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1.0 Chapter Introduction

Presolicitation Market Research. In Government acquisition, market research requires collecting and analyzing information about capabilities within the market to satisfy Government needs. Market research policies and procedures should be designed to arrive at the most suitable approach to acquiring, distributing, and supporting supplies and services. The personnel involved must ensure that legitimate needs are identified and trade-offs evaluated to acquire items which meet those needs.

To get the supplies and services that will best meet the needs of the Government, the Government members of the Acquisition Team must understand the true needs of the Government and know what is available in the marketplace. Market research should be an on-going process for every member of the Acquisition Team, but there are three points where effective market research is particularly important:

- The purchase request should reflect the results of market research conducted by the requester. The requester should consider input from other Government members of the Acquisition Team, especially from the user (if different than the requester) and Government technical personnel. Contracting personnel should support and encourage requester market research efforts whenever possible. For example, the catalogs and price lists available in the contracting office may be invaluable to the requester's market research effort. Contracting personnel should not take the responsibility for developing the requirements documents and should remind other members of the Team not to disclose source selection information outside channels authorized by the agency head (see [FAR 3.104-4](#)).
- Before soliciting offers for acquisitions with an estimated value in excess of the simplified acquisition threshold, you must conduct market research to assure that

together the requirements documents and the contract business terms form the most suitable approach to acquiring, distributing, and supporting supplies and services. This research may be a one-time analysis or part of your on-going effort to know and understand the marketplace for the items that you routinely procure. As you perform your market research, you may question the requirements documents, but you must never change those documents without authorization from the requester.

- Before soliciting offers for acquisitions with an estimated value less than the simplified acquisition threshold, you should perform market research whenever adequate information is not available and the circumstances justify its cost.

Information for Market Research. When conducting market research, you should not request potential sources to submit more than the minimum information necessary. Most firms will gladly support Government market research as long as the result will benefit the firm. Most will provide complete information about how the products that they can provide will meet Government requirements. However, they are unlikely to provide information about problems with their products or about other products that could better meet the Government's needs at a lower total cost.

Generally, information on a particular product or industry is available from many sources other than potential offerors. These sources include:

- Knowledgeable individuals in Government and industry;
- The results of recent market research undertaken to meet similar or identical requirements;
- Government data bases that provide information relevant to agency acquisitions;
- Interactive, on-line communication among industry, acquisition personnel, and customers;
- Source lists of similar items obtained from other contracting activities or agencies, trade associations or other sources; or
- Catalogs and other generally available product literature published by manufacturers, distributors, and dealers or available on-line.

Market Research Results Use the results of market research to:

- Determine if there are sources capable of satisfying the agency's requirements;
- Determine if commercial items or, to the extent commercial items are not available, nondevelopmental items are available that:
 - Meet the agency's requirements;
 - Could be modified to meet the agency's requirements; or
 - Could meet the agency's requirements if those requirements were modified to a reasonable extent.
- Determine the extent to which commercial items or nondevelopmental items could be incorporated at the component level;

- Determine the practices of firms engaged in producing, distributing, and supporting commercial items, such as terms for warranties, buyer financing, maintenance, and packaging and marking; and
- Ensure maximum practicable use of recovered materials and promote energy conservation and efficiency.

Market Research and Contract Pricing. [FAR Part 10](#) requires that you use the results of market research in developing Government requirements and determining how you will satisfy those requirements. This research is required because the decisions made in the presolicitation phase of the acquisition process will be key factors in defining what the Government receives and the price that the Government will pay. For example, contracting decisions that:

- Increase contractor performance costs will normally increase contract price.
- Lower contractor performance costs will normally reduce contract price.
- Limit competition will normally increase contract price.
- Facilitate competition will normally reduce contract price.
- Increase contractor risk will normally increase contract price.
- Limit contractor risk will normally decrease contract price.

The better you understand the marketplace the better you will be able to make decisions that will enable you to meet the needs of the Government at a reasonable price.

This same understanding of the marketplace will enable you to develop a better estimate of a reasonable price for a contract that meets the needs of the Government. Your preliminary price estimate and the factors that affect contract price will be key inputs to the acquisition planning process. For example, the method of contracting and required contract terms and conditions both depend on your estimate of contract price. In addition, your preliminary estimate of contract price will become a key input to your final determination of contract price reasonableness.

1.1 Reviewing The Purchase Request And Related Market Research

When determining how much reliance you can place on the Independent Government Estimate in making contracting decisions, you must evaluate the depth and quality of the analysis involved in developing the estimate. As a minimum, you should consider the following five areas:

- 1.1.1 - [How Was The Estimate Made?](#)
- 1.1.2 - [What Assumptions Were Made?](#)
- 1.1.3 - [What Information And Tools Were Used?](#)
- 1.1.4 - [Where Was The Information Obtained?](#)
- 1.1.5 - [How Did Previous Estimates Compare With Prices Paid?](#)

Purchase Request. The purchase request is the document that formally transmits the requirement to the contracting office. It is the purchase request that typically first combines the Government requirements document with the Independent Government Estimate of contract price. Normally, the purchase request will also include an assurance that funds are available or will be available to fund the acquisition of the required supplies or services.

Independent Government Estimate ([FAR 15.404-1\(b\)\(2\)\(v\)](#)). As the name implies, the Independent Government Estimate must be developed independently by the Government. Independent development is vital because this estimate normally provides your first indication of a reasonable contract price and it is also one of the bases that you should consider in contract price analysis. The estimate development process may be automated or manual, but the best estimates reflect the requester's market research.

Reviewing Requester Market Research. [FAR Part 10](#) requires market research before developing new requirements documents for an acquisition. Logically, this responsibility falls on the requester. The quality of the requester's Independent Government Estimate usually depends on the quality of the requester's market research. Because of the importance of the Independent Government Estimate to your selection of appropriate acquisition techniques and eventually your decision on price reasonableness, you should review the estimates carefully, before initiating further procurement action.

1.1.1 How Was The Estimate Made?

Estimate Preparation. To judge the reliability of a Government estimate, you must know how the estimate was made. Purchase requests may be prepared by an automated system or manually by the requester or an estimating specialist.

