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Proposal Analysis and Determining Reasonable Pricing

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Determining Price Reasonableness

- FAR Part 15 requires the Contracting official to determine that a price is both “fair” and “reasonable” prior to awarding a Contract:
 - Webster’s definitions:
 - Fair: (Note definitions 1-5 were variations of “pleasing to the eye or mind”) 6a : marked by impartiality and honesty : free from self-interest, prejudice, or favoritism <a very *fair* person to do business with> b (1) : conforming with the established rules : allowed

Determining Price Reasonableness

- Webster's definitions continued:
 - Reasonable: *a* : being in accordance with reason <a *reasonable* theory> *b* : not extreme or excessive <*reasonable* requests> *c* : moderate, fair <a *reasonable* chance> <a *reasonable* price> *d* : inexpensive
- Common definition of a "Fair & Reasonable Price":
The price that a person would pay for an item or service under competitive market conditions, given reasonable knowledge of the marketplace.

Determining Price Reasonableness

- FAR 15.404-1(b)(2) lists the following seven price analysis techniques:
 - 1) Comparison of proposed prices received in response to the solicitation (Adequate price competition).*
 - 2) Comparison of proposed prices to historical prices paid for the same or similar items. (Prior price subject to adjustment for materially different terms, market conditions, quantities, spec variances*
 - 3) Use of parametric estimating methods/application of rough yardsticks to highlight significant inconsistencies that warrant additional pricing inquiry.

(*Government preferred methods)

Determining Price Reasonableness

- 4) Comparison with competitive published price lists, published market prices of commodities, similar indexes, and discount or rebate arrangements.
- 5) Comparison of proposed prices with independent Government cost estimates.
- 6) Comparison of proposed prices with prices obtained through market research for the same or similar items.
- 7) Analysis of data other than certified cost or pricing data provided by the offeror (Noted as the least preferred method).

Building a proposal that meets the test

- How does a subcontractor prepare a proposal that satisfies the test of fairness and reasonableness?
 - Like most Large Business Government Contractors, Raytheon has invested heavily in developing Government compliant systems (e.g.: Estimating, Purchasing, Quality). These Systems are subject to review and audit for continual compliance by internal company auditors as well as resident and external Government auditors (Adds to proposal credibility).

Building a proposal that meets the test

- RFP Compliance/Communication:
 - To assure proposal compliance, Raytheon has implemented a process whereby every requirement of the RFP is broken out and a process owner is identified to bid that requirement.
 - Applicable requirements are flowed to our subs for their proposals
 - Proposal Kickoff meetings are held with the major organizations and depending upon the nature of the proposal, may include major subcontractors, the customer, and Government audit agency representatives.

Building a proposal that meets the test...

- To assist auditor and customer price reasonableness reviews, Raytheon developed standardized proposals (e.g.: Standardized proposal layout, Pricing reports and “Golden” BOE’s)
- Maintain current valid proposals and Price Cost Analysis with our suppliers for frequently procured products
- Establish Corporate wide Purchasing Agreements with suppliers
- Strive to negotiate and establish FPRAs with the Government
- Encourage our customers to “bundle” stand-alone procurements into economic order quantities

Building a proposal that meets the test...

- Raytheon's proposals have become quite involved and the process is very resource intensive. Listening to our customers, we are working to streamline proposals to simplify and limit the pricing information provided to that which our customers truly want to review for cost reasonableness determinations.

Determination of “Fair and Reasonable” is subjective...

- Subjectivity exists in:
 - Customer proposal reviews
 - DCAA/DCMA assist audits
 - DoD “Price Fighter” Team reviews
 - Government “Should Cost” reviews
 - Internal Corporate Evaluation Team reviews

When fair and reasonable isn't enough...

- Ashton Carter Affordability Initiatives
 - Primes demanding annual price reductions
 - Learning Curves requested for evolving specifications and low quantity purchases
- Flat market conditions, increased competition for same or reduced Defense Budget dollars (buy ins)
- Unfavorable economic conditions
 - COTS Suppliers unwilling to compromise for small Defense quantity purchases
 - Obsolete Parts/Diminishing Manufacturing Sources
- Balance of Risks and Opportunities:
 - Changing Contract Types (FPIF Development)