

## Contract Formation

# Activity 20: Price Analysis

*Procedures for examining and evaluating a proposed price without evaluating its separate cost elements or the proposed profit.*

**Related Flow Charts:** [Flow Chart 20](#)

**Related Courses:** CLC 058: Introduction to Contract Pricing, FAC 021: Price Analysis

**Related Tools:** [Acquisition Gateway Hallways](#), [GSA Contract-Awarded Labor Category \(CALC\)](#), [GSA Dashboards and Prices Paid Tools](#), [GSA eLibray](#), [DAU Contract Pricing Reference Guides](#)

Tasks	FAR Reference(s)	Additional Information
1. Identify price-related factors to be considered in evaluating each offer/quote.	FAR 15.304(c)(1) Evaluation factors and significant subfactors [source selection]. FAR 15.305(a)(1) Cost or price evaluation [proposal evaluation].	Examples of factors that may be identified include: <ul style="list-style-type: none"><li>• Transportation costs;</li><li>• Administrative costs of multiple awards;</li><li>• Federal, state, and local taxes;</li><li>• Buy American Act factors;</li><li>• Price adjustment factors for small disadvantaged business concerns;</li><li>• Price evaluation preference for HUBZone small business concerns;</li><li>• Life cycle costs (e.g., maintenance, warranty protection or repair, training, installation, technical manuals, spare parts, and supplemental supplies);</li><li>• Assumed economic price adjustments;</li><li>• Government furnished property costs and savings;</li><li>• Option and/or multi-year prices;</li></ul>

Tasks	FAR Reference(s)	Additional Information
		<ul style="list-style-type: none"> <li>• Incremental pricing or related item quantity discounts;</li> <li>• Energy conservation and efficiency; and</li> <li>• Estimated quantities</li> </ul>
<p>2. Determine the evaluated price or, when multiple awards may be made, evaluated prices for each offer/quote.</p>	<p>FAR 15.304(c)(1) Evaluation factors and significant subfactors.</p>	<p>Accurately compute the evaluated price or prices of each offer/quote using the criteria established in the solicitation.</p> <ul style="list-style-type: none"> <li>• Identify any relevant data. Consider data provided by each offeror/quoter and other available information.</li> <li>• Apply identified price-related factors.</li> <li>• Identify the lowest evaluated price or, if multiple awards may be made, the offers/quotes that collectively represent the lowest evaluated price.</li> </ul>

Tasks	FAR Reference(s)	Additional Information
<p>3. Estimate a fair and reasonable price.</p>	<p>FAR 15.402 Pricing policy [contract pricing].</p> <p>FAR 15.404-1 Proposal analysis techniques [contract pricing].</p>	<p>Consider a price fair and reasonable when it is:</p> <ul style="list-style-type: none"> <li>• Fair to the buyer;</li> <li>• Fair to the seller;</li> <li>• Reasonable under market conditions; and</li> <li>• Reasonable considering price-related factors.</li> </ul> <p>Price analysis techniques include:</p> <ul style="list-style-type: none"> <li>• Comparing competitive prices received in response to the solicitation to one another. This assumes you receive a large enough number of competitively priced offers from the current marketplace.</li> <li>• Comparing proposed prices with prices under existing contracts and with prices proposed in the past for the same or similar items/services. Be sure to factor in any market changes (e.g., commodity price changes) or other influences (e.g., inflation).</li> <li>• Applying rough yardsticks (e.g., dollars per pound, per square foot, per hour, etc.) to compare prices and highlight significant inconsistencies that warrant additional pricing inquiry.</li> <li>• Comparing competitive price lists, published catalog or market prices of commodities and products, similar indices and discount or rebate arrangements.</li> <li>• Comparing proposed prices with your independent (i.e., in-house) cost estimates.</li> </ul>

Tasks	FAR Reference(s)	Additional Information
<p>4. Determine the apparent reasons for any significant difference between the government estimate and the apparent successful offer/quote.</p>	<p>FAR 15.404-1 Proposal analysis techniques [contract pricing].</p>	<p>Given market research and other available information explain any significant differences between your estimate and the proposed price(s).</p> <p>An unexpectedly high offer/quote could result for a variety of reasons, including:</p> <ul style="list-style-type: none"> <li>• Offeror/quoter collusion;</li> <li>• Changes in market conditions; or</li> <li>• Inadequate competition.</li> </ul> <p>An unexpectedly low offer/quote could result for a variety of reasons, including an offeror's/quoter's:</p> <ul style="list-style-type: none"> <li>• Attempt to buy-in (i.e., offer a price below market price in order to attain a favorable advantage in future competition or establish a basis to negotiate higher prices through anticipated contract modifications).</li> <li>• Mistake (e.g., failure to use correct wage rates).</li> </ul>

Tasks	FAR Reference(s)	Additional Information
<p>5. Make price-related preaward decisions.</p>	<p>FAR 15.306(a) Clarifications and award without discussions [exchanges with offerors after receipt of proposals].</p> <p>FAR 15.306(b) Communications with offerors before establishment of the competitive range [exchanges with offerors after receipt of proposals].</p> <p>FAR 15.306(c) Competitive range [exchanges with offerors after receipt of proposals].</p>	<p>After analysis of the information available, make common price-related preaward decisions such as:</p> <ul style="list-style-type: none"> <li>• Determining the need of additional price or cost information other than cost or pricing data to support price analysis.</li> <li>• Determining the need for cost or pricing data for evaluation of price reasonableness or cost realism analysis.</li> <li>• Determining the need for clarifications to resolve apparent minor or clerical errors related to contract pricing.</li> <li>• Determining the need for communications to address issues relating to contract pricing that must be resolved before determination of the competitive range.</li> <li>• Determining the need for discussions to establish a fair and reasonable price when the solicitation provides for award without discussions.</li> <li>• Establishing prenegotiation positions on price (e.g., lowest reasonable price, the highest reasonable price).</li> <li>• Determining the need to cancel and resolicit.</li> <li>• Determining the need to withdraw or modify a set-aside.</li> </ul>

Tasks	FAR Reference(s)	Additional Information
6. Document the price analysis, related decisions, and pricing objectives.	FAR 15.406 Documentation [contract pricing].	<p>For simplified acquisitions using:</p> <ul style="list-style-type: none"> <li>• An oral solicitation - show the names of the quoters, the prices quoted, and other terms quoted.</li> <li>• A written solicitation - document the names of the quoters, prices, delivery, references to quoted price lists used, and other pertinent data.</li> </ul> <p>For other acquisitions document price analysis as part of overall offer analysis and negotiation (e.g., in the price negotiation memorandum (PNM)). Price analysis documentation must include:</p> <ul style="list-style-type: none"> <li>• A summary of the contractor's proposal,</li> <li>• Any field pricing assistance recommendations;</li> <li>• The Government's negotiation objective; and</li> <li>• The source and type of data used to support analysis.</li> </ul>