- Automated Purchase Request Estimates
 - Estimates for purchase requests prepared by an automated system are developed following an algorithm that has been programmed into the system. The most common algorithm is to set the unit price estimate equal to the last unit price paid.
 - Estimates prepared by automated systems rarely take changes in the market situation into account. Even such basic factors as changes in price related to changes in quantity are not considered. For example, assume that the requirement is for 5,000 generators. If the last acquisition was for a single generator, the estimated unit price for each of the 5,000 generators would be the same as the price for a single generator.
 - When you make acquisitions based on automated purchase requests, you must learn what market factors (if any) are considered in preparing the request. Factors not considered in estimate development should be special areas of emphasis in your market research. Once you understand the

algorithm for developing the automated estimate, you should remain alert to possible changes in that algorithm.

- Manual Purchase Request Estimates
 - Estimates for manual purchase requests are typically prepared by the individual preparing the purchase request. Different organizations, and different individuals within the same organization, may have different methods of developing the Government estimate.
 - Estimates should reflect any market changes identified during market research. Unfortunately, many do not. Instead manual estimates, like automated estimates, are often based on the last unit price paid with no consideration of changes in the market situation.
 - You must determine how each individual estimate was developed so that the other questions concerning reliability can be examined. This also provides a general insight into the amount of time devoted by the requester to market research.
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1.1.2 What Assumptions Were Made?

Every estimate involves assumptions. Knowing and understanding those assumptions can give you an insight into the estimator's understanding of reliable estimate development.

Analysis of Assumptions In many cases, user/technical/program personnel are not familiar with relevant cost factors and market forces that affect contract pricing. As a result, assumptions and estimates may not be accurate.

If the rationale used to develop the estimate is not clear or does not seem reasonable, ask questions! **IN PRICING, THERE ARE NO DUMB QUESTIONS!** If you do not know, ask! By asking questions about the Independent Government Estimate and accompanying documentation, you can identify assumptions that are not consistent with market realities and work with the requester to improve the estimate before the contracting process begins.

Estimate Example 1: The requester used the last price paid for an item to estimate the price for the same item 10 years later.

- **Assumptions** The requester has assumed that the last price paid was reasonable, and that the market situation has not changed in 10 years.
- **Analysis** Over a few days or weeks, it may be reasonable to assume that the price has not changed if quantity, delivery, and other factors have not changed. But in this case the last purchase was made 10 years ago. Normally, it is not reasonable to assume that the price has not changed in 10 years. Once you identify the assumptions used in estimate development, you can evaluate them and adjust for any that do not appear consistent with market realities.

Estimate Example 2: The requester estimated the price of 100 warehouse trucks with 3 cubic foot capacity based on the price paid for 2 cubic foot units acquired during the last month.

- **Assumptions.** The requester has assumed that the recent price was reasonable, and that the unit price is not affected by changes in unit capacity.
 - **Analysis.** The assumption that unit price will not be affected by the unit's capacity may or may not be reasonable. However, the great difference in capacity should lead you to subject this assumption to closer scrutiny during your market research.
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1.1.3 What Information And Analysis Were Used?

It is important to determine what the requester knows about the item or service being requested and what type of analysis was used in estimate development.

Market Research Information. The most successful estimators know their item. Before they make an estimate, they collect information on the product and the market for that product. Their market research may be a one-time effort or part of an on-going process that is an integral part of their normal job.

The most reliable estimates are prepared by estimators who have performed detailed market research and can answer "yes" to the following questions that apply to a particular purchase request:

- Did the estimator perform a detailed analysis of the Government requirements documents?
- Did the estimator identify performance, quality, and/or acceptance criteria differences exist between new "requirement" and the information analyzed?
- Is the estimator familiar with the market for the item, including:
 - Last price paid?
 - General market price changes?
 - Current commercial market price?
 - Quantity price breaks?
 - Possible substitutes?

Estimating Analysis. Market information alone is usually not enough. The estimator must be able to apply appropriate analysis to estimate development. Reasoned analysis provides a much more supportable estimate than one that is simply based on estimator judgment and experience. The strongest estimates are usually the result of a reasoned analysis supported by the use of appropriate quantitative techniques.

Reasoned Analysis. A reasoned analysis is an analysis that sets forth the known information and clearly explains how it was used in estimate development. This analysis may or may not be supported by the use of quantitative techniques.

Quantitative Techniques. When appropriate, adjustments should be made using accepted quantitative techniques. For example, index numbers can be used to quantify price changes and adjust historical pricing data.

Estimate Support Comparison. Estimates supported by words such as "professional judgment," but no factual data and explanations about how that professional judgment was applied, are typically of little value. Estimates based on good information and the application of appropriate quantitative techniques or reasoned analysis will generally be more accurate and easier to support throughout the acquisition process. For example, in an analysis of changes in technology, which of the following techniques would be more useful in price estimation?

Professional Judgment. "Based on my 20 years of experience as a Project Engineer and my knowledge of the product, I estimate the price of this unit at \$585,000."

Reasoned Analysis. "We are requesting new high sensitivity replacement units. A year ago, a product could not be produced with this level of sensitivity to high frequency sound. Today, units with similar sensitivity improvements are available at a 30 percent higher price than the less sensitive units they replaced. Therefore the estimated price for this unit, \$585,000, is 30 percent higher than the \$450,000 price last paid for the less sensitive unit that it will replace."

1.1.4 Where Was The Information Obtained?

The breadth and depth of the requester's market information will have a substantial impact on the quality of the estimate. Learn what you can about the sources of information used by the requester in estimate development, because some sources of information are better than others. Knowing the sources of information will make it easier for you to evaluate the reliability of the estimate.

Estimate Information Sources. Many estimators rely exclusively on historical prices as their base for estimate development. Historical prices are an excellent source of information on the price at some point in the past but market conditions and Government requirements change over time. Past prices for a similar item may have been based on detailed Government specifications while the current requirement is based on products commonly traded in the commercial market place. In that situation, historical prices may not provide a viable price estimate.

