analysis might be necessary:	
VG 10-2	**COST REALISM ANALYSIS** **P. 10-8** *MAY BE NECESSARY WHEN* _____ • Acquiring new contract requirements • Acquiring complex contract requirements • Otherwise concerned about quality • Awarding on "greatest value" VG 10-2	

TOPIC:	10.1 DETERMINE THE NEED FOR COST DATA (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 10-9	10.1.1 Cost Analysis in Support of Price Analysis (Cont.)	
?	QUESTION: Why might cost realism data be necessary to analyze a proposed price? ANSWER: • TO verify that the proposed price is not a "mistake" (i.e., by obtaining sufficient data on how the price was estimated to verify that the offeror can perform at that price). • To verify the reasonableness of price differentials for "higher quality" in greatest value competitions.	
?	QUESTION: What concerns might we have about an extremely low price for a new contract requirement, complex contract requirements, or any other requirement for which quality is a critical concern? ANSWERS: - Has the offeror included adequate material, labor hours, and skill classifications to complete all required tasks? - Has the offeror underestimated material prices or labor rates? - Does the scheduling of labor indicate an understanding of the flow of the required labor effort? - Have all quality and service requirements been considered?	

TOPIC: 10.1 DETERMINE THE NEED FOR COST DATA (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	QUESTION: What concerns might we have about proposed prices in greatest value competitions? - Are estimates of material costs consistent with the type and amount of material in the technical proposal? - Are labor costs consistent with the level of labor effort (types of labor and hours) in the technical proposal? - Have all technical requirements been considered? - Bottom line — is the price differential proposed for "higher quality" reasonable?	
	10.1.2 Data Submission	
TR 10-10	c. Remind students that cost data must be certified when the contract price exceeds the dollar threshold for such data and no exemption applies. Also remind students that certified data can be required under the dollar threshold when available evidence indicates that the firm will not or cannot submit accurate, complete, and current data. • Examples of such evidence include situations where the offeror:	
VG 10-3	**REQUIRE A CERTIFICATE OF CURRENT COST OR PRICING DATA P. 10-10** *WHEN OFFEROR* _____ • Recently used fraudulent cost estimating or fraudulent accounting practices in the performance of government contracts. • Currently has significant deficiencies in cost estimating systems. • Recently has been the subject of recurring and significant findings of defective pricing. VG 10-3	

TOPIC:	10.1 DETERMINE THE NEED FOR COST DATA (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-59	d. Assign the case study "More Quality Training." (10 minutes) • Assign questions #1 and #2. • Allow time to determine answer. • Record student answers on the board. • Discuss major elements of the decision.	

MORE QUALITY TRAINING

In Chapter 8, you completed the "Quality Training" case. Given all the information that you collected and analyzed concerning the pricing of the training requirement, answer the following questions.

CASE ANSWER - MORE QUALITY TRAINING

1. **Would you require cost or pricing data? Why?**

   Because of the differences in approach, cost data would be useful in proposal evaluation. In particular, cost data might be sought from Washington Central, to determine whether its proposal is a "mistake" (it appears that Washington Central did not consider all elements of cost in preparing its proposal). Certification should not be required because of the competitive response to the solicitation.

2. **If you required data, would you plan to require certification?**

   No. Three of the four contenders are qualified, and the price of two of the three are below the Government estimate.

3. **If you elect to negotiate, which firm or firms would you include in the competitive range? Why?**

   [To be answered later].

TOPIC: 10.2 DETERMINE THE NEED FOR DISCUSSIONS

REF: TR 10-13 through 10-18

OBJECTIVE: Determine need for discussions

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 10-14	a. Tell students that discussion are not always needed.	
VG 10-4	**NEED FOR DISCUSSIONS** **P. 10-14** *DISCUSSIONS NOT NECESSARY WHEN ONE OF THE FOLLOWING EXISTS* _____ • Prices fixed by law or regulation • Offer is for set-aside portion of partial set-aside • All of the following are true: - Acceptance of most favorable initial offer without discussion will result in lowest cost to Government - Solicitation notified all offerors that award may be made without discussion - Award is made without written or oral discussions VG 10-4	
	QUESTION: Why does the Government retain the right to award without discussions? ANSWER: To encourage offerors to submit their best prices upfront, rather than padding prices in their initial proposals to make the BAFOs seem more reasonable.	
TR 10-16	10.2.1 Determine Price Without Discussion	
VG 10-5	**DETERMINE PRICE WITHOUT DISCUSSION** **P. 10-16** • Consider type and extent of risk • Compare prices VG 10-5	
	b. Tell students to consider the risks in awarding without discussion. • HOLD discussions if there are serious questions about the meaning or scope of proposed terms and conditions. • Ambiguities or vagueness represent risk.	

TOPIC: 10.2 DETERMINE THE NEED FOR DISCUSSIONS (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 10-16	10.2.1 Determine Price Without Discussion (Cont.) • If discussions would eliminate uncertainties and thereby reduce offeror risks, offerors then have good reason to lower initial prices when they prepare BAFOs. c. Stress that the key issue is whether acceptance of an initial proposal will result in the lowest overall cost to the government. In making this determination, consider all the price comparisons used in developing your estimate of the "should pay" price.	
?	QUESTION: Refer the students to the case "More Quality Training". Ask: Could you award without discussions to Washington Independents? ANSWER: Probably not. Washington Central proposed a lower price. Its proposal was not "responsive." However, once that deficiency is highlighted in discussions, Washington Central could conceivably submit a responsive BAFO priced below that of the Independents.	

Comp. Gen. B-239287, Matter of: AMP, Inc., August 16, 1990: "… where the circumstances of the competition, including the pattern of prices obtained, reasonably place the contracting officer on notice that award on the basis of initial proposals may not result in the lowest overall cost to the government, the agency is not free to proceed to such an award. … Here, the contracting officer knew or should have known that AMP offered the low price for CLIN No. 0001 and that discussions with AMP to obtain more detailed component pricing could have resulted in a cost savings to the government since the pricing deficiencies were easily correctable through discussions."

