



**Society of Cost  
Estimating and Analysis**

# The Dayton Coster Dayton Chapter Newsletter

*Spring 2000*

1999-2000 Dayton Chapter

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## President's Message: Ron Vorhis

Just as the world we live in is constantly changing; so is the estimating world. For example, the B-1B financial office is required to develop production cost estimates when a B-1B modification block is moving into the production phase. Historically, this required one or more fact-finding trips by the cost estimating team to the contractor's/sub-contractor's facilities in preparation for developing the estimate. Discussions with SPO functionals to clarify/evaluate the data would then take place. The estimate would then be developed from the refined data.

Currently, a new process called Teaming on Proposals (TOPs) is utilized. In this process, the contractor provides a draft

“Using Teaming on Proposals (TOPs), the contractor provides a draft production proposal in the form of draft Task & Rationale (T&R) sheets. T&Rs provide hours and material dollars..”

production proposal in the form of draft Task & Rationale (T&R) sheets. The T&Rs are segregated by Work Breakdown Structure (WBS) and explain/justify the estimating methodology used by the contractor. Each T&R provides labor hours and material dollars in a fiscal year breakout.

The T&Rs are reviewed/evaluated by SPO functionals who interface with their contractor counterparts. Each T&R is considered to be negotiated when the functionals reach agreement. T&Rs without contractor/SPO functional agreement are negotiated by the contracting officer.

The cost analyst defines the WBS used for T&R submittals, generates contractor wrap rates, and develops the spreadsheet utilizing the

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## President's Message continued

negotiated labor hours and appropriate wrap rates for each T&R. Material dollars are included in the spreadsheet. The TOPs process has drastically reduced the time required for the cost estimating team to perform the cost estimate. Since there are fewer cost analysts today, primarily due to downsizing, any improved process that reduces estimating and analysis time, and still provides a quality product, is extremely beneficial.

“The TOPs process has drastically reduced the time required for the cost estimating team to perform the cost

The cost analyst today must continue to pursue efficient and effective methods that reduce estimating and analysis time without degrading the quality of the product. To do this, the cost analyst must remain cognizant of new processes and software models that increase effectivity and efficiency.

### *Purpose of the Society*

To further the effectiveness and efficiency of cost estimating and analysis and related disciplines in the public and private sectors by:

- Promoting and enhancing the profession of cost estimating and analysis
- Fostering the professional growth of its members
- Enhancing the understanding and appreciation of cost estimating, analysis and related disciplines throughout the general public
- Promoting a Common Body of Knowledge as a standard for individual excellence
- Advocating a uniform Code of Ethics for the profession
- Rewarding achievement through an appropriate program of recognition and certification
- Providing forums and media through which experiences with the principles and techniques of cost estimating and analysis may be reported, discussed and published in furtherance of the public interest
- Fostering, promoting, and conducting research and educational programs
- Developing and maintaining standards of proficiency and performance
- Cooperating with other organizations and individuals, having common or related purposes, in furtherance of the public interest
- Providing an opportunity for government, industry and academia to collectively discuss and comment on related proposed or suggested subjects of common interest
- Establishing standards in

## In the News...

Great News! A big *Thank You* to **Luis James, Kerrie Schieman** and all who participated and supported the **Annual Bowl for Kids' Sake** event — A total of **\$1,347** was raised in the bowl for kids this year.



Plan to Attend! **28 April luncheon** at the Holiday Inn off I-675! Guest speaker will be **Sue Hunter, AFMC/PKP**, who is a member of the OSD Price-based Acquisition (PBA) Team. Her topic will be **Commercial Pricing**.

Upcoming! **June luncheon** will be a combined awards luncheon/golf outing, with the Base historian as the guest speaker.

Please watch for *flyers* on both the **April** and **June** luncheons!

## About the Author:

David F. Lewis is a Professor of Contract Pricing at the Defense Acquisition University, Wright-Patt Campus. He currently teaches Intermediate Contract Pricing (CON-204). Prior to that, he was a Senior Analyst/Project Leader for Litton, TASC serving in numerous ASC Program Offices and supporting AFMC Projects in Market Research and Commercial Acquisition. Before joining Litton, TASC, Prof. Lewis was an active duty Air Force officer serving as a Procuring Contracting Officer at (then) ASD and an Administrative Contracting Officer at (then) DPRO Boeing, Seattle.

