The Meaning of
Price Analysis
in not so FAR off terms…

Robert M. Hardison, CPPO
Richland County School District One
Director, Procurement and Warehouse Services

1

Price Analysis

- **Government policy is to contract for its goods and services at a "fair and reasonable" price.**

2

Price Analysis

The term "Price" is used in the Procurement Code 120 times but is not defined.

3

Price Analysis

- **Government procurement is spending public funds** rather than its own money.
- Procurement Officer is held accountable for use of good judgment so that excessive prices are not paid.
- "Procurement officials must be effective stewards of taxpayer money"

4

Price Analysis

- **What is a Fair and Reasonable Price?**
- **Buyer thinks on the low side; Seller thinks on the high side.**
- **Government prefers market based pricing over cost based pricing to judge fair and reasonable pricing.**

5

Price Analysis

- **Definition of "Price"?**
- **Made up of two components:**

Cost + Profit = PRICE

Failure to pay reasonable prices will result in Vendors selling to the private sector instead.

6

Price Analysis

- **If Government pays too much then we are wasting taxpayer dollars.**
- **Bids, proposals, quotes received by the Government must all be evaluated for price reasonableness.**
- **Extent of evaluation is contingent upon amount of competition and the size of the procurement.**

7

Price Analysis

- **Price Analysis is a set of methods for determining whether an asking price is reasonable without examining the details of the cost or profit included in the price.**
- **Prefer Fixed Price (FP) contracts.**
- **Government must always perform some type of Price Analysis before awarding a contract.**

8

Price Analysis

- **Government relies on adequate price competition to get fair and reasonable prices.**
- **Bidders compete against each other to get work based on lowest price. Pressures of competition should result in a reasonable price.**

9

Price Analysis

Per the FAR 15.403-1(c)

"A price is based on adequate price competition if –

Two or more responsible offerors, competing independently, submit priced offers responsive to the Government's expressed requirement and if,

Award will be made to the offeror whose proposal represents the best value where price is a substantial factor in source selection …"

10

Price Analysis

- **Price Analysis is defined in FAR 15.404-1(b) (1)**

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

- **We perform Price Analysis everyday in our private lives.**

11

Price Analysis

- **We compare prices at the grocery store, gas stations, buying a car, a house, etc.**
- **We use tools such as: *Consumer Reports*, newspaper ads, word of mouth. We use coupons to improve the price, discounts, etc.**
- **Price Analysis is evaluated solely on the 'bottom line"**
- **Price Analysis is not concerned with Seller profit margin.**

12

Price Analysis

Methods for Performing Price Analysis (FAR 15.404-1(b))

1. **Comparison of proposed prices received in response to solicitation. (Preferred Method)**
2. **Comparison of prior proposed prices with current proposed prices (Preferred Method)**
3. **Application of rough yardsticks, e.g., dollars per pound.**
4. **Comparison with competitive published price lists, indices, discount/rebate commitments.**
5. **Comparison of IGE(s).**
6. **Comparison with prices obtained through market research.**
7. **Analysis of pricing information provided by the offeror.**

13

Price Analysis

Purposes of Price Analysis

Methods for Performing Price Analysis

- First two methods are preferred techniques.
- PO may use other methods as needed to determine that price is fair and reasonable.

14

Price Analysis

Price Analysis

Comparison of Proposed Prices Received in Response to the Solicitation

- Method consists of comparing offered prices to each other to decide which are reasonable.
- Example:

(Low Bid) ***C***	***$1,213,140***	B	$1,295,030
A	$1,230,970	F	$1,369,870
D	$1,258,990	E	$1,444,460

15

Price Analysis

Comparison of Proposed Prices Received in Response to the Solicitation

- Range of prices in the lowest four fairly close. Difference approx. $80,000. (8%)
- Tight range of prices shows that adequate price competition exists.
- Be wary of an extremely low price as compared to others. May be indicative of mistake in bid or failure to understand requirements (SOW). Possibly a “Buy-in”

16

Price Analysis

Comparison of Proposed Prices Received in Response to the Solicitation

- If adequate price competition exists, competitive evaluation may be all that is needed to determine price reasonableness.
- When in doubt, must use additional price analysis techniques to determine price reasonableness.
- <u>Comparison of competitive bids with each other is best means of price analysis</u>.

17

Price Analysis

Comparison of Proposed Prices Received in Response to the Solicitation

- Bases reasonableness decision on current market price relative to the specific government requirement.
- Specifications must not be restrictive.
- Should be at least two independent offers, preferably more.

18

Price Analysis

Comparison to Prior Prices Paid

- One of most frequently used methods of price analysis.
- Useful when there is a history of contracting for the same products or services.

Quantity	U/P Paid	When Paid
214	$751.46	3 years ago
297	$763.59	2 years ago
290	$795.14	1 year ago

* Present low U/P is $815.04 for a Qty. of 305

19

Price Analysis

Comparison to Prior Prices Paid

Reasonableness of Base Price

- Comparing the present unit price bid with some price paid in the past.
- Base price used for comparison must have been reasonable.
- What circumstances pertained to last buy, e.g., bought under emergency conditions? Schedule commitments and urgency? Sole Source?

20

Price Analysis

Comparison to Prior Prices Paid

Time Since Last Buy

- Typically prices escalate over time.
- Not all products follow that trend, e.g., PCs.
- Not enough to be aware of general price trends. Buyer needs to be knowledgeable of the pricing trends that apply to a particular item(s) being bought.

21

Price Analysis

Comparison to Prior Prices Paid

Relative Quantities

- Typically we get a better unit price when ordering large quantities and will pay more if quantity decreases.
- If price is determined to be unreasonable may necessitate canceling the bid. (re-bid or negotiate)

22

Price Analysis

Comparison with Independent Government Estimates (IGE)

- PR may be reliable if it is based on a realistic engineering analysis or based on reasonable past purchase price and quantity.

23

Price Analysis

Best Way to Do Price Analysis

May have to use a combination of methods.

- Is there reason to believe that there has been adequate price competition?
- Experience in the commodity area is very valuable.
- ***Good price analysis is a matter of good personal judgment.***

24

Price Analysis

Questions?

and

Thank you!!

25