?	QUESTION: Does "without discussions" mean absolutely NO contact with offerors prior to award? ANSWER: You can contact offerors to verify proposals per FAR 15.607, which basically repeats rules that apply to bid verification. "Verification … is not considered discussion within the meaning of 15.610."	

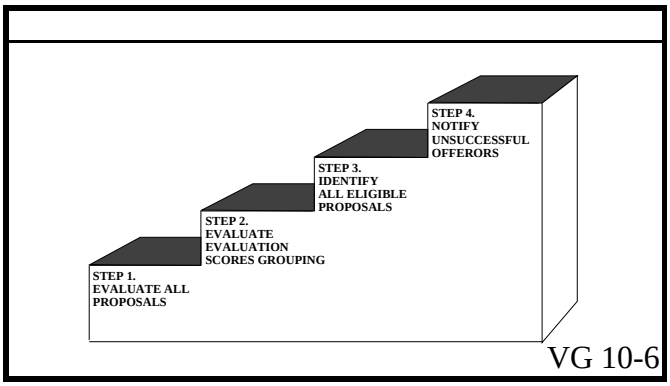
TOPIC: 10.3 DETERMINE THE COMPETITIVE RANGE

REF: TR 10-19 through 10-24

OBJECTIVE: Identify criteria for establishing the competitive range and determine whether to exclude an offer from the range based on price-related concerns.

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 10-20	a. Stress that all proposals which have a reasonable chance of being selected for award must be included in the competitive range. b. Present steps in determining the competitive range.	
VG 10-6		**DETERMINE COMPETITIVE RA**
	Step 1: Evaluate All Proposals • If competitive prices are used as a base for evaluation of price reasonableness, price must be a significant factor in proposal evaluation. **Step 2: Evaluate Evaluation Scores Grouping** • E.g. arranging the proposals from highest to lowest score and then looking for breaks in the scores such that natural groupings of similar scores may be identified.	

TOPIC: 10.3 DETERMINE THE COMPETITIVE RANGE (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 10-20	**Step 3: Identify All Eligible Proposals** • If there is any doubt about whether the proposal is or is not in the competitive range, the proposal should be included. **Step 4: Notify Unsuccessful Offerors** • Notify an unsuccessful offeror in writing as soon as practical after determining that the proposal is no longer eligible for award.	
TR 10-22 VG 10-7	**DETERMINE THE COMPETITIVE RANGEP. 10-22** *WHEN DETERMINING THE COMPETITIVE RANGE, YOU SHOULD* ***NOT*** **_____** • Establish arbitrary limits based on the proposal with the most favorable evaluation. • Establish arbitrary limits based on the government estimate or a preset evaluation score. • Exclude any proposal from the competitive range unless you believe that it is so deficient, or out of line in price or technical merit, as to preclude further meaningful negotiations. • Include any proposal in the competitive range when your evaluation tells you that the proposal definitely does not have a reasonable chance of being selected for award. VG 10-7	

TOPIC: 10.3 DETERMINE THE COMPETITIVE RANGE (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
	Can you throw out an acceptable technical proposal because the price is too high? ANSWER: Yes. Refer the students to page 10-22, Cadd Management Systems, Inc. c. Stress that the test is whether the offeror has a reasonable chance of being selected for award, given the relationship of its price to other prices. Practical considerations: • The <u>more</u> technically acceptable proposals in hand, the <u>lower the probability of award</u> to an offer that is priced well above the lowest priced offers. • On the other hand, don't toss out proposals that are only marginally higher in price than the low offer even if you have other lower priced offers. • Ensure that the lowest priced offers are realistic before tossing out the higher priced offers. d. Assign the case study "More Quality Training." (Cont. from page 10-7.) (5 minutes)	
CM-59	• Assign question #3. • Allow time to determine the answer. • Record student answers on the board. • Discuss major elements of the decision.	

TOPIC:	10.3 DETERMINE THE COMPETITIVE RANGE (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**

MORE QUALITY TRAINING

In Chapter 8, you completed the "Quality Training" case. Given all the information that you collected and analyzed concerning the pricing of the training requirement, answer the following questions.

3. If you elect to negotiate, which firm or firms would you include in the competitive range? Why?

All firms. Washington Central is currently not responsive (i.e., two of its instructors lack the required level of education). You would have to point out this deficiency in discussions. However, given the available data, there is no reason to believe that Washington Central cannot prepare a competitive BAFO.

?	QUESTION: LA Quality's price is 41% higher than that of Washington Independent. Is there any point in holding discussions with LA Quality? ANSWER: Probably yes. There are only four offerors, and LA Quality's price is within the Government Estimate. The issue: what could you say to LA Quality during discussions that would persuade LA Quality to submit a lower priced BAFO? Tell students that "we are now going to discuss prenegotiation pricing objectives and what you can and cannot say in competitive discussions to move offerors towards your pricing objectives when they prepare BAFOs."	

TOPIC: 10.4 DETERMINE THE NEED FOR FACT-FINDING

REF: TR 10-25 through 10-29

OBJECTIVE: Identify price-related aspects of the proposal that are unclear and require a factfinding session to prepare for negotiations.

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 10-25	a. Define "factfinding."	
VG 10-8	**FACT-FINDING** **P. 10-25** *DEFINITION* _____ The search for offeror information not provided with proposal. VG 10-8	
	What information? Facts that you need to complete your prenegotiation objectives.	
	b. Stress the differences between fact finding and negotiation.	
VG 10-9	**FACT-FINDING (CONTINUED)** **P. 10-25** • Ask questions • Offer information on Government requirements • Not present government position on proposal deficiencies or what price should be VG 10-9	
	c. Present typical price-related factfinding questions.	
	QUESTION: What are some price-related questions you might need to address in factfinding?	
	AMONG POSSIBLE ANSWERS: • Is this decimal point in the right place? • Prices for the line items do not add up to the total price proposed. Are any of these numbers a mistake?	