Prof. Lewis has a Masters Degree in Contracting Management & Systems Acquisition from the Air Force Institute of Technology and a B.S. degree in business administration from the College of Charleston, SC.

Prof. Lewis is an active member of the National Contract Management Association (NCMA) and is a Certified Professional Contracts Manager (CPCM).

## Commercial Item Pricing

### Why Make it when we can Buy it!

by  
David F. Lewis

The Federal Acquisition Streamlining Act (FASA) established a preference for buying commercial within DOD and specified commercial pricing techniques as opposed to cost analysis techniques to establish price reasonableness. This article will identify and reference new Federal Acquisition Regulation (FAR) guidance for obtaining data for commercial pricing. Specifically targeted will be techniques useful in non-competitive acquisitions.

The adoption of the FASA and the preference for commercial items has also required adoption of new policies resembling the commercial marketplace. Chief among these new policies is the preference for using data sources least intrusive to the contractor. A clear distinction has now been created between cost and pricing (data which the contractor must “certify” subject to TINA, P.L.87-653, Truth in Negotiations Act) and information other than cost and pricing data (any type of data that is not to be certified but is needed to determine price reasonableness).

**Defining the commercial item.** The first requirement is to insure that a commercial item exists in the marketplace that meets the needs of the DOD. A commercial item is any item evolving from, or available in the commercial marketplace that will be available in time to satisfy the user requirement. A commercial item can also be defined as a number of any items customarily combined and sold to the general public. Included are services (installation, maintenance, training, and other) for these items offered and sold competitively and available in the commercial marketplace.

**Market Research and techniques for determining price reasonableness.** Otherwise known as ‘data gathering’, market research is the process of collecting and analyzing information about the market’s capabilities to satisfy agency needs and is the responsibility of the acquisition team. The extent of the market research effort should be consistent with the value and complexity of the buy and start at the beginning of the acquisition planning process. Two elements need to be researched — technical and business practices. Clearly the data gathered will dictate the commercial pricing technique to be used for determining price reasonableness.

**Commercial pricing techniques.** Using commercial practices, ideally the acquisition team seeks to establish price reasonableness with little/no contractor involvement. This may be accomplished by using typical techniques such as:

- 1) Contact experts
- 2) Compare w/an appropriate analogue
- 3) Review catalogs and product literature
- 4) Use parametric techniques/CERs
- 5) Search on the Internet
- 6) Review contract files

“...FASA established a preference for buying commercial w/ in DOD...”

## Commercial Item Pricing continued:

Generally, once data has been gathered, it is necessary to normalize the data for differences in quantities, characteristics, time, discounts, etc. Data normalization requires cost, technical and business team effort to insure an ‘apples-to-apples’ comparison. DCAA and DCMA may assist with sales history and business/technique product knowledge respectively.

Parametric estimating models and CERs may be especially useful in commercial item pricing. These models and relationships can guide and focus attention on key technical performance and physical characteristics desired by the DOD user, thus insuring the acquired commercial item meets mission needs. To use more sophisticated parametric models, obtaining required input parameters for modeling will generally require assistance from the technical representative, the user and prospective contractors. Hence, with more complex acquisitions, the team may and should seek direct contractor input.

Given the complexity of the acquisition, dollar value, and associated risk to the DOD, data gathering from the contractor may be accomplished via pre-solicitation conferences, requests for information and by requesting information other than cost or pricing data in the RFP. In sole source situations and where prices are not set by law or regulation, new FAR guidance\* requires the contractor submit, at a minimum, appropriate information on the prices at which the same item or similar items have previously been sold, adequate for determining the reasonableness of the price. Ultimately, price information or uncertified cost data may be requested from the contractor at any time.

