

## 15.404-1 Proposal analysis techniques.

(a) *General*. The objective of proposal analysis is to ensure that the final agreed-to *price* is fair and reasonable.

(1) The *contracting officer* is responsible for evaluating the reasonableness of the offered *prices*. The analytical techniques and procedures described in this subsection *may* be used, singly or in combination with others, to ensure that the final *price* is fair and reasonable. The complexity and circumstances of each *acquisition should* determine the level of detail of the analysis required.

(2) *Price analysis shall* be used when *certified cost or pricing data* are not required (see paragraph (b) of this subsection and [15.404-3](#)).

(3) Cost analysis *shall* be used to evaluate the reasonableness of individual cost elements when *certified cost or pricing data* are required. *Price analysis should* be used to verify that the overall *price* offered is fair and reasonable.

(4) Cost analysis *may* also be used to evaluate *data other than certified cost or pricing data* to determine cost reasonableness or *cost realism* when a fair and reasonable *price* cannot be determined through *price* analysis alone.

(5) The *contracting officer may* request the advice and assistance of other experts to ensure that an appropriate analysis is performed.

(6) Recommendations or conclusions regarding the Government's review or analysis of an *offeror's* or contractor's proposal *shall* not be disclosed to the *offeror* or contractor without the concurrence of the *contracting officer*. Any discrepancy or mistake of fact (such as duplications, omissions, and errors in computation) contained in the *certified cost or pricing data* or *data other than certified cost or pricing data* submitted in support of a proposal *shall* be brought to the *contracting officer's* attention for appropriate action.

(7) The Air Force Institute of Technology (AFIT) and the Federal *Acquisition* Institute (FAI) jointly prepared a five-volume set of Contract *Pricing* Reference Guides to guide *pricing* and negotiation personnel. The five guides are: I *Price* Analysis, II Quantitative Techniques for Contract *Pricing*, III Cost Analysis, IV Advanced Issues in Contract *Pricing*, and V Federal Contract Negotiation Techniques. These references provide detailed discussion and examples applying *pricing* policies to *pricing* problems. They are to be used for instruction and professional guidance. However, they are not directive and *should* be considered informational only. They are available via the internet at [http://www.acq.osd.mil/dpap/cpic/cp/contract\\_pricing\\_reference\\_guides.html](http://www.acq.osd.mil/dpap/cpic/cp/contract_pricing_reference_guides.html).

(b) *Price analysis*.

(1) *Price* analysis is the process of examining and evaluating a proposed *price* without evaluating its separate cost elements and proposed profit. Unless an exception from the requirement to obtain *certified cost or pricing data* applies under [15.403-1\(b\)\(1\)](#) or (b)(2), at a minimum, the *contracting officer shall* obtain appropriate data, without certification, on the *prices* at which the same or similar items have previously been sold and determine if the data is adequate for evaluating the reasonableness of the *price*. *Price* analysis *may* include evaluating *data other than certified cost or pricing data* obtained from the *offeror* or contractor when there is no other means for determining a fair and reasonable *price*. *Contracting officers shall* obtain *data other than certified cost or pricing*

*data* from the *offeror* or contractor for all *acquisitions* (including commercial *acquisitions*), if that is the *contracting officer's* only means to determine the *price* to be fair and reasonable.

(2) The Government *may* use various *price* analysis techniques and procedures to ensure a fair and reasonable *price*. Examples of such techniques include, but are not limited to, the following:

(i) Comparison of proposed *prices* received in response to the *solicitation*. Normally, adequate *price* competition establishes a fair and reasonable *price* (see 15.403-1(c)(1)).

(ii) Comparison of the proposed *prices* to historical *prices* paid, whether by the Government or other than the Government, for the same or similar items. This method *may* be used for *commercial products* or *commercial services* including those "of a type" or when requiring minor modifications for *commercial products*.

(A) The prior *price must* be a valid basis for comparison. If there has been a significant time lapse between the last *acquisition* and the present one, if the terms and conditions of the *acquisition* are significantly different, or if the reasonableness of the prior *price* is uncertain, then the prior *price may* not be a valid basis for comparison.

(B) The prior *price must* be adjusted to account for materially differing terms and conditions, quantities and market and economic factors. For similar items, the *contracting officer must* also adjust the prior *price* to account for material differences between the similar item and the item being procured.

(C) Expert technical advice *should* be obtained when analyzing similar items, or *commercial products* or *commercial services* that are "of a type", or requiring minor modifications for *commercial products*, to ascertain the magnitude of changes required and to assist in *pricing* the required changes

(iii) Use of parametric estimating methods/application of rough yardsticks (such as dollars per pound or per horsepower, or other units) to highlight significant inconsistencies that warrant additional *pricing* inquiry.

