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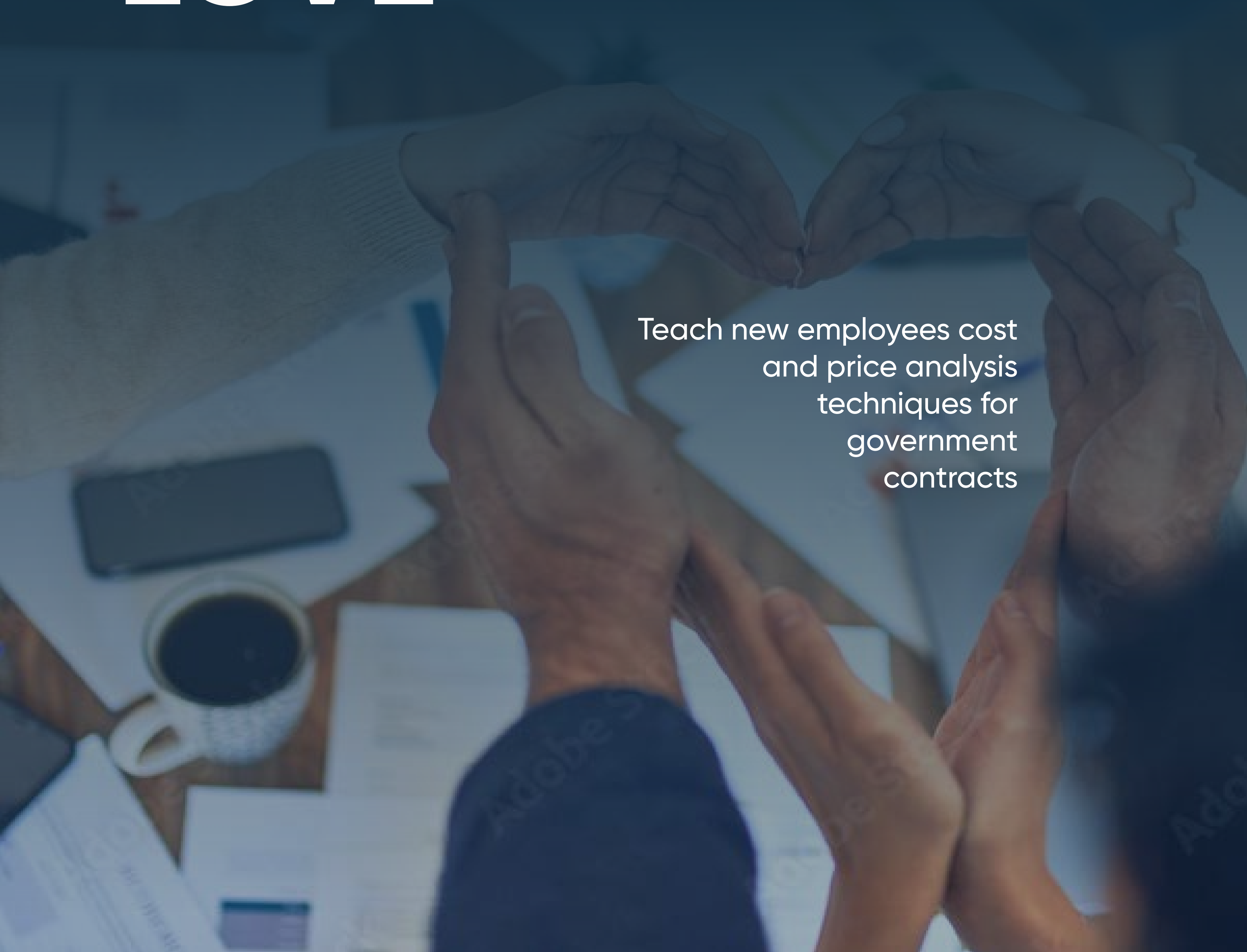


Teach new employees cost and price analysis techniques for government contracts

**Agencies follow predictable price and cost analysis techniques.
Lead your bid team in learning them.**

Training your new employees to submit bids for government contracts doesn't have to be a daunting task. The key is to think like a government agency. Start by understanding how federal and local agencies perform cost and price analyses. Then, spend a little time studying their **price and cost analysis techniques**. You'll make it easier to build your bidding processes around what matters most—and you'll head into each bidding and negotiation cycle prepared for anything.