Encourage requesters to provide source data with their estimates. Information, such as a vendor catalog or portion thereof, will provide an excellent starting point for your market research.

Product Analysis. If the requirement is unique and there is no price history available, the estimator must develop a price estimate by some other form of analysis. One option is for

the requester to develop an estimate based on an evaluation of the material and labor required to produce the product, as well as the risks associated with design, development, production, delivery, and acceptance. When such estimates are required, the more current the data used to develop the cost estimate, the more reliance you can place on the estimate.

Misleading Information. Many data sources, such as stock lists, can present information that is difficult to use in price estimating. The price information is usually not current and there is typically little information about its source. Prices may be historical prices from an unknown point in the past or even averages of historical prices. It is typically difficult or impossible to adjust these prices for changes in the market situation. As a result, you must be particularly careful when using such data as a base for estimated development.

Emphasize Estimator Independence. While use of vendor catalogs and other methods of market research should be encouraged, estimators **MUST BE DISCOURAGED FROM CONTACTING VENDORS FOR SPECIFIC QUOTATIONS**. This is particularly true in sole source situations, where the Independent Government Estimate may be a primary basis for determining price reasonableness. If both the estimate and the proposal come from the offeror, there is no independent measure of price reasonableness. If the estimator must contact a vendor to better understand specifications, pricing, discounts, etc. then two very important steps must be taken:

- First discuss the need to contact the vendor with the responsible contracting officer
- Also, make it very clear, in writing, to the vendor that you are performing market research and need more information about the product or pricing, and that you **ARE NOT REQUESTING A QUOTATION OF ANY KIND**.

1.1.5 How Did Previous Estimates Compare With Prices Paid?

An examination of the Independent Government Estimate should include an examination of the estimator's track record. Just as past vendor performance is an indicator of future contract performance, the quality of past estimator performance is an indicator of the quality of the current estimate.

Comparison with Prices Paid. In evaluating estimates, ask: "Have the estimator's past estimates been close to contract prices determined fair and reasonable through analysis using other price analysis techniques?"

If the answer is yes, greater reliance can be placed on current estimates developed using similar techniques.

If the answer is no, less reliance should be placed on these estimates.

1.2 - Considering Contract Pricing In Your Market Research

The Independent Government Estimate is only one preliminary estimate of contract price. As a minimum, your research, should consider the following data sources:

- 1.2.1 - [Historical Pricing Data For Market Research](#)
- 1.2.2 - [Published Data For Market Research](#)
- 1.2.3 - [Market Research Data From Buyers And Other Experts](#)
- 1.2.4 - [Market Research Data From Prospective Offerors](#)
- 1.2.5 - [Market Research Data From Other Sources](#)

Factors to Consider in Researching the Market. Each time you conduct market research the process will be different because of differences in Government requirements, market conditions, and other factors. The following table identifies research factors and outlines the type of questions that you should be able to answer when you complete your market research. Not all of the questions identified in the table will be valid for every acquisition. For some acquisitions, you will have many specialized questions that are not covered in the following table. However, the research factors identified and the related questions provide a good framework for your market research.

Pricing Factors to Consider in Market Research

Research Factor	You Should Be Able to Answer Questions Such As...
Pricing History	<ul style="list-style-type: none">• What information is available concerning past prices paid for the product and changes in the product or market since then?• Have there been historic differences between prices paid by the Government vis-à-vis other buyers? Why?
Current Competitive Conditions	<ul style="list-style-type: none">• How many sellers are in the market?• How many buyers?
Current Overall Level of Demand	<ul style="list-style-type: none">• What is the relationship of the quantity we intend to buy vis-à-vis the quantities that others buy?• Will our volume justify a lower than market price due to the seller's increased economies of scale?• Will our volume be so large as to drive the sellers to or beyond full capacity resulting in unanticipated inflation?
Trends in Supply and Demand	<ul style="list-style-type: none">• Will demand be higher or lower at the time of award than now?• Will supply capacity keep pace with demand?

Pattern of Demand	<ul style="list-style-type: none"> • Is there a cyclical pattern to supply and demand? • Would awarding six months from now result in lower prices than an immediate award? • Or would it be better to stock up now at today's prices?
Other Market Forces Expected to Affect Contract Price	<ul style="list-style-type: none"> • What forces might drive up prices in the near future? Strikes? Labor shortages? Subcontractor bottlenecks? Energy shortages? Other raw material shortages? • What forces might lead us to expect lower prices in the future?
Pricing Strategies	<ul style="list-style-type: none"> • What are the pricing strategies of firms in the market? • What are the implications for expected prices?
Sources of Supplies or Services	<ul style="list-style-type: none"> • Which firms in the market are the most likely to submit offers to a Government solicitation? • Which are the least likely and why?
Product Characteristics	<ul style="list-style-type: none"> • What features distinguish one product from another? • Which commercial products match most closely with the Government requirements document (as it currently reads in the purchase request). • What is the apparent tradeoff between features and price?
Delivery/ Performance Terms	<ul style="list-style-type: none"> • What are the current distribution channels? • What are current transportation costs (if available and applicable)? • What are the commercial lead-times?
Ownership Costs	<ul style="list-style-type: none"> • What are the commercial warranty terms and conditions (if any)? • What are the historical repair costs for each product? • What are the historical maintenance costs for each product?
Contract Terms and Conditions	<ul style="list-style-type: none"> • What terms and conditions are used in commercial transactions? • What terms and conditions have been used in other Government acquisitions? • What type of contract is generally used in commercial transactions? Government acquisitions?
Problems	<ul style="list-style-type: none"> • What has been the historical default rate by firms performing similar contracts? • What performance problems have typically been encountered?

- Have similar acquisitions been characterized by claims or cost overruns?
-

1.2.1 Historical Pricing Data For Market Research

Prior to contracting, [FAR 7.103\(l\)](#) requires the contracting officer to review:

- The acquisition history of the supplies and services; and
- A description of the supplies, including, when necessary for adequate description, a picture, drawing, diagram, or other graphic representation.