(iv) Comparison with competitive published *price* lists, published market *prices* of commodities, similar indexes, and discount or rebate arrangements.

(v) Comparison of proposed *prices* with independent Government cost estimates.

(vi) Comparison of proposed *prices* with *prices* obtained through *market research* for the same or similar items.

(vii) Analysis of *data other than certified cost or pricing data* (as defined at 2.101) provided by the *offeror*.

(3) The first two techniques at 15.404-1(b)(2) are the preferred techniques. However, if the *contracting officer* determines that information on competitive proposed *prices* or previous contract *prices* is not available or is insufficient to determine that the *price* is fair and reasonable, the *contracting officer may* use any of the remaining techniques as appropriate to the circumstances applicable to the *acquisition*.

(4) Value analysis can give insight into the relative worth of a product and the Government *may* use it in conjunction with the *price* analysis techniques listed in paragraph (b)(2) of this section.

(c) Cost analysis.

(1) Cost analysis is the review and evaluation of any separate cost elements and profit or fee in an *offeror's* or contractor's proposal, as needed to determine a fair and reasonable *price* or to determine *cost realism*, and the application of judgment to determine how well the proposed costs represent what the cost of the contract *should* be, assuming reasonable economy and efficiency.

(2) The Government *may* use various cost analysis techniques and procedures to ensure a fair and reasonable *price*, given the circumstances of the *acquisition*. Such techniques and procedures include the following:

(i) Verification of cost data or *pricing* data and evaluation of cost elements, including-

(A) The necessity for, and reasonableness of, proposed costs, including allowances for contingencies;

(B) Projection of the *offeror's* cost trends, on the basis of current and historical *cost or pricing data*;

(C) Reasonableness of estimates generated by appropriately calibrated and validated parametric models or cost-estimating relationships; and

(D) The application of audited or negotiated *indirect cost rates*, labor rates, and cost of money or other factors.

(ii) Evaluating the effect of the *offeror's* current practices on future costs. In conducting this evaluation, the *contracting officer shall* ensure that the effects of inefficient or uneconomical past practices are not projected into the future. In *pricing* production of recently developed complex equipment, the *contracting officer should* perform a trend analysis of basic labor and materials, even in periods of relative *price* stability.

(iii) Comparison of costs proposed by the *offeror* for individual cost elements with-

(A) Actual costs previously incurred by the same *offeror*;

(B) Previous cost estimates from the *offeror* or from other *offerors* for the same or similar items;

(C) Other cost estimates received in response to the Government's request;

(D) Independent Government cost estimates by technical personnel; and

(E) Forecasts of planned expenditures.

(iv) Verification that the *offeror's* cost submissions are in accordance with the contract cost principles and procedures in [part 31](#) and, when applicable, the requirements and procedures in [48 CFR chapter 99](#), Cost Accounting Standards.

(v) Review to determine whether any cost data or *pricing* data, necessary to make the *offeror's* proposal suitable for negotiation, have not been either submitted or identified *in writing* by the *offeror*. If there are such data, the *contracting officer shall* attempt to obtain and use them in the negotiations or make satisfactory allowance for the incomplete data.

(vi) Analysis of the results of any *make-or-buy program* reviews, in evaluating *subcontract* costs (see [15.407-2](#)).

(d) *Cost realism* analysis.

(1) *Cost realism* analysis is the process of independently reviewing and evaluating specific elements of each *offeror's* proposed cost estimate to determine whether the estimated proposed cost elements are realistic for the work to be performed; reflect a clear understanding of the requirements; and are consistent with the unique methods of performance and materials described in the *offeror's* technical proposal.

(2) *Cost realism* analyses *shall* be performed on cost-reimbursement contracts to determine the probable cost of performance for each *offeror*.

(i) The probable cost *may* differ from the proposed cost and *should* reflect the Government's best estimate of the cost of any contract that is most likely to result from the *offeror's* proposal. The probable cost *shall* be used for purposes of evaluation to determine the *best value*.

(ii) The probable cost is determined by adjusting each *offeror's* proposed cost, and fee when appropriate, to reflect any additions or reductions in cost elements to realistic levels based on the results of the *cost realism* analysis.

(3) *Cost realism* analyses *may* also be used on competitive fixed-*price* incentive contracts or, in exceptional cases, on other competitive fixed-*price*-type contracts when new requirements *may* not be fully understood by competing *offerors*, there are quality concerns, or past experience indicates that contractors' proposed costs have resulted in quality or service shortfalls. Results of the analysis *may* be used in performance risk assessments and responsibility determinations. However, proposals *shall* be evaluated using the criteria in the *solicitation*, and the offered *prices shall* not be adjusted as a result of the analysis.