TOPIC: 10.4 DETERMINE THE NEED FOR FACT-FINDING (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 10-26	10.4.1 Price-Related Fact-finding • The RFP asked you to submit the energy efficiency rating of your product. Where is it? • You predicated your price on our acceptance of a commercial warranty in lieu of the RFP's warranty requirements. Where is this commercial warranty? What are its terms? What price would you have proposed under the warranty terms in the RFP? d. Tell students to consider, in determining the need for fact-finding:	
VG 10-10	**NEED FOR FACT-FINDING P. 10-26** • Need for discussions • Technical complexity of requirement • Dollars involved • Amount and intensity of competition for contract VG 10-10 • These are factors to consider in deciding the method and time required for factfinding. • You cannot factfind if you plan to award without discussions, other than to obtain minor clarification or verify offers per FAR 15.607.	

TOPIC: 10.4 DETERMINE THE NEED FOR FACT-FINDING (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 10-27	10.4.1 Price-Related Fact-finding(Cont.) e. Present common methods of fact-finding and typical contracting situations for use of each method:	

VG 10-11

TECHNICAL REQUIREMENTS AND OFFEROR UNDERSTANDINGS
P. 10-27

METHOD OF FACT-FINDING	TYPICAL CONTRACTING SITUATION
Telephone conversation.	Relatively simple requirement and low dollar value.
Face-to-face meeting in your office or conference room.	Moderate requirement complexity and dollar value.
Face-to-face meeting at the offeror's facility or the job site may include one or more technical specialists on both sides.	Relatively complex requirement and high dollar value.
Written request for proposal clarification or identification of proposal deficiency.	Relatively complex competitive requirement where documentation required.

VG 10-11

TOPIC: 10.5 ESTABLISH PRE-NEGOTIATION PRICE POSITIONS

REF: TR 10-31 through 10-35

OBJECTIVE: Establish prenegotiation positions on price (lowest reasonable price, the highest reasonable price, and the target price) by applying selected techniques.

METHOD: Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 10-33	10.5.2 Develop Negotiation Positions a. Inform students that the Government's goals depend on whether the acquisition is competitive. • *If non-competitive* (sole-source) — the goal is an agreement on price that both sides can accept. During negotiations, the CO can trade concessions and make counteroffers. • *If Competitive* — the goal is to persuade offerors to submit more favorable BAFOs. COs cannot make counteroffers. • In either case, establish your positions on price before negotiations begin. b. Present typical pricing objectives for noncompetitive negotiations: **PRENEGOTIATION PRICE POSITIONS P. 10-33** *Non-competitive* - Minimum - Objective (or target) - Maximum *Competitive* - Separate objective for each proposal VG 10-12 • **The minimum price position —** starting place in negotiations and the first offer. • **The objective, or target, price position** (the price that is most reasonable, given the reliability of different price estimates). • **The maximum price position** — the highest price that can reasonably be accepted, Might change during negotiations.	
VG 10-12		

TOPIC:	10.5 ESTABLISH PRE-NEGOTIATION PRICE POSITIONS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 10-33	10.5.2 Develop Negotiation Positions (Cont.) b. Discuss objectives for competitive negotiations: • Establish a separate objective for each proposal. • Base the objective on comparisons with historical prices, commercial prices, yardsticks or Government estimates. • Do NOT base the objective on prices from other proposals submitted in response to the RFP. c. Present the groundrules for discussing price in competitive procurements. **In competitive discussions, you must:** • Advise the offeror of deficiencies in its proposal — <u>including reasons for believing that the offeror's pricing is deficient</u> based on comparisons with historical prices, commercial prices, yardsticks, and Government estimates. • Attempt to resolve any uncertainties concerning the proposal. • Call the offeror's attention to any suspected mistakes. This is especially important when the proposed price is <u>below</u> your minimum position. • Provide the offeror a reasonable opportunity to submit a revised proposal. **In competitive discussions, you can:** • Point to other indicators that the proposed price is too high (e.g., the producer price index). • Point out any variation from RFP business terms has unnecessarily affected the proposed price.	

TOPIC:	10.5 ESTABLISH PRE-NEGOTIATION PRICE POSITIONS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 10-33	10.5.2 Develop Negotiation Positions (Cont.) • Discuss (i.e., ask "what if" questions about) potential tradeoffs between price and other contract terms. **In competitive discussions, you cannot**: • Use auction techniques, such as— - Indicating to an offeror a cost or price that it must meet to obtain further consideration, - Tell an offeror how its price compares to those of other offerors (however, you can state that the price is considered by the Government to be too high or unrealistic),. - Otherwise furnishing information about other offeror's prices. • Engage in technical leveling—helping an offeror to bring its proposal up to the level of other proposals through successive rounds of discussion, by pointing out weaknesses resulting from an offeror's lack of diligence, competence, or inventiveness in preparing the proposal. • Engage in technical transfusion — disclosing technical information provided by one offeror to another offeror, resulting in improvements to the second offeror's proposal. • Otherwise tell one competitor about the offers of other competitors. Stress that it is up to the offeror to determine how the offer should be modified. All offerors must be provided an opportunity to submit a "best and final offer" (BAFO) that includes changes to their proposal that resulted from the negotiations.	

TOPIC:	10.6 CONSIDER POTENTIAL TRADE-OFFS BETWEEN PRICE AND OTHER TERMS
REF:	TR 10-37 through 10-41
OBJECTIVE:	Identify potential trade-offs between price and other terms and conditions.
METHOD:	Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 10-37	a. Present potential tradeoffs between price and other terms of the RFP.	

VG 10-13

POTENTIAL TRADE-OFFS **P. 10-38**

ANALYSIS FORMAT _____

TYPE OF CHANGE IN REQUIREMENTS	RELATED PRICE INCREASE	RELATED PRICE DECREASE
Technical Requirements		
Inspection and Acceptance Terms		
Delivery or Performance Terms		
Contract Type		
Socioeconomic Terms		
Payment Terms		
Government Furnished Property		
Warranties		
Patents and Rights in Data		
Other Terms and Conditions		VG 10-13

TOPIC:	10.6 CONSIDER POTENTIAL TRADE-OFFS BETWEEN PRICE AND OTHER TERMS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-60	b. Assign the case study "Harrison Systems" (20 minutes) • Assign students to teams. • Assign the students the entire case. • Allow time to complete. • Record answers to questions on the board for discussion.	