One of the reasons for this requirement is to ensure that prior prices are considered in estimating the proper price of the current acquisition. However, you must also remember that information from Government historical price data bases provides a picture of what happened in the past. You must integrate this information with information from other market research to enhance the accuracy of your price estimate.

Sources of Acquisition Histories. Acquisition histories can be found in many sources. Typically, the best sources are contract files, computerized acquisition data files, and manual item records.

Contract Files. Usually, the best source of information on past pricing decisions is the original file of the contract action. Detailed information, and the rationale used to determine price reasonableness should be available in the file.

Computerized Acquisition Data Files. Computers provide immediate access to the data considered most important to purchase decision making. While computer data files may not be as complete as purchase files, they do provide key data in a form that can be used by the buyer in a timely fashion.

Manual Item Records. Manual item records typically provide data similar to that contained in computerized acquisition data files.

Researching Historical Acquisition Pricing Information. Historical prices are an excellent source of market information. Research of historical market information can tell you a lot about the acquisition situation for the product at some point or points in the past. For that information to be useful, you must be able to determine what the market situation was in the past and how it has changed since then. The following table presents research elements that you should consider in your examination of historical acquisition information and questions that you should consider in your research.

Historical Acquisition Data for Pricing

Research Element

You Should Be Able to Answer Questions Such As...

Trends in Supply and Demand	<ul style="list-style-type: none"> • When did past acquisitions take place? • Is there any indication of prevailing market conditions at that time?
Pattern of Demand	<ul style="list-style-type: none"> • What quantities were solicited for each acquisition? • What quantities were acquired?
Trends in Prices	<ul style="list-style-type: none"> • What was the contract price? • How did the unsuccessful offers compare with the successful offer?
Start-up Costs and Pricing Strategy	<ul style="list-style-type: none"> • Did the contract price include one-time engineering, tooling, or other start-up costs? • Should future contracts include similar or related costs? • Were necessary start-up costs paid for in a manner separate from the price for the item or service?
Sources of Supplies or Services	<ul style="list-style-type: none"> • How many sources were solicited for the prior acquisition? • What specific sources were solicited? • How many sources offered bids or proposals? • What specific sources offered bids or proposals?
Product Characteristics	<ul style="list-style-type: none"> • Are there any significant differences between the Government requirements documents for the prior contract and the current requirements?
Delivery/ Performance Terms	<ul style="list-style-type: none"> • What was the delivery or performance period in days, weeks, months, or years? • In what month(s) were the supplies to be delivered or the service to be performed? • Did the vendor meet the delivery targets? • What was the FOB point? • Was premium transportation required for timely delivery?
Ownership Costs	<ul style="list-style-type: none"> • What costs of ownership were associated with the acquisition?
Acquisition Method	<ul style="list-style-type: none"> • What acquisition method was employed for past acquisitions?
Contract Terms and Conditions	<ul style="list-style-type: none"> • What were the general terms of past contracts? • Are there any significant differences between terms of the last contract (including packing requirements, type of contract, and the like) and those recommended for this acquisition?

Pubs	No	Rarely	No	No	No	Yes	No	No	No
Yellow Pages	Yes	Yes	No	No	No	Yes	No	No	No
Thomas Register									
Govt or Independent Testing	Yes	No	No	No	No	No	No	Yes	No
	Yes	No	No	No	No	No	No	Yes	No
Qualified Products Lists									
Underwriters Laboratory									
Federal Supply Schedules	Yes	Often	Yes	Yes	Yes	Yes	Often	Yes	Yes
Govt Economic Data	No	No	No	No	No	No	No	No	Yes
Non-Govt. Economic Data	No	No	Some Do	No	No	No	No	No	Yes

1.2.2.1 Manufacturer And Dealer Catalogs

Catalogs are familiar sources of data that can be found in both department stores and mail order houses. The manufacturer and dealer catalogs used in Government purchasing resemble these catalogs in the type of information they provide. **[These catalogs can often be found on the company's website.]** Typical data you can find in manufacturer and dealer catalogs include:

- Product descriptions
- Pictures
- Prices and quantity discounts
- Minimum order requirements
- Delivery data

- Points of contact for quotes and orders
-

1.2.2.2 Product Brochures And Promotional Material

Brochures and promotional material provide much greater detail about specific products than would normally be included in a catalog with several thousand other products. [**This type of material may also be available on the company's website.**] While details on pricing and delivery are often included, this information may be excluded in order to provide greater latitude in negotiating the terms of sale.

The following are typical data you can find in product brochures and promotional material:

- Detailed specifications
 - Pictures
 - Available service guarantees and products
 - Points of contact for quotes and orders
 - Pricing information
 - Delivery data
-

1.2.2.3 Trade Journals

Trade journals provide a variety of information from different sources, including advertisements, product evaluations, and independent articles.

Trade Journal Data Sources.

Advertisements typically consist of product descriptions, often with pictures and comparisons with competitor's products. Sources to consult for additional information may also be identified.

Product evaluations provide independent information to members of the trade who may be considering the purchase of that product or a similar one. Evaluations usually deal with technical capabilities, but often include information on source locations, pricing, and warranties.

Articles about the trade may indirectly provide an independent analysis of product capabilities. Successes or failures in using particular products or services serve as evaluations of their quality.

The table below gives an overview of typical data you can find in trade Journals.

Data Source	Typical Data
Advertisements for Products Used in the Trade	<ul style="list-style-type: none"> • General product descriptions • Pictures • Comparisons with competitive products • List prices
Independent Product Evaluations	<ul style="list-style-type: none"> • Strengths and weaknesses of products • Warranty or guarantee provisions • Comparisons with competitive products • Pricing information
Articles	<ul style="list-style-type: none"> • Application of existing products to problem solving • Strengths and weaknesses of products in problem solving

1.2.2.4 - Government Or Independent Testing

Product testing by Government or independent laboratories can provide essential product data. The data can be used to determine if a product meets minimum requirements and to identify and compare similar products.