*“Ultimately, price information or uncertified cost data may be requested from the contractor at any time.”*

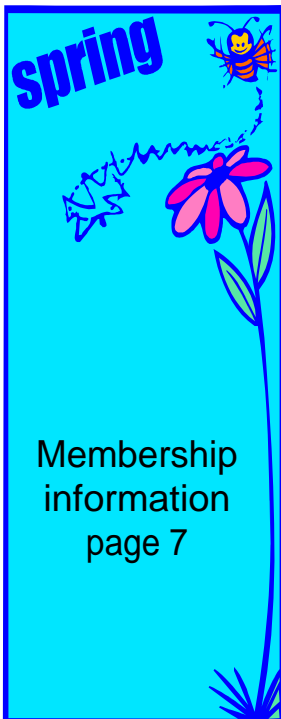
**Bottom line — DOD price has to be reasonable.** The goal of the market research data gathering activity is to provide a solid foundation for the acquisition team to enter negotiations with the contractor(s). With solid technical knowledge of the physical and performance characteristics of the item and a thorough understanding of the business environment, the team can develop a solid government position and be prepared for negotiations.

Negotiations for commercial items. Understanding the DOD’s relative strength in the marketplace will determine leverage in obtaining quantity discounts, better acquisition terms and/or more favorable prices. In the commercial marketplace, price is dependent on such variables as delivery terms and payment structure. For example, it may be possible to negotiate a delivery schedule that meshes with the manufacturing schedule for a lower price. Level of competition and market conditions will also influence the actual price paid. Ultimately, the economic power of supply and demand will drive the final negotiated price.



**Market Research is still required.<sup>1</sup>** In June 1998, a DOD requirement for 31 generator adapter kits used comparison and prior history to determine price reasonableness. A price of \$7,320 each for the 31 generator adapter kits was targeted based on comparison with prior government purchases since April 1995 at the same price and other small quantity commercial sales in 1998 at \$9,727 each. Later analysis determined, however, that historical prices should be used if they were prior to 1993 because more recent purchases from this

**Commercial Item Pricing continued:**



prices should only be used if they were prior to 1993 because more recent purchases from this contractor were overpriced by about 300 percent. Armed with such information, a strong negotiation strategy would help assure payment of a more reasonable price.

A second situation suggests that a commercial pricing approach may not always be the most cost effective and endorses the importance of thorough price analysis. DOD paid \$1,307 each for 81 aircraft engine vanes for the KC-135 aircraft. This commercial price was based on the catalog price less a 7.5 percent discount. However, this same part was also used for the F-16 aircraft and was bought in September 1995 under a separate noncommercial contract for \$300 each. Again, this information could help assure a reasonable commercial price.

In a third situation, in 1996, a parts distributor offered a price of \$453 per unit for 381 wiring harnesses used on the C-130 aircraft. DOD, however, previously achieved significant price savings by going directly to the manufacturer and receiving a quantity discount price of \$103 each for 461 units bought in 1993, and \$91 each for 194 units bought in 1994. Armed with this information a more reasonable commercial price could be achieved.

“Documentation of the results of market research and negotiations is paramount...”

**Conclusions.** Commercial items are not routinely sold at offered prices. Hard bargaining goes on in the commercial world; hence, DOD must know its marketplace leverage. It is important to look for trade-offs between price, payment terms, and delivery schedules. Documentation of the results of market research and negotiations is paramount not only for the current acquisition but for reference in future acquisitions. Finally, the goal is to negotiate a fair and reasonable price. Success is directly correlated with the up front effort by the acquisition team in conducting the market research and performing the price analysis. Ultimately, commercial pricing is not a method for avoiding thorough price analysis — commercial pricing is a method requiring appropriate team analysis and evaluation to achieve the goal of a fair and reasonable price to DOD.

\*FAR15.403-3(a)(1)

<sup>1</sup>GAO/NSIAD-99-90



**Job Opening**  
 Smiths Industries Aerospace  
 has an opening for a  
**Senior Cost Analyst**  
 Interested? See Page 10.