HARRISON SYSTEMS

Your agency has issued an RFP for a special film and film processing services (with separate line items for the film and processing) for cameras mounted outdoors at remote sites in a large Federal reservation. The cameras are programmed to shoot at set times (both in daylight and at night) over a six month period. Film is collected weekly and flown to the contractor for processing.

The RFP includes several performance specifications. Specifications for the film cover such matters as temperature extremes, film life, and sensitivity to light. No commercially available film satisfies the specifications. The processing specifications require the use of computers to brighten and enhance the color and clarity of filmed images—especially photos taken at night.

These services are presently provided by Hamilton. Your requirements managers have been very pleased with Hamilton's product. The price of the prior contract, adjusted for inflation and for the period of time at issue (i.e., six months) is $800,000 — $100,000 for the film and $700,000 for processing. The $700,000 includes the cost of a subcontract with Graphic Enhancements, Inc. Graphic provides proprietary mainframe software that it — like all other potential subcontractors— makes available only on a timesharing (i.e., "leased") basis. As part of your market research, you obtained information on the retail price of such leases offered by Graphics and its rivals. Currently, the lowest retail price (including all costs for computer time and data storage) is $50,000 per month.

Given this information, the requiring activity has prepared the following Government Estimate for the work being solicited, assuming that it is performed using traditional mainframe software:

Film:	$100,000	
Processing:	$700,000	($300,000 for six months of computer support + $400,000 for all other costs.)
Total:	$800,000	

You have independently confirmed this estimate by applying an established Cost Estimating Relationship (CER) for this type of work, which relates the number of shots to be processed with an average cost of processing (based on prices from prior contracts, adjusted for inflation). The CER produced an estimate (excluding film) of $735,000 ± $35,000.

You have received the following three offers.

OFFEROR	FILM	PROCESSING	TOTAL PRICE
Harrison	$75,000	$680,293	$755,293
Hamilton	$90,000	$760,782	$850,782
Jordan	$200,000	$1,500,000	$1,700,000

Harrison's proposal and related factfinding has revealed the following:

- Harrison has purchased outright (not leased) a new microcomputer based software and hardware package for enhancing film images that has just been introduced to the market by Homegrown Graphics, Inc. (In contrast, Hamilton and Jordan both indicated that they are continuing to rely on proprietary mainframe software available from such firms as Graphic Enhancements, Inc.)

HARRISON SYSTEMS (CONTINUED)

- During factfinding, your technical staff asked many questions to determine the technical acceptability of work produced by using Homegrown's software and hardware but were not entirely satisfied with the answers.

Following the factfinding session, you contacted Homegrown Graphics, Inc. The retail price for its software and hardware (including the microcomputers) is $90,000. Homegrown's brochure for its microcomputer package boasts that two of its customers realized tremendous savings from using a "beta" version of its product rather than available mainframe packages—in part because the microcomputer package (which it contends is more "user friendly"), requires fewer labor hours and less skilled labor to achieve comparable results.

Given this information, the requiring activity has prepared a second Government Estimate for the work being solicited, assuming that it is performed with Homegrown's package.

Film:	$100,000	
Processing:	$490,000	($90,000 for computer support + $400,000 for other costs)
Total:	$590,000	

CASE ANSWERS - HARRISON SYSTEMS

1. What issue or issues would you raise with Harrison to persuade Harrison to submit a lower priced BAFO?

Harrison's price for appears to be too high relative to the Government estimate for microcomputer-based processing. You could show Harrison the brochure from Homegrown Graphics, Inc., and ask why, given the "tremendous savings" from using the Homegrown software, Harrison's price does not seem to be all that different from historical prices paid by the Government. You might also ask whether Harrison intends to depreciate the cost of acquiring the microcomputer system and whether it is fair for Harrison to try to recoup the cost of the microcomputer system on this contract.

2. Assuming that the Harrison approach IS technically acceptable, should the contracting officer require Harrison to provide cost data?

Probably not. In this case, the contracting officer has sufficient data (thanks to a good job of market research) to make a determination on price reasonableness on the basis of price analysis alone.

It is not implausible that a contractor like Harrison would expect (and try to attain) high profits for success in bringing a technological breakthrough to market. This expectation by Harrison, however, should not deter the contracting officer from trying to negotiate a lower price.

Note also that the three offerors in this case competed independently for award. Thus, price competition probably would be considered "adequate", precluding a requirement for <u>certified</u> data.

CASE ANSWERS - HARRISON SYSTEMS (Continued)

3. If the Harrison approach is NOT technically acceptable, is the price competition adequate?

It depends on whether the contracting officer determines that Jordan is in the competitive range. Since Jordan's price is more than twice that of Hamilton's, the CO may very well decide that Jordan's price is not competitive.

4. What issue or issues may not be raised in discussions with Hamilton?

Use of microcomputers rather mainframe software (technical leveling).

Comparisons to the prices proposed by Hamilton or Jordan (auctioning).

5. Is there any possible tradeoff between price and other terms and conditions?

Yes—between specifications and price IF the microcomputer package CANNOT produce results that are acceptable under current specifications. The requiring activity would have to consider the impact on its mission of amending (or canceling) the RFP to relax the specifications.

6. Might there be any advantage in canceling and resoliciting?

Yes, if the requiring activity can wait and if the microcomputer approach can produce technically acceptable results. Within a matter of weeks, enough firms may have heard (on their own) about the new micro package to consider competing with Harrison Systems for the requirement.

TOPIC:	10.7 DETERMINE THE NEED TO CANCEL AND RESOLICIT
REF:	TR 10-1 through 10-5
OBJECTIVE:	Assign case study about the need to cancel and resolicit.
METHOD:	Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
CM-62	a. Assign the case study "Mover Decision." (15 minutes) • Assign students to teams. • Assign the students the entire case. • Allow time to complete. • Record answers to questions on the board for discussion.	