Qualified Products Lists ([FAR 9.201](#) and [9.202\(c\)](#)). Successful testing of a product, by the Government may result in inclusion of that product on a Qualified Products List (QPL). A QPL is a listing of products which have been examined, tested, and have satisfied all applicable Government product qualification requirements. When a QPL applies to a particular product, all potential offerors must either be on the list or demonstrate to the satisfaction of the contracting officer that their product meets or can meet QPL standards before the date set for contract award. You can also use QPLs to identify potential sources for similar products.

Underwriters Laboratory. The best known independent testing laboratory is [Underwriters Laboratory \(UL\)](#). Testing and approval by UL is essential for a wide variety of electrical products.

The table below gives an overview of typical data you can obtain from product standards and testing laboratories.

Data Source	Typical Data
Qualified Products Lists	Results of product tests to Government requirements
Underwriters Laboratory (UL)	Results of tests of electrical products to UL

1.2.2.5 Source Identification Publications

There are thousands of publications designed to assist you in locating possible sources of product information. The most widely accepted of these are the [Yellow Pages](#) and the [Thomas Register of American Manufacturers](#).

Yellow Pages. Every city, large or small, has a telephone book with an associated Yellow Pages. Larger cities and metropolitan areas typically have one or more Commercial Yellow Pages and Business Yellow Pages. Many firms advertise in both types, but the business Yellow Pages specialize in the business and industrial products that are more relevant to Government acquisition. Both Commercial and Business Yellow Pages identify firms by the products or services that they provide. Listings may even include pictures of major products.

The Thomas Register of American Manufacturers. The Thomas Register of American Manufacturers, commonly referred to as the Thomas Register, devotes 23 volumes to assisting commercial buyers identify potential product sources. The volumes are divided into four sections:

- Products and Services -- companies listed by product or service.
- Company Profiles -- capabilities and contact information are presented for listed firms.
- Catalog Files -- detailed product information, specifications, drawings, photos, availability, and performance data.
- Inbound Traffic Guide -- intermodal guide to transportation sources.

The table below gives an overview of typical data you can find in the Yellow Pages and the Thomas Register.

Data Source	Typical Data
Yellow Pages	<ul style="list-style-type: none">• Sources of identified products and services by geographic location• Specific products within a product service category
Thomas Register	<ul style="list-style-type: none">• Sources of identified products and services• Source capabilities and contact information• Product specifications• Selected product pictures• Product availability• Product performance• Transportation sources

1.2.2.6 Federal Supply Schedules ([FAR 8.401](#) and [FAR 8.404\(a\)](#))

[The General Services Administration \(GSA\)](#) is best known for its stock program which buys, stores, and distributes a wide variety of items for use by all Government agencies. However, GSA also directs and manages the Federal Supply Schedule program that provides Federal agencies with a simplified process for obtaining commonly used supplies and services at prices associated with volume buying. GSA establishes indefinite delivery contracts with commercial firms to provide supplies and services at stated prices for given periods of time. The [Federal Supply Schedule \(FSS\)](#) program then issues Federal Supply Schedules (FSSs) that contain the information for placing delivery orders with contractors. Contracting offices can then issue delivery orders directly to the FSS contractors for the required supply or service.

The FSS provides you with sources for a wide variety of supplies and services. It is important to understand the basics for using the FSSs. Oversight organizations have found in the past that contracting officers sometimes simply compare a proposed price for a sole source item to prices posted on the FSS for similar items to determine price reasonableness. This is not sufficient, especially for larger purchases, nor does it meet the requirements for obtaining competition. Lets look at the FSS process, including specific DoD requirements.

Use of the FSSs is considered a "competitive procedure" when the procedures established by the GSA Administrator are followed. Under the existing FAR, the FSSs prices have been determined to be fair and reasonable and a separate determination of fair and reasonableness is not required except for orders of services that require a statement of work (SOW). For orders of services that require a SOW, the ordering activity is responsible for considering the level of effort and the mix of labor proposed to perform a specific task being ordered, and for determining that the total price is reasonable.

GSA has established a maximum order threshold on a Special Item Number (SIN)-by-SIN basis for each schedule contract. For all FSSs orders that exceed the maximum order threshold, ordering activities must seek additional price reductions from the schedule prices. The FAR also permits ordering activities to seek additional price reductions for orders that do not exceed the maximum order thresholds. Additional FSS ordering procedures are discussed below.

(1) For orders of supplies, and services that do not require a SOW, ordering activities are required to survey at least three schedule contractors or review the catalogs or pricelists of at least three schedule contracts before placing an order that exceeds the micro-purchase threshold. If the order exceeds the maximum order threshold, ordering activities are also required to-

(a) Review the pricelists of additional schedule contractors;

(b) Seek price reductions from the schedule contractor(s) considered to offer best value; and

(c) Place an order with the schedule contractor that provides best value.

(2) For orders of services that require a SOW over the micro-purchase threshold, ordering activities-

(a) Must develop a SOW that includes the work to be performed, location of work, period of performance, deliverable schedule, applicable performance standards, and any special requirements.

(b) Must provide the RFQ (including the SOW and evaluation criteria) to at least three schedule contractors that offer services that will meet the agency's needs.

(c) Should request that contractors submit firm-fixed prices to perform the services identified in the statement of work.

(3) For orders of services that require a SOW over the maximum order threshold, the ordering activity is required to-

(a) Provide the RFQ (including the SOW and evaluation criteria) to additional schedule contractors that offer services that will meet the needs of the ordering activity. To determine the appropriate number of additional schedule contractors to provide the RFQ to, ordering activity are advised to consider the complexity, scope and estimated value of the requirement and the market search results.

(b) Seek price reductions.

(c) Further, ordering activities are required to provide the RFQ (including the SOW and evaluation criteria) to any schedule contractor who requests a copy of it and evaluate all responses received.