Start with FAR

The first thing to understand about **cost and price analysis in government contracts** is that it will be similar—though not identical—across government agencies. That's because all agencies must adhere to Federal Acquisition Regulation (FAR) requirements on all their procurements. Any government contracting officer (CO) who evaluates your bid will know these guidelines.

FAR 15.4 contains a host of requirements that you should study before preparing your bid. According to **FAR 15.402**:

Contracting officers shall-

> **(a)** Purchase supplies and services from responsible sources at fair and reasonable prices. In establishing the reasonableness of the offered prices, the contracting officer-
>
> > **(1)** Shall obtain certified cost or pricing data when required by **15.403-4**, along with data other than certified cost or pricing data as necessary to estab lish a fair and reasonable price…

In other words, the CO will gather data from you and conduct a thorough analysis using standard price and cost analysis techniques.

Know the difference between price analysis and cost analysis

Before you go any further, make sure you understand the difference between price analysis and cost analysis:

- **Price analysis** is an initial analysis that evaluates the price your firm offers without analyzing its components.
- **Cost analysis** is a deeper analysis of the components that make up the price you're offering in your proposal. These components can include the costs your firm will incur in providing the services and the profit you'll make from the engagement. Agencies will often use analytical tools to help them evaluate your price.

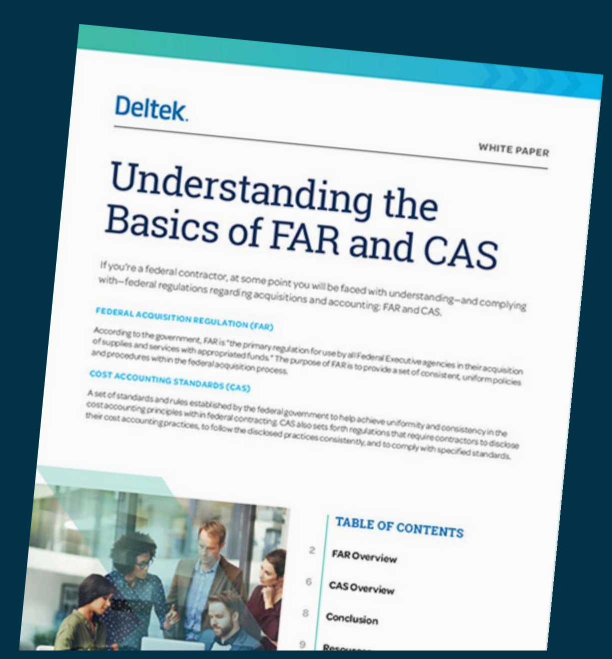
The top priority of the CO at this stage is to determine the reasonableness of your price. To do so, it may be enough for the CO to conduct a price analysis. This process involves comparing your price to market prices and historical bids and evaluating the prices of the individual elements you've offered to provide in your proposal.

Many COs will go deeper by conducting a cost analysis. Sometimes this step is required by law for their agency. In other cases, there's not enough data available on the market or historical prices for the CO to make a fair comparison. During cost analysis, the CO will dig into your cost of labor, materials, and the indirect costs you incur while doing busi-ness.

Pro tip:

Need to learn the basics of FAR? Want to study cost accounting standards (CAS) compliance? Check out this Deltek eBook, **Federal Acquisition Regulation & Cost Accounting Standards.**

The many rules, exemptions, and disclosures involved in FAR and CAS can be overwhelming, but this guide will help set you straight.



What is price reasonableness?

Price reasonableness is just what it sounds like. It's a situation in which a prudent seller facing typical competition has set a price that a prudent buyer would, after due diligence, acknowledge as fair for the services to be rendered.

Designing your proposal for success

Regardless of which approach the CO uses, the agency will probably have an ideal price in mind before anyone reviews your proposal. Among the price analysis techniques listed in **FAR 15.404-1** is "Comparison of proposed prices with independent Government cost estimates." It will be the CO's job to award the contract at a price close to these estimates so that it is clear to all stakeholders that the agency is spending taxpayer money wisely.

The CO will scrutinize your proposal to ensure the costs you've included are reasonable. So how can you increase your chances of earning approval? Be sure to:

- **Include as much detail as possible in your proposal.** It's easy to question a price that's given with no context. But if you break down your proposed fee into many line items, you make it easy for the CO to determine the reasonableness of each item. If you've priced all your items reasonably, your overall price will also seem reasonable.