MOVER DECISION

Your office has the responsibility to contract for the materials handling equipment to support all agency warehouse operations. The backbone of materials handling operations is the MOVER MODULE an automated modular materials handling system. The MOVER MODULE is not a single product. Instead it is an interoperability concept. The capability of MOVER MODULES to be configured in an almost infinite variety of configurations makes the MOVER MODULE a relatively low cost solution to most materials handling requirements.

The MOVER MODULE concept was developed by Materials Innovation Corporation under agency contract. The unique design and production methods required to produce the MOVER MODULE necessitate adherence to stringent agency interoperability requirements. Over the past four years, three firms have met stringent agency qualification testing requirements to assure complete interoperability: Materials Innovation Corporation, Materials Systems, and Automated Electronics.

To maximize the benefits of competition, your agency awards an annual contract to a single supplier for all projected requirements for the year. The following table summarizes acquisitions over the last three years.

YEAR	CONTRACTOR	QUANTITY	UNIT PRICE
19x1	Materials Innovation Corp	20	$75,000
19x2	Materials Systems	75	$70,000
19x3	Materials Systems	80	$69,000

You are currently negotiating a contract for the 19x4 annual requirement, 100 units. The Government estimate is $6,900,000.

All three qualified sources were solicited and each submitted a proposal. You have conducted negotiations and each firm has submitted a best and final offer (BAFO):

Proposed prices are:

CONTRACTOR	UNIT PRICE	TOTAL PRICE
Materials Systems	$65,000	$6,500,000
Materials Innovation Corp	$71,000	$7,100,000
Automated Electronics	$70,000	$7,000,000

This morning, you received a telephone call from Carl Testi, chief of the independent testing organization approved for potential source qualification testing. He informed you that Morgan Materials, a noted high-quality low-cost materials handling equipment producer, just passed the last phase of qualification testing. Official approval will follow within five working days.

MOVER DECISION (Con't)

Later this morning, you received a telephone call from Manfred Morgan, President of Morgan Materials. He told you that he knows you are currently in negotiations for the annual MOVER MODULE acquisition. He also told you that if his firm could be included in the competition he could offer "substantial savings" over the prices in recent contracts.

Now you have a decision to make. Should you go ahead and award a contract based on the current negotiations, or should you cancel the RFP and begin again with four sources.

CASE ANSWER - MOVER DECISION

1. **Can you legally cancel the current RFP and resolicit for essentially the same requirements?**

   Comp Gen B235208 found that the Government can reasonably cancel an RFP based on the potential for increased competition or cost savings.

2. **If you can legally cancel the current RFP and resolicit, how should you decide what to do in this situation?**

   The decision should be based on the potential for cost savings. In considering cost savings, the buyer should consider costs to the Government as well as potential savings.

3. **What additional information would you want to obtain before you make your decision?**

   What are the costs related to resoliciting including the costs of RFP preparation and release, proposal review and evaluation, and any costs from a delay in contract award? Against that, what is the likely cost reduction that will result from resolicitation?

TOPIC: SUMMARY - PRICE-RELATED DECISIONS IN NEGOTIATIONS

REF: TR 10-1 through 10-41

OBJECTIVE: Summarize the main points covered in lesson 10.

METHOD: Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 10-1 through 10-41	a. In this lesson the students have learned about price-related decisions and points to consider in making these decisions.	
VG 10-14	**PRICE-RELATED DECISIONS** **P. 10-3** • Determine need for cost data • Determine need for discussions • Determine competitive range • Determine need for fact-finding • Establish pre-negotiation positions • Consider potential trade-offs • Determine need to cancel and resolicit VG 10-14	
	b. Tell students that the next lesson will cover pricing documentation required in sealed bidding and in negotiations where the pricing decision is based exclusively or primarily on price analysis.	

CHAPTER 11

DOCUMENTATION

Primary Learning Objectives (PLO)	Condition	1) Given an IFB, amendments to the IFB, the bid in line for award, and other bids 2) Given an RFP or an RFQ, proposals or quotations, price analysis reports, prenegotiation plan, and the prenegotiation strategy
	Task	Identify all issues that must be documented to allow for accurate reconstruction of price considerations for both sealed bidding procurements and negotiated procurements
	Standard	Correctly performs task in accordance with FAR 14.404-2(j), 14.407-7 or 13.105, 15.808. The contract file should conform to FAR 4.803 and stand alone as a complete record of the procurement, capable of being reviewed by others without reference to additional documentation.

Classroom Learning Objectives (CLO)	11-1	Identify the price-related sections of the contract file and what must be documented in those sections of the file.
	11-2	Identify principle elements of a price negotiation memorandum (PNM).
Estimated Time	1 hour 10 minutes—Lecture/Discussion/Case Studies.	
Method of Instruction	Lecture/Discussion with viewgraphs as visuals. Student Exercise—Case studies on document pricing actions in negotiations.	
Student Materials	Text/Reference—Chapter Eleven Classroom Materials—Chapter Eleven	
Instructor Materials	Text/Reference—Chapter Eleven Instructor Guide—Chapter Eleven Overhead Projector Viewgraphs for Chapter Eleven	
Instructor References	BP 26, EO B10; BP 27, EO A4	

TOPIC:	INTRODUCTION TO DOCUMENTATION
REF:	TR 11-1 through 11-5
OBJECTIVE:	Introduce the students to the importance of good documentation in contracting.
TIME:	11:05 a.m.; 1 hour 10 minutes (for the entire Lesson)
METHOD:	Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 11-1 VG 11-1	a. Indicate that the two major acquisition methods have different documentation requirements. **DOCUMENTATION** **P. 11-4** • Document pricing actions in sealed bidding • Document pricing actions in negotiation VG 11-1 b. Stress that "if not documented, it never happened." c. Note (1) that CO's generally are required as a matter of policy to document reasons for believing that a price is <u>not</u> reasonable but (2) CO's often are not required to justify the reasonableness of the award price. d. Recommend that, even where not required, students record their reasons for believing that the award price is reasonable —especially when that price might be challenged by the IG, PMR team, or the press. Example — the great "toilet seat" controversy, when the press questioned the $1,000+ spent by the Government to acquire a "toilet seat" for military aircraft. This controversy might have been cut short had the CO documented the fact that the Government's price was less than that paid by private sector firms for "toilet seats" installed in commercial aircraft.	