(e) Technical analysis.

(1) The *contracting officer should* request that personnel having specialized knowledge, skills, experience, or capability in engineering, science, or management perform a technical analysis of the proposed types and quantities of materials, labor, processes, *special tooling*, equipment or real property, the reasonableness of *scrap* and spoilage, and other associated factors set forth in the proposal(s) in order to determine the need for and reasonableness of the proposed resources, assuming reasonable economy and efficiency.

(2) At a minimum, the technical analysis *should* examine the types and quantities of material proposed and the need for the types and quantities of labor hours and the labor mix. Any other data that *may* be pertinent to an assessment of the *offeror's* ability to accomplish the technical requirements or to the cost or *price* analysis of the service or product being proposed *should* also be included in the analysis.

(3) The *contracting officer should* request technical assistance in evaluating *pricing* related to items that are "similar to" items being purchased, or *commercial products* or *commercial services* that are "of a type", or requiring minor modifications for *commercial products*, to ascertain the magnitude of changes required and to assist in *pricing* the required changes.

(f) Unit *prices*.

(1) Except when *pricing* an item on the basis of adequate *price* competition or catalog or market *price*, unit *prices shall* reflect the intrinsic value of an item or service and *shall* be in proportion to

an item's base cost (*e.g.*, manufacturing or *acquisition* costs). Any method of distributing costs to *line items* that distorts the unit *prices shall* not be used. For example, distributing costs equally among *line items* is not acceptable except when there is little or no variation in base cost.

(2) Except for the *acquisition* of *commercial products*, *contracting officers shall* require that *offerors* identify in their proposals those items of supply that they will not manufacture or to which they will not contribute significant value, unless adequate *price* competition is expected (10 U.S.C. 3703(a)(1)(A) and 41 U.S.C. 3503(a)(1)(A)). Such information *shall* be used to determine whether the intrinsic value of an item has been distorted through application of overhead and whether such items *should* be considered for breakout. The *contracting officer should* require such information in all other negotiated contracts when appropriate.

(g) Unbalanced *pricing*.

(1) Unbalanced *pricing may* increase performance risk and could result in payment of unreasonably high *prices*. Unbalanced *pricing* exists when, despite an acceptable total evaluated *price*, the *price* of one or more *line items* is significantly over or understated as indicated by the application of cost or *price* analysis techniques. The greatest risks associated with unbalanced *pricing* occur when-

(i) Startup work, mobilization, *first articles*, or *first article testing* are separate *line items*;

(ii) Base quantities and *option* quantities are separate *line items*; or

(iii) The evaluated *price* is the aggregate of estimated quantities to be ordered under separate *line items* of an indefinite-delivery contract.

(2) All *offers* with separately priced *line items* or *subline items shall* be analyzed to determine if the *prices* are unbalanced. If cost or *price* analysis techniques indicate that an *offer* is unbalanced, the *contracting officer shall*-

(i) Consider the risks to the Government associated with the unbalanced *pricing* in determining the competitive range and in making the source selection decision; and

(ii) Consider whether award of the contract will result in paying unreasonably high *prices* for contract performance.

(3) An *offer may* be rejected if the *contracting officer* determines that the lack of balance poses an unacceptable risk to the Government.

(h) Review and justification of pass-through contracts.

(1) The requirements of this paragraph (h) are applicable to all agencies. The requirements apply by law to the Department of Defense, the Department of State, and the *United States Agency for International Development*, per section 802 of the *National Defense Authorization Act (NDAA)* for Fiscal Year 2013. The requirements apply as a matter of policy to other *Federal agencies*.

(2) Except as provided in paragraph (h)(3) of this section, when an *offeror* for a contract or a task or *delivery order* informs the *contracting officer* pursuant to 52.215-22 that it intends to award *subcontracts* for more than 70 percent of the total cost of work to be performed under the contract, task or *delivery order*, the *contracting officer shall*-

(i) Consider the availability of alternative contract vehicles and the feasibility of *contracting* directly with a subcontractor or subcontractors that will perform the bulk of the work. If such alternative approaches are selected, any resulting *solicitations shall* be issued in accordance with the competition requirements under FAR part 6;

(ii) Make a written determination that the *contracting* approach selected is in the best interest of the Government; and

(iii) Document the basis for such determination.

(3) Contract actions awarded pursuant to subparts 19.5, 19.8, 19.13, 19.14, or 19.15 are exempt from the requirements of this paragraph (h) (see section 1615 of the *National Defense Authorization Act for Fiscal Year 2014* (Pub. L. 113-66)).

**Parent topic:** 15.404 Proposal analysis.