- **Provide supporting evidence.** Show that each line item is reasonable by including price and cost invoices from past projects in your proposal. Provide proof that you've received these same fees from other clients, and that you've paid similar cost invoices to vendors. By doing so, you'll give the CO a better idea of what the market rate is for your services.

Although there's no hard-and-fast rule, if your price is within 10 percent of the agency's estimate, they will probably consider it reasonable—though that doesn't necessarily mean you'll win the job.

What happens in a price analysis?

In most situations, the CO will try to determine the reasonableness of your price by conducting only a price analysis. However, as the agency analyzes your proposal, it may:

- Compare your prices to prices in other proposals. When there's adequate price competition, it's easier for an agency to determine a fair and reasonable price.

- Compare your proposed prices to those that government or private-sector organizations have paid for the same or similar items. Agencies use this method for commercial products and services, including those "of a type" or when they require minor modifications to commercial products.

Of course, the agency must ensure these prior prices are relevant. Previous prices must be from recent projects that had similar terms and conditions. The agency must also adjust prior prices to reflect changes in the market, the economy, and materials used. In some cases, agencies will enlist technical experts to help them determine how much prices should change.

- Use parametric estimating methods or apply accepted units of measure to identify inconsistencies in your pricing. The agency will follow up with you for additional support data.
- Compare your prices with publicly available price lists for services and commodities.
- Compare your prices with independent government cost estimates and market prices for similar items.
- Analyze all the non-pricing data you provided to understand the full context of your proposed prices.

Why a cost analysis may be necessary

In some cases, the agency will determine that your proposal requires a full cost analysis. This doesn't necessarily mean anything was lacking in your proposal. Sometimes the law requires a cost analysis. In other instances, the agency can't determine reasonableness based only on a price analysis or finds that doing so would present an unacceptable risk.

According to FAR 15.403-4, the CO must obtain certified cost or pricing data for all prime contracts of $2 million or more awarded after July 1, 2018. This policy applies to all contracts in which the CO has determined that no exceptions apply. Exceptions occur when:

- The CO determines your prices are based on adequate price competition.
- The CO determines your prices are based on prices set by law or regulation.
- The agency is acquiring a commercial product or commercial service.
- A waiver has been granted.
- You're modifying a contract or subcontract for commercial products or commercial services.

What happens in a cost analysis?

No two cost analysis processes are exactly alike. But the process will generally follow this framework:

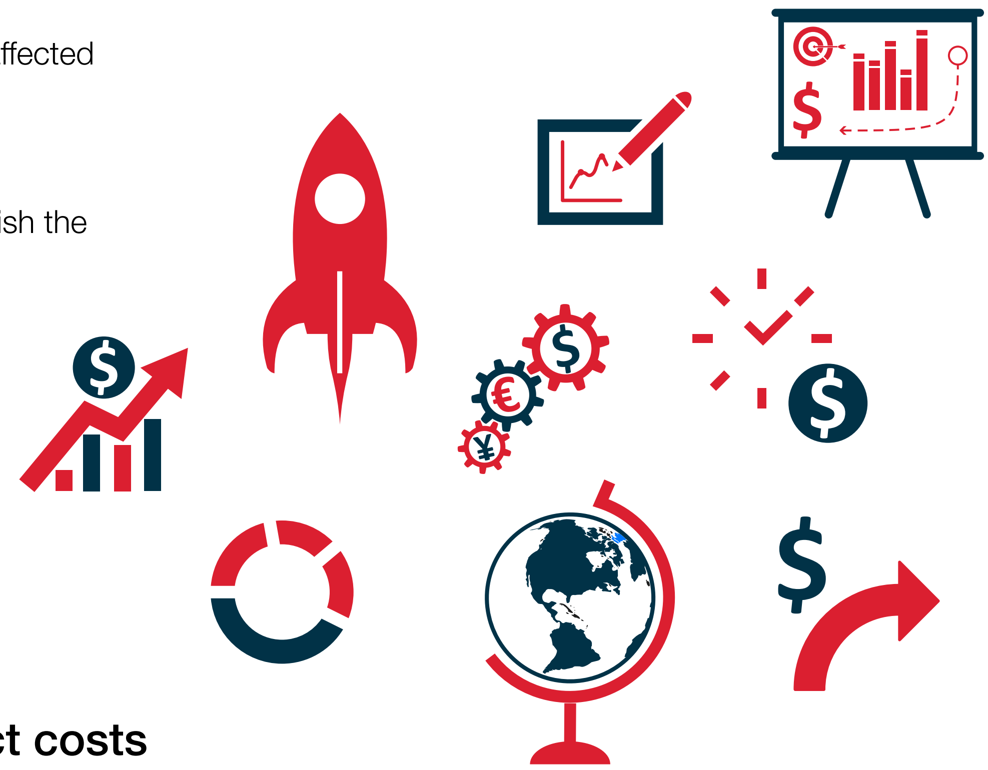
1. Your firm receives a request for proposal (RFP).
2. You prepare a proposal that meets the cost analysis, contract compliance, and technical requirements of the agency that presented the opportunity.
3. The agency will perform additional fact-finding, working with you to get details and request supporting information. You should be prepared to answer many questions at this phase of the process.
4. Once the CO has gathered enough information, he or she will create a cost analysis report (CAR) to guide price negotiations.
5. You and the agency will negotiate pricing. You may need to answer additional questions during this phase. Each time you provide new information, the CO will revise the CAR so that negotiations can continue based on the most accurate information.
6. You and the agency will lock in the price and sign a certification for the project.