TOPIC:	11.1 DOCUMENT PRICING ACTIONS IN SEALED BIDDING
REF:	TR 11-7 through 11-18
OBJECTIVE:	Identify the price-related sections of the contract file and what must be documented in those sections of the file.
METHOD:	Lecture/Discussion

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 11-7 VG 11-2	a. Present documentation requirements for sealed bidding. **DOCUMENT PRICING ACTIONS IN SEALED BIDDING** **P. 11-4** • Record all bids • Record reasons for bid rejection • Record how ties were broken • Identify basis of price reasonableness VG 11-2	
TR 11-8 through 11-12	11.1.1 Record All Bids Except for the Defense Fuel Supply Center, in the acquisition of natural gas, petroleum or coal, and the Defense Personnel Support Center, in the acquisition of perishable subsistence items, one of the following forms must be completed: • Standard Form (SF) 1409, Abstract of Offers. • Optional Form (OF) 1419, Abstract of Offers—Construction. • An automated equivalent to one of the above forms.	

TOPIC:	11.1 DOCUMENT PRICING ACTIONS IN SEALED BIDDING (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 11-8	11.1.1 Record All Bids (Cont.) In situations where bid items are too numerous to warrant complete recording of all bids, abstract entries for individual bids may be limited to the item numbers and bid prices. If needed, the following forms can be used: • SF 1410, Abstract of Offers—Continuation, with the SF 1409. • OF 1419A, Abstract of Offers—Construction, Continuation Sheet, with the OF 1419.	
TR 11-14	11.1.2 Record the Reason for Rejection of Bids • An individual bid may be rejected or an entire solicitation cancelled for pricing related reasons. • Whenever a bid is rejected, it is essential that the facts leading to the decision, as well as the decision itself, are clearly documented. Whenever mistake in bid is suspected: - Request the bidder to verify the bid, following the requirements of FAR 14.406. - The bidder is expected to respond to the request for verification.	

TOPIC: 11.1 DOCUMENT PRICING ACTIONS IN SEALED BIDDING (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 11-14	11.1.2 Record the Reason for Rejection of Bids (Cont.) • Review the mistakes process covered in Chapter 9 and relate to documentation requirements.	
VG 11-3	**REJECTION OF BID FOR UNREASONABLE PRICING** **P. 11-14** *DOCUMENTATION **MUST** INCLUDE* _____ • Record of information gathering • Action taken VG 11-3	
VG 11-4	**REJECTION OF BIDS FOR UNREASONABLE PRICING (CONT.)** **P. 11-14** *DOCUMENTATION **SHOULD** INCLUDE* ____ • Data supporting "agency estimate" • Identification of FAR 14.406-3(g)(5) situations - Bid significantly different from - - other bids - - agency estimate - - contracting officer determined reasonable price - Bid unfair to bidder or other bidders VG 11-4	

TOPIC: 11.1 DOCUMENT PRICING ACTIONS IN SEALED BIDDING (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 11-15	11.1.2 Record the Reason for Rejection of Bids (Cont.) • Any bid may be rejected if the prices for any line items or subline items are materially unbalanced.	
VG 11-5	**REJECTION OF UNBALANCED BIDS** **p. 11-16** *DOCUMENTATION **SHOULD** INCLUDE ____* • Price analysis data indicating materially unbalanced price • Clear determination of unbalanced bid VG 11-5	
VG 11-6	**SOLICITATION CANCELLATION BASED ON PRICING** **P. 11-17** *DETERMINATION **MUST** INCLUDE _____* • Statement describing situation • Statement that situation is compelling reason for cancellation • Statement that all bids are rejected VG 11-6	

TOPIC: 11.1 DOCUMENT PRICING ACTIONS IN SEALED BIDDING (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 11-16	11.1.2 Record the Reason for Rejection of Bids (Cont.)	
VG 11-7	**SOLICITATION CANCELLATION BASED ON PRICING P. 11-16** *DETERMINATION **SHOULD** IDENTIFY _____* • All findings that led to the decision • Specific reason, including authorizing *far* reference - IFB did not provide for consideration of all factors - Government needs can be satisfied with less expensive item - Otherwise acceptable bids at unacceptable prices - Bids not independent - Government performance more economical VG 11-7	

TOPIC: 11.1 DOCUMENT PRICING ACTIONS IN SEALED BIDDING (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 11-17	11.1.3 Record How Any Ties Were Broken • When two or more bids are equal in ALL respects, contract must be awarded in the following order or priority: Show VG 11-8.	
VG 11-8	**PRIORITY FOR BREAKING TIES** **P. 11-17** 1) Small business labor surplus area concerns 2 Other small business concerns. 3) Other business labor surplus area concerns 4) Other business concerns 5) Break tie with a drawing by lot VG 11-8	
	• Documentation must include:	
VG 11-9	**DOCUMENT TIE BREAKING** **P. 11-17** • Written agreement on performance • Record of how tie was broken • If lots drawn: - Person who supervised - Witnesses VG 11-9	

TOPIC: 11.1 DOCUMENT PRICING ACTIONS IN SEALED BIDDING (Cont.)