Additional DoD FSS Ordering Procedures (DFARS 208.405-70). DoD policy requires each order exceeding \$100,000 to be made on a competitive basis. An order is placed on a competitive basis only if the contracting officer provides fair notice of the intent to make the purchase, including a description of the supplies to be delivered or the services to be performed and the basis upon which the contracting officer will make the selection, to-

(1) As many schedule contractors as practicable to reasonably ensure that offers will be received from at least three schedule contractors that can fulfill the requirements, and the contracting officer receives offers from at least three contractors that can fulfill the requirements; or

(2) All contractors offering the required supplies or services under the schedule.

(3) All offers received must be fairly considered. These requirements apply to orders placed by DoD and non-DoD agencies placing orders on the behalf of DoD. In December 2006, the SARA panel cited the DoD competition policy as a "best practice" and recommended that the policy be adopted government-wide.

Other Related Matters. On December 6, 2006, DoD and GSA established a Memorandum of Agreement (MOA) to identify the roles and responsibilities of DoD and GSA for the FSSs. As a part of the MOA, an action plan was established, in part, to improve the pricing of DoD orders on the FSSs. Specifically, the plan includes actions to ensure-

(1) Price reasonableness determinations are completed on every contract or order placed by or on the behalf of DoD.

(2) Pricing on GSA contract vehicles and the services it provides represents the best value on a contract/order basis.

(3) Adequate price competition is obtained for contracts or orders either issued by or on the behalf of DoD in accordance with statutory and regulatory requirements.

(4) In addition, the plan requires GSA to perform comprehensive reviews of targeted GSA schedules to ensure competitive market pricing has been established and to conduct a follow-on review of compliance with DoD competition requirements including Section 803 of the 2002 National Defense Authorization Act.

[GSA Advantage](#) GSA Advantage is an electronic on-line shopping mall maintained by the General Services Administration to support Government operations. With GSA Advantage, you can instantly obtain a wide variety of product information that you can use in pricing the same or similar products. Research capabilities include:

Browsing or searching for items using key words, part numbers, National Stock Numbers, or vendor names;

Comparing features, prices, and delivery options; and

Configuring products and adding accessories.

The following gives an overview of typical data available in FSS including FSS available published from GSA Advantage:

Product descriptions

Pictures

Pricing and discount information

Delivery/performance terms

1.2.2.7 - Government Economic Data

The Federal Government develops and publishes large amounts of economic data. Much of this information is used to make national economic decisions. It is valuable to buyers attempting to develop preliminary price estimates, because knowledge of the economy and market forces is vital.

Data are published by several Government departments and bureaus. The best known sources include:

- [Department of Agriculture](#)
- [Department of Commerce](#)
- [Bureau of Labor Statistics \(BLS\)](#)
- [Federal Reserve System](#)
- [Congress](#)

Index Numbers. Specific price comparisons, known as price index numbers, are particularly useful in making price comparisons over time. You can use price index numbers to adjust the price for any purchase or sale of a particular product at any time, to estimate the contract price for your current requirement. You can even make comparisons using information from several acquisitions involving several different vendors.

You can use indexes routinely published by the Government or you can tailor indexes to fit your particular needs. The organizations that prepare Government indexes may even be willing to construct a special price index to meet your estimating needs, if the need for the index justifies their cost of developing it.

Probably the best known Government index is the [Consumer Price Index \(CPI\)](#), an index published by the Bureau of Labor Statistics. You may be able to use the CPI to evaluate price changes related to labor and labor intensive products. However, the index most commonly used by Government buyers is the [Producer Price Indexes \(PPI\)](#), another index published monthly by the Bureau of Labor Statistics. You can use the PPI to monitor and estimate price changes for products traded at the wholesale level.

The table below gives an overview of indexes and other data available from various Government departments and bureaus.

Data Source	Typical Data
Department of Agriculture	Agricultural Price Monthly --Monthly agricultural price information by commodity
	Agricultural Statistics -- Annual agricultural commodity information including price data

[Department of
Commerce](#)

Monthly Wholesale Trade: Sales and Inventories -- Monthly data on wholesale trade and inventories

Current Industrial Reports -- A series of periodic reports on production and consumption in identified industries

Consumer Price Index -- Monthly report on changes in the prices paid by urban consumers for a fixed market basket of consumer goods and services

[Bureau of
Labor
Statistics](#)

Producer Price Index -- Monthly report on the selling prices received by domestic producers of goods and services

Employment Cost Index -- Monthly report on the change in the cost of labor, free from the influence of employment shifts among occupations and industries

[Federal
Reserve
System](#)

Federal Reserve Bulletin -- Monthly economic indexes and business data

The Beige Book -- Summary of comments on current economic conditions received from business and other contacts outside the Federal Reserve

1.2.2.8 Non-Government Economic Data

There are a number of non-Government sources of economic and market data, including:

- Purchasing organizations;
- Commodity or industry publications; and
- Economic analysis services.

Purchasing Organizations. The most noted purchasing organization that publishes market data is the [Institute for Supply Management \(ISM\)](#). The ISM provides members with monthly information on market price trends and product availability. Data are based on the actual experience and projections of purchasing managers throughout the country.

Commodity or Industry Publications. Numerous commodity and industry publications provide specific market data. Periods of publication and the information presented vary.

Economic Analysis Services. Commercial economic analysis services have also been established to provide estimators with current analyses of general market conditions and price trends. Currently, the economic analysis service most widely accepted by Government purchasing organizations is Global Insights, Inc. A number of Government agencies contract with Global Insight which gives them access to Global Insight's economic analysis and forecasts. Global Insight, and similar companies provide a variety of services. As the timeliness and amount of information increases, the price also increases.

Data from Non-Government Economic Sources. The table below gives an overview of typical economic and market data that you can obtain from various non-Government sources.