Providing information for cost analysis

As you work with your CO to provide data for cost analysis, remember that your goal is to justify the price you're proposing by sharing objective data about your previous costs and prices. Be prepared to provide:

- Explanations of the methods you've used
- Explanations of any data projections your proposal includes

- Background on management decisions that affected your proposed price
- Justifications for your make-or-buy decisions
- Estimates of the resources you'll require to finish the project
- Labor costs
- Contractor and subcontractor costs
- Unit costs
- Vendor proposals
- Non-recurring costs



Understanding direct and indirect costs

As the CO and other agency personnel perform a cost analysis on your proposal, they'll investigate your direct and indirect costs. Your firm should understand these costs so that you can price your services with a mind for winning more projects.

- **Direct costs** are costs you can easily associate with a specific project or activity. This category includes employee salaries and bonuses, raw materials, travel and meal expenses, and equipment used on a project.
- **Indirect costs** are costs you can't associate with any one project, but they're necessary to keep your business running. These costs include rent or mortgage payments on your office building, utilities, insurance, legal fees, and advertising and marketing expenses.

When you lay out your direct and indirect costs in your proposal, you'll enable the agency to see your overhead rates. The standard calculation for overhead is to divide your indirect costs by your direct costs. Less overhead indicates an efficient firm is more likely to deliver outstanding work on time.

Protecting your profit margins

When you understand your direct and indirect costs, you can ensure your firm will make a reasonable profit on the project. This is not something you need to hide from the agency. **FAR 15.404-4** states:

> ***"It is in the Government's interest to offer contractors opportunities for financial rewards sufficient to stimulate efficient contract performance, attract the best capabilities of qualified large and small business concerns to Government contracts, and maintain a viable industrial base."***

Your proposal should be transparent about the profits you expect to make on the project. It must also follow the government's guidelines on reasonable profits for different project types. According to FAR 15.404-4, profits must not exceed the following:

- Fifteen percent of the contract's estimated cost for experimental, developmental, or research work is performed under a cost-plus-fixed-fee contract.
- Six percent of the estimated cost of construction for architect-engineer services for public works or utilities.
- Ten percent of the contract's estimated cost for other cost-plus-fixed-fee contracts.

As you strive to stay within these regulations, try to set a profit rate that reflects the complexity of the work you'll be performing, the risk your business is taking on in the project, and your confidence that your firm can deliver outstanding work.

Streamlining proposal price and cost adjustments

This process may seem long and complicated—and in some ways, it is. But it ensures that your firm will receive the fees it deserves while helping government agencies be prudent in spending taxpayers' money.

One way to make your job easier is to use the right software. ProPricer is the industry-leading government contractor management solution. It's designed to streamline the proposal process during submission, negotiation, and award by enabling collaboration between the federal government and contractors of all sizes.

ProPricer Contractor Edition helps contractors:

- Increase the speed and accuracy of your estimating cycle
- Drive growth
- Improve bid quality
- Enhance the consistency of federal contract proposal writing.

Get started with a 1:1 demo today

Your new employees can get up to speed quickly in submitting bids if they think like a government agency. Every agency strives to establish and follow predictable price and cost analysis techniques. So when you construct your proposals in a way that anticipates and fulfills their requirements, you'll set your firm up for a smooth negotiation process—and a greater chance of landing the project.

ProPricer Contractor Edition can help.
See for yourself. Request your 1:1 demo today.

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