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 11-18	11.1.4 Identify the Basis for Considering the Award Price Reasonable • Price reasonableness must be determined before making a contract award. Particular care must be taken in cases where only one single bid is received. **DOCUMENT PRICE REASONABLENESSP. 11-18** *AWARD TO* _____ • Bidder with most advantageous bid • Lowest bid or reason for rejecting lower bids VG 11-10	
VG 11-10		

TOPIC:	11.2 DOCUMENT PRICING ACTIONS IN NEGOTIATIONS
REF:	TR 11-19 through 11-23
OBJECTIVE:	Identify principle elements of a price negotiation memorandum (PNM).
METHOD:	Lecture/Discussion/Case Study

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 11-19	a. Present documentation requirements for negotiated procurements.	
VG 11-11	**DOCUMENT PRICING ACTIONS IN NEGOTIATIONS** • $2,500 OR LESS • OVER $2,500 BUT NOT OVER $25,000 • OVER $25,000 VG 11-11	
	• Show VG 11-12. Emphasize that it shows FAR requirements. Good judgement may require documentation at other times	
VG 11-12	**DOCUMENTING NEGOTIATIONS OF $2,500 OR LESS** *ONLY REQUIRED WHEN* _____ • Price suspected to not be reasonable • No comparable pricing information VG 11-12	

TOPIC: 11.2 DOCUMENT PRICING ACTIONS IN NEGOTIATIONS

LESSON PLAN

Ref.	Steps In Presenting The Topic	Instructor Notes
TR 11-20 VG 11-13	**DOCUMENT NEGOTIATIONS OVER $2,500 NOT OVER $25,000 P. 11-20** *DOCUMENTATION YOU **MUST** INCLUDE _____* • All quotes - Oral price quotations - Written abstracts or notes of pricing data • Basis of price analysis (other than adequate price competition) • If only one source solicited, notation explaining absence of competition VG 11-13	
VG 11-14	**DOCUMENT NEGOTIATIONS OVER $25,000 P. 11-20** *PRICE NEGOTIATION MEMORANDUM (PNM) ELEMENTS _____* • Purpose of negotiation • Description of acquisition • Contractor/government representatives • Certified cost or pricing data exemptions over threshold • Certified cost or pricing data requirements under threshold VG 11-14	

TOPIC:	11.2 DOCUMENT PRICING ACTIONS IN NEGOTIATIONS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
TR 11-21 VG 11-15	**DOCUMENT NEGOTIATIONS OVER $25,000** **P. 11-21** *PNM ELEMENTS* _____ • Summaries of contractor proposal, field pricing, internal analyses • Basis of prenegotiation price objective and negotiated price VG 11-15	
CM-65	b. Assign the case study "Tool Story." (10 minutes) • Assign the students to teams. • Assign the students the entire case. • Allow time to complete. • Record answers to questions on the board for discussion.	

TOOL STORY

Your agency is concerned about the quality of pricing documentation. As part of the quality improvement process, you have been asked to review the price analysis documentation prepared by other contracting officers.

PRICE ANALYSIS
IFB XXX-X9-1244

Invitation for bids (IFB) XXX-X9-1244 was issued on January 15, 19X9. The IFB award criteria provided for aggregate award to the overall low, responsive, responsible bidder on all items.

Bids were solicited from 180 previous and potential suppliers of hand tools. Four bids were received. The total line item prices and relevant price comparisons are shown in the table below:

LINE ITEM	LOW BID TOTAL LINE ITEM PRICE	PERCENTAGE CHANGE FROM CURRENT	SECOND LOW TOTAL LINE ITEM PRICE	% CHANGE LOW TO SECOND LOW
1	$19,450	+100	$25,285	+30
2	$ 5,500	+145	$ 6,875	+25
3	$ 9,125	+110	$11,405	+25
4	$ 3,800	+115	$ 4,788	+26
5	$ 1,950	+ 55	$ 2,535	+30
6	$ 1,450	+ 35	$ 1,378	- 5
7	$11,900	+ 50	$11,305	- 5
8	$ 8,000	+ 45	$ 7,600	- 5
9	$ 6,250	+ 55	$ 5,940	- 5
10	$ 5,800	+ 45	$ 6,670	+15
11	$42,800	+110	$55,640	+30
12	$20,500	+170	$25,625	+25
13	$ 4,250	+ 15	$ 4,165	- 2
14	$11,200	+ 20	$13,440	+20
15	$ 2,900	+ 30	$ 3,685	+27

The relevant Producer Price Index has increased from 131.2 to 149.6 an increase of 14 percent. Although the PPI does not support the price increases shown above, prices are considered realistic for the following reasons:

1. The prices are based on competition. Most line item prices are 15 to 30 percent lower than the prices of the second low bidder.

2. The Qualified Product List (QPL) requirement for these items has been eliminated since the last contract. All items must now pass first article testing at the contractor's expense. It should be noted that the prior contract holder did not bid on this contract because of the first article testing requirement.

CASE ANSWER - TOOL STORY

1. Evaluate the strengths and weaknesses of the price analysis documentation.

Strengths: The analysis provides:

a. A comparison with prior contract prices and with the second low bidder.

b. Information on the PPI estimate of inflation, 14 percent.

c. Information on one of the known reasons for the price increase greater than inflation.

Weaknesses: One year increases of the magnitude described should not normally be considered reasonable. The analysis does not provide:

a. Reasons for dropping the QPL in favor of first-article testing, fewer sources, and higher prices.

b. An evaluation as to why only 4 of 180 sources bid. Is this common for these products? Did the CO survey any of the firms that did not bid to find out why?

c. Information on the reasonableness of the prior contract price. Was it unreasonably low for some reason?

d. The identity of the specific PP Index at issue?

2. As a contracting officer, what additional information would you like to see?

Information on the weaknesses above.

3. As a member of the Agency Inspector General's staff, what additional information would you expect to see?

Information on the weaknesses above.

4. As an auditor for the General Accounting Office, what additional information would expect to see?

Information on the weaknesses above.

5. Are your answers to Questions 2 - 4 different? Why?

No but the perspective might be different. The contracting officer is interested in obtaining a fair and reasonable price. The contracting officer would be interested in finding out how prices could be made more reasonable in this contract or future similar contracts. The IG and GAO personnel would be looking for systemic problems and action that should be taken to correct the problems including the "guilty parties." The contracting officer is going to be one of the "guilty parties" unless the contracting officer took effective action to obtain a fair and reasonable and clearly documented the action. The contracting officer is not a merely a clerk who processes any requirement received into a contract at any price.