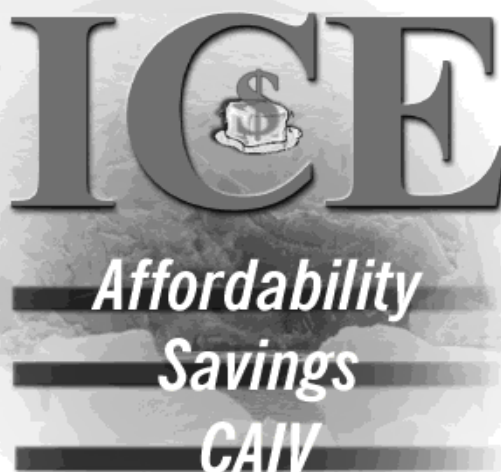
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**DAYTON CHAPTER MEMBERSHIP REPORT**

**Is it time to renew your membership? Don't forget to submit your renewal to National!**

**Membership Eligibility -- Know anyone interested in becoming a member?**

Membership is open to all interested individuals in the cost estimating and cost analysis professions and related disciplines. Members are from all levels of management, are experts, journeymen, and beginners from the government, private sector and academia. Some of the many professions represented by our members are:

- Cost Analysis ·Cost Estimating ·Price Estimating ·Pricing ·Time & Motion Analysis
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- Operations Research ·Economics ·Systems Cost Analysis ·Life Cycle Cost Analysis
- Parametric Cost Analysis ·Proposal/Program Management ·Program Planning
- financial Management ·Business Administration ·Value Engineering ·Design to Cost
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**BENEFITS OF MEMBERSHIP**

Educational opportunities include:

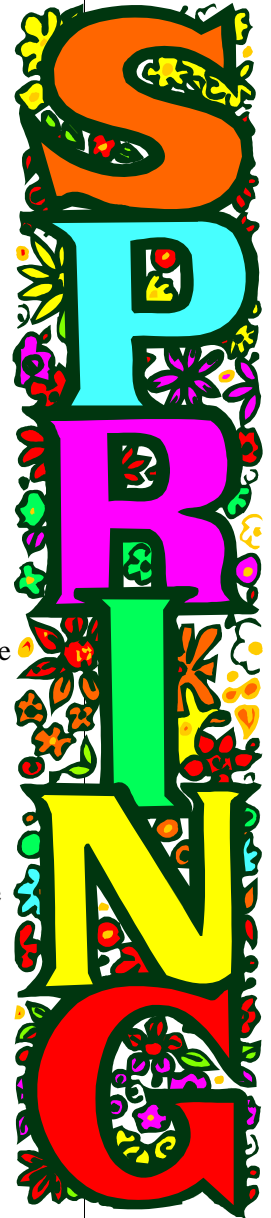
·Annual National Symposium featuring speakers from Government, Industry and Academia in a dynamic forum for presentation and discussion of major issues and topics and excellent opportunities to learn through hands-on workshops and tutorials.

·Regional seminars designed to address specific topics of special interest such as Cost/Schedule Control Systems and Performance Measurement Systems are held in selected cities each year.

·Local Chapter meetings held either monthly or quarterly designed to bring top speakers from both local and National discussing current topics of concern and interest. Many chapters also feature education and training opportunities.

Applicants will be assigned to a local chapter where possible. If an applicant cannot be assigned, they will be members-at-large and encouraged to initiate interest to others in their area to start a new chapter. All benefits of membership are provided to members-at-large.

The Society also administers a certification program which further enhances the credibility of the members and the profession.



**DAYTON CHAPTER MEMBERSHIP UPDATE**

If your office mailing address and/or phone number has changed, or you work at Wright-Patterson AFB and are not receiving the "Dayton Coster" at your office\*, please submit this update form to:

**Candy Hendrickson, ASC/YDF, Bldg 556, 2690 Loop Rd W, Rm 104, WPAFB, OH 43433-7148**

Name: \_\_\_\_\_ Phone: \_\_\_\_\_

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*\*Using your Wright-Patterson address will help the Chapter save postage.*



## SCEA Focal Points

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ASC/FBF	Fred Kurt	255-1510; x2644	
ASC/FMCE	Mike Seibel	656-5477	Michael.Seibel@wpafb.af.mil
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Tecolote Research	Harmon Withee	427-5300	Hwithee@day.tecolote.com

If any SCEA focal points have changed, please e-mail [Jane.Robbins@wpafb.af.mil](mailto:Jane.Robbins@wpafb.af.mil)



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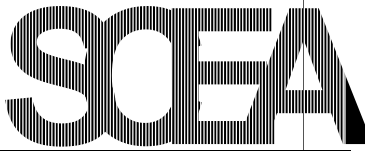
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