

CONTRACT PRICING MATH FORENSICS

THE WHAT, THE HOW, AND SOME
(SHHHH!) SECRETS

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ATLANTA GA

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INTRO



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Welcome and purpose of the presentation

Overview of Federal Acquisition Regulation (FAR) and its role in pricing

Key objectives: Understanding pricing policies and labor cost buildup, along with some easy “secret math” for modifying Total Cost of bids

FEDERAL ACQUISITION REGULATION (FAR) OVERVIEW

FAR PART 15.404-1: **PROPOSAL ANALYSIS TECHNIQUES**

- PROVIDES GUIDELINES FOR EVALUATING PRICE REASONABLENESS
 - DEFINES METHODS SUCH AS PRICE ANALYSIS AND COST ANALYSIS
-

FAR PART 31: **COST PRINCIPLES**

- ESTABLISHES RULES FOR DETERMINING ALLOWABLE COSTS
 - COVERS DIRECT AND INDIRECT COSTS, ALLOCABILITY, AND REASONABLENESS
-

IMPORTANCE OF **COMPLIANCE** IN GOVERNMENT CONTRACTING

KEY PRICING PRINCIPLES

REASONABLENESS

COSTS MUST BE FAIR AND
PRUDENT

ALLOWABILITY

MUST MEET FAR-DEFINED
CRITERIA

ALLOCABILITY

COSTS MUST BE RELATED
TO THE CONTRACT