Data Source	Typical Data
Purchasing Organizations	<p>Manufacturing NAPM Report on Business -- Monthly information on business activity, new orders, backlog of orders, supplier deliveries, and prices</p> <p>American Metal Market -- Daily information on the metals industry from scrap and precious metals including prices</p> <p>Black's Guide -- Periodic information on commercial and industrial real estate leasing in key U.S. metropolitan areas</p>
Commodity or Industry Publications	<p>Chemical Marketing Reporter -- Weekly information on market indexes, current prices, and price changes</p> <p>Platt's Oilgram Price Report -- Daily information on current oil prices</p> <p>Pulp and Paper Week -- Weekly information on paper industry prices, economic conditions, and technology</p> <p>Random Lengths-- Weekly information on prices of wood products</p>
Economic Forecasting Services	<p>Standard & Poor's DRI Cost Information Service -- Information and forecasts for more than 650 prices and wages in North America, Europe, and the Pacific Rim</p>

Buyers and other experts are important sources of market information. This is especially true when they have been involved in the acquisition of the same or similar items. They can refer you to official contract files that you may not otherwise find and they can provide tips and insights that may not appear in official files.

Data from Government Personnel Examples of Government personnel who can provide information useful in pricing include:

- Buyers;
- Contract administrators;
- Technical experts, and
- Auditors

The table below gives an overview of typical data you can obtain from Federal Government buyers and analysts.

Data Source	Typical Data
Buyers	<ul style="list-style-type: none"> • Information on purchases of the same or similar products • Identification of potential sources • Information on the capabilities of sources already identified
Contract	<ul style="list-style-type: none"> • Information on purchases of the same or similar products

Administrators	<ul style="list-style-type: none"> • Information on the capabilities of sources already identified • Contractor performance assessment review data
Technical Experts	<ul style="list-style-type: none"> • Identification of potential sources • Information on the capabilities and efficiency of sources already identified • Identification of price drivers in the Government requirements
Auditors	<ul style="list-style-type: none"> • Information from prior audits, including rate and other cost trends • Information from contractor compensation reviews

Data from Personnel Outside the Government. Buyers and other experts from industry, state and local governments can also provide useful information, particularly for common supplies and services. The information that you can gather will depend on the personnel involved. For example, a buyer from outside the Federal Government can provide the same type of information that you would expect to receive from a Government buyer. However, the amount and types of data that you can gather depends largely on the willingness of the source to release what is often considered proprietary data.

Collecting Information. Information can be gathered in several ways. The two most common methods are interaction at professional meetings and specific questions or surveys.

- **Professional Meetings and Presentations.** Discussions at professional meetings and presentations are a good way to gather general information on purchasing particular categories of supplies and services. Professional organizations such as the National Contract Management Association and the National Association of Purchasing Managers actively encourage such professional development.
- **Telephone Surveys.** Telephone surveys can also provide useful information on potential sources in the area. Both government and non-government experts are usually anxious to respond to questions from fellow professionals. However, be aware that proprietary data restrictions may prevent many responses.

1.2.4 Market Research Data From Prospective Offerors

Encourage Early Exchanges ([FAR 15.201\(a\)](#)) Potential offerors are a good source of information of market information for planning purposes. Early exchanges of information between potential offerors and members of the Government Acquisition Team can identify and resolve concerns regarding the acquisition strategy, the Government requirement, proposal instructions, offer evaluation criteria, reference documents, and other industry concerns.

Techniques to Promote Early Exchanges When draft Request for Proposals are released, they should be complete as possible, including factors for evaluation and price. Without this level of detail, offerors do not have sufficient insight into the Government's plans for the solicitation to be able to provide meaningful feedback. Techniques to promote early exchanges of information include:

- **Industry or Small Business Conferences.** Many industries sponsor periodic conferences to share information on technical achievements and business practices.
- **Public Hearings.** Government personnel can use public hearings to disseminate information about projected Government requirements. Prospective offerors and other interested parties can ask questions and provide input to the acquisition decision makers.
- **One-On-One Meetings.** Any meetings with prospective offerors that are substantially involved with potential contract terms and conditions should include the contracting officer.
- **Presolicitation Notices.** The notice may be used as a preliminary step in preparation for a negotiated acquisition. Issue the notice to potential sources and synopses the notice in accordance with FAR 5.2.
- **Draft Requests for Proposals.** Distributing a draft of the proposed solicitation in as complete a form as possible will provide prospective offerors an opportunity to comment on specific requirements that may unreasonably restrict competition or favor one firm over other firms in the industry.
- **Requests for Information.** A request for information (RFI) may be used when the Government does not presently intend to award a contract, but wants to obtain price, delivery, or other information for planning purposes. Responses to an RFI are not offers and cannot be accepted by the Government to form a binding contract. Agency approval may be required before issuing an RFI.
- **Presolicitation or Preproposal Conferences.** When you use a preproposal or presolicitation conference, materials distributed at the conference should be made available to all potential offerors, upon request.
- **Site Visits.** Visits to contractor plants or proposed sites of Government contract performance can facilitate information exchange.

Public Disclosure of Information. When specific information about a proposed acquisition that would be necessary for proposal preparation is disclosed to one or more potential offerors, that information must be made available to the public as soon as practicable, but no later than the next general release of information, in order to avoid creating an unfair competitive advantage. Information provided to a potential offeror in response to that offeror's request must not be disclosed if doing so would reveal the potential offeror's confidential business strategy.

The table below gives an overview of typical data available from these various mechanisms for exchanging information with prospective offerors.

Data Source

Typical Data

Industry Or Small Business Conferences	<ul style="list-style-type: none"> • General information about industry capabilities and business practices
Public Hearings	<ul style="list-style-type: none"> • Industry feedback on projected Government requirements
One-On-One Meetings	<ul style="list-style-type: none"> • Individual company feedback on ways and means to meet Government requirements
Presolicitation Notices	<ul style="list-style-type: none"> • Expressions of potential offeror interest in the contemplated acquisition • Information on potential offeror's management, engineering, and production capabilities • Other preliminary information based on a general description of the supply or services involved
Draft Request For Proposal	<ul style="list-style-type: none"> • Comments on requirements that will unreasonably restrict competition and increase price • Comments on unreasonably complex or potentially biased evaluation criteria
Request For Information	<ul style="list-style-type: none"> • Comments on quantity breaks for discounts • Comments on delivery terms • Information on market conditions affecting the proposed solicitation • Comments on the proposed requirement
Presolicitation Conferences	<ul style="list-style-type: none"> • Information on uncertainties that may drive up prices • Information on noncommercial requirements that may drive up prices • Information on other aspects of the requirement that may limit competition or affect pricing
Site Visits	<ul style="list-style-type: none"> • Plant site visits may provide information on industry methods and capabilities • Prospective offeror visits to Government contract performance sites may provide unique insights into factors that will affect contract price and performance

1.2.5 Market Research Data From Other Sources

Other important sources of market data include trade and professional associations, state and local watchdog agencies, and interactive on-line communication groups.