CONTINUED ON NEXT PAGE

CASE ANSWER - TOOL STORY (CONTINUED)

ADDITIONAL POINT: The CO should have considered cancelling the IFB based on receipt of unacceptable prices for otherwise acceptable bids — and then either:

- Worked with the requiring activity to determine whether to resolicit after changing the IFB to attract more competition without sacrificing quality (e.g., by incorporating commercial warranty terms in lieu of a first article testing requirement), OR
- Sought authority to negotiate (issue: can offerors demonstrate that the costs of first article testing in fact justify doubling most prices).

TOPIC:	11.2 DOCUMENT PRICING ACTIONS IN NEGOTIATIONS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-68	c. Assign the case study "Acme Story." (10 minutes) • Assign the students to teams. • Assign the students the entire case. • Allow time to complete. • Record answers to questions on the board for discussion.	

ACME STORY

Your agency is concerned about the quality of price negotiation memoranda (PNMs). As part of the quality improvement process, you have been asked to review the PNMs prepared by other contracting officers.

PRICE NEGOTIATION MEMORANDUM
RFP XXXX-X9-1234

PURPOSE OF THE NEGOTIATION
The purpose of the negotiation is to award a new contract for ACME Systems', Part #3145409 for the ACME WAMPUM System.

DESCRIPTION OF THE ACQUISITION
This negotiation is performed under request for proposal (RFP) XXXX-X9-1234, on a sole-source basis with ACME Systems. The RFP was issued on March 20, 19X9 and closed on April 20, 19X9. No amendments were issued. There was only one line item on the RFP, 200 units of Part #3145409.

NEGOTIATION PARTICIPANTS

ACME Systems: Andrew Acme, President

Government: Harry Sly, Contracting Officer

CERTIFIED COST OR PRICING DATA EXEMPTION
Certified cost or pricing data were not required based on the SF 1412, Claim for Exemption from Submission of Certified Cost or Pricing Data. Review of the SF 1412, reveals that 60 percent of all sales are commercial and 80 percent of commercial sales are made at catalog price.

SUMMARY OF CONTRACTOR'S PROPOSAL
ACME proposed $2,600 each.

SUMMARY OF GOVERNMENT ANALYSIS AND OBJECTIVES

Analysis
The proposed price is 10 percent higher than the last contract for the part which was negotiated 12 months ago. Since the last contract award, the relevant Producer Price Index has only increased four percent.

The SF 1412 shows that the current catalog price is $2,600. However, the quantity of most sales is 5 to 10 units. The only commercial sale not made at catalog price was 50 units for $2,500 made to Bander Trust.

An analysis of ACME Systems future in the Wall Street Journal, on April 16, 19X9, indicated that demand for the WAMPUM System is expected to remain strong for the foreseeable future.

ACME STORY (Con't)

Negotiation Objectives

Maximum: $2,500 per unit based on the price paid by Bander Trust for a quantity of 50 units.

Objective: $2,458 per unit based on the last purchase price plus four percent, the inflation reflected in the PPI.

Minimum: $2,184 per unit. If ACME can offer a four percent discount to Bander Trust for 50 units, it is reasonable to ask for a discount of 16 percent for 200 units.

NEGOTIATED PRICE
Negotiations resulted in a price of $2,400. The price is considered reasonable based on the last contract price and the established ACME catalog price.

CASE ANSWER - ACME STORY

1. **Evaluate the strengths and weaknesses of the price analysis documentation.**

   This memorandum clearly describes the major issues of the contract.

2. **As a contracting officer, what additional information would you like to see?**

   Calculations and data supporting the conclusion that "If ACME can offer a four percent discount to Bander Trust for 50 units, it is reasonable to ask for a discount of 16 percent for 200 units."

3. **As a member of the Agency Inspector General's staff, what additional information would you expect to see?**

   See 2 above.

4. **As an auditor for the General Accounting Office, what additional information would expect to see?**

   See 2 above.

5. **Are your answers to Questions 2 - 4 different? Why?**

   The memorandum clearly describes the analysis involved and the approach in negotiation. Most would accept this memo as written.

TOPIC:	11.2 DOCUMENT PRICING ACTIONS IN NEGOTIATIONS (Cont.)	
	LESSON PLAN	
Ref.	**Steps In Presenting The Topic**	**Instructor Notes**
CM-72	d. Assign the case study "Chemical Capers." (10 minutes) • Assign the students to teams. • Assign the students the entire case. • Allow time to complete. • Record answers to questions on the board for discussion.	

CHEMICAL CAPERS

You are evaluating bids for and indefinite quantity contract for a chemical cleaning compound. The minimum quantity is 100 barrels; the maximum is 1,000. You received three bids, one from a large manufacturer and two from small dealers.

The apparent low bidder, Hazard Chemical, presented a bid of $125 a barrel, 50 percent of the Government estimate. The Government estimate is the price paid last year for a similar quantity. Unfortunately, Hazard Chemical, received a negative preaward survey and elected to not request a Certificate of Competency from the Small Business Administration.

The second low bidder, CHEM Chemical, was found to be nonresponsive at the time of bid opening. CHEM was found to be nonresponsive, because the firm qualified its bid by substituting its part number for the Federal Specification in the item description.

The third low bidder, Fine Chemicals, submitted a bid that exceeded the current price by 95 percent. Fine Chemicals is a dealer.

The relevant producer price index increased from 129.5 to 145.8 since the last purchase.

CASE ANSWER - CHEMICAL CAPERS

1. Based on the available information, what action would you recommend?

a. Hazard Chemical is not responsible.

b. CHEM chemical is not responsive.

c. The case does not state the Fine Chemicals bid price directly. $125, the Hazard's price was 50% of the last price paid. That means the last price was $250. Fine's price is 95% more, $487.50. That means that the total price would be $487,500.

d. Since two of three bids have been rejected, the buyer now has only a one bid and no way to establish price reasonableness. As a result the IFB should be cancelled.

e. If approved by the agency head, or delegated official, the buyer can negotiate with the remaining offeror. However, unless an exemption applies, Certified Cost or Pricing Data must be obtained.

2. What documentation would be required?

Points a, b, and d should be documented in support of the cancellation.