Trade and Professional Associations. Trade and professional associations can provide information about sources, source responsibility, commercial standards, and cost drivers.

Chamber of Commerce and Better Business Bureau. Professional organizations devoted to business development and the maintenance of responsible business practices, such as the Chamber of Commerce and Better Business Bureau, can provide substantial information on pricing, available competition, and the responsibility of identified sources.

State and Local Watchdog Agencies. State and local watchdog agencies can provide information on the capabilities and pricing of sources, particularly sources accused of price gouging or poor performance.

1.3 - Using Market Research To Estimate Probable Price

This section covers the following topics:

- [1.3.1 Evaluating Your Market Research](#)
- [1.3.2 Developing Your Price Estimate](#)

Use Market Research to Estimate Probable Price. As you perform your market research, document the sources of information that you considered and what you found. Consider how you can increase competition that includes firms that commonly sell the same or similar items in the commercial market. At the same time, consider how current requirements, particularly Government-unique requirements will affect competition and contract price. Generally, both tasks will focus on the same requirements, because requirements that unnecessarily limit competition will also unnecessarily increase contract price.

1.3.1 Evaluating Your Market Research

Questions to Consider in Evaluating Your Research. The better your research, the more reliance you should be able to place on the price estimate that you develop from that research. The list below contains questions that you can use to evaluate the quality of your market research. Note that there may be some acquisitions where a particular question does not apply. For example, the first question deals with the use of historical price. If the Government has never acquired the product or a similar product, this question would not apply in your evaluation of estimate quality.

Factors to Consider in Developing an Estimated Price

In preparing your price estimate, have you considered:

- Historical prices paid for the product and changes in the product or market since then?
- The current level of competition between prospective offerors and how it will affect contract price?
- How increasing or decreasing the quantity being acquired would likely affect contract price?
- How changing the timing of the acquisition would likely affect contract price because of projected trends in supply or demand?
- How changing the timing of the acquisition would likely affect contract price because of projected cyclical changes in supply or demand?
- How other forces are expected to affect prices in the near future?
- How the pricing strategies of prospective offerors will affect contract price?
- Which firms in the market are expected to respond to the solicitation and how their prices compare with the firms that are not expected to respond?
- Whether the requirements document will unnecessarily increase prices proposed by offerors?
- Whether delivery/performance requirements will unnecessarily increase prices proposed by offerors?
- Whether different products from different vendors will have different costs of ownership?
- Whether contract terms and conditions will unnecessarily increase prices proposed by offerors?
- Ways to improve the risk related to problems associated with performance of similar contracts?

Evaluating Your Research. If you can answer "Yes" to all the questions in the list above, you have done an excellent job of market research for estimate development. When you must answer "No," your research is incomplete. For smaller dollar acquisitions, an incomplete evaluation may be acceptable as long as the evaluation covers the factors that you feel are most likely to affect contract price. However, as the estimated price increases, the need for in-depth research also increases.

1.3.2 Developing Your Price Estimate

Different Data, Different Estimates. As you perform your market research, you will likely find different data that could lead you to different preliminary estimates of contract price. Using the price that you paid for the item 11 months ago, your estimate might be \$19,700. If you use the last price paid for the item plus 4 percent inflation your estimate might be \$20,488. The catalog price for a similar item from a commercial vendor might be \$19,750. The catalog price for a comparable item from a second vendor might be \$19,900.

Consider Various Estimates. Which estimate is correct? There is no one answer. They all appear to be valid estimates based on the information used to develop them. This

demonstrates a common situation -- there is no single estimate that you can say is right to the exclusion of all other estimates. In fact, they define a range of reasonable prices from \$19,700 to \$20,488.

You could document the various estimates in a paragraph or in a table similar to the following:

Preliminary Estimate of Contract Price

Price Estimate	Estimating Rationale
\$19,700	Estimate based on the price determined fair and reasonable 11 months ago under contract XX-9X-XXXX.
\$20,488	Estimate based on the price determined fair and reasonable 11 months ago under contract XX-9X-XXXX plus 4 percent inflation estimated using the Producers Price Index for similar items.
\$19,750	Estimate based on current FloMo Systems catalog price for the quantity required.
\$19,900	Estimate based on current Acme Products catalog price for the quantity required.

Point Estimate. Given this same information, different estimators could have different opinions as to which of these estimates you should use as your preliminary price estimate. That is one reason why it is so important to present the range of possible estimates and the rationale for each. However, in this case an estimate of \$19,750 appears most reasonable because it is based on a current catalog price. Remember, the lower \$19,700 estimate is 11 months old.

Contract Type and Risk. Estimators must consider the impact of contract type and resulting performance risk to contractors when estimating future costs and price, whether estimates are based on historical or market data or whether estimates are based on the judgment of qualified estimators. For example, sound estimating practices would include probable impacts of performance risk in estimates prepared under a fixed price contract. Performance risk at the pre-proposal and proposal preparation stage of the acquisition cycle is analogous to estimating uncertainty. In this context, risk associated with future performance must be evaluated by estimators in terms of the potential for variability of performance under a resulting fixed price contract arrangement and include, as appropriate, estimated costs associated with mitigating risk and the impact of the probable occurrence of risk. Prudent estimators will perform a risk assessment in conjunction with development of estimates to evaluate those presently known and existing conditions and their foreseeable effects on future performance such that, and within reasonable limits of estimating accuracy, estimates of future costs reflect the best estimate of performance cost and resulting price to the government. ([FAR 16.103\(a\)](#), [FAR 31.205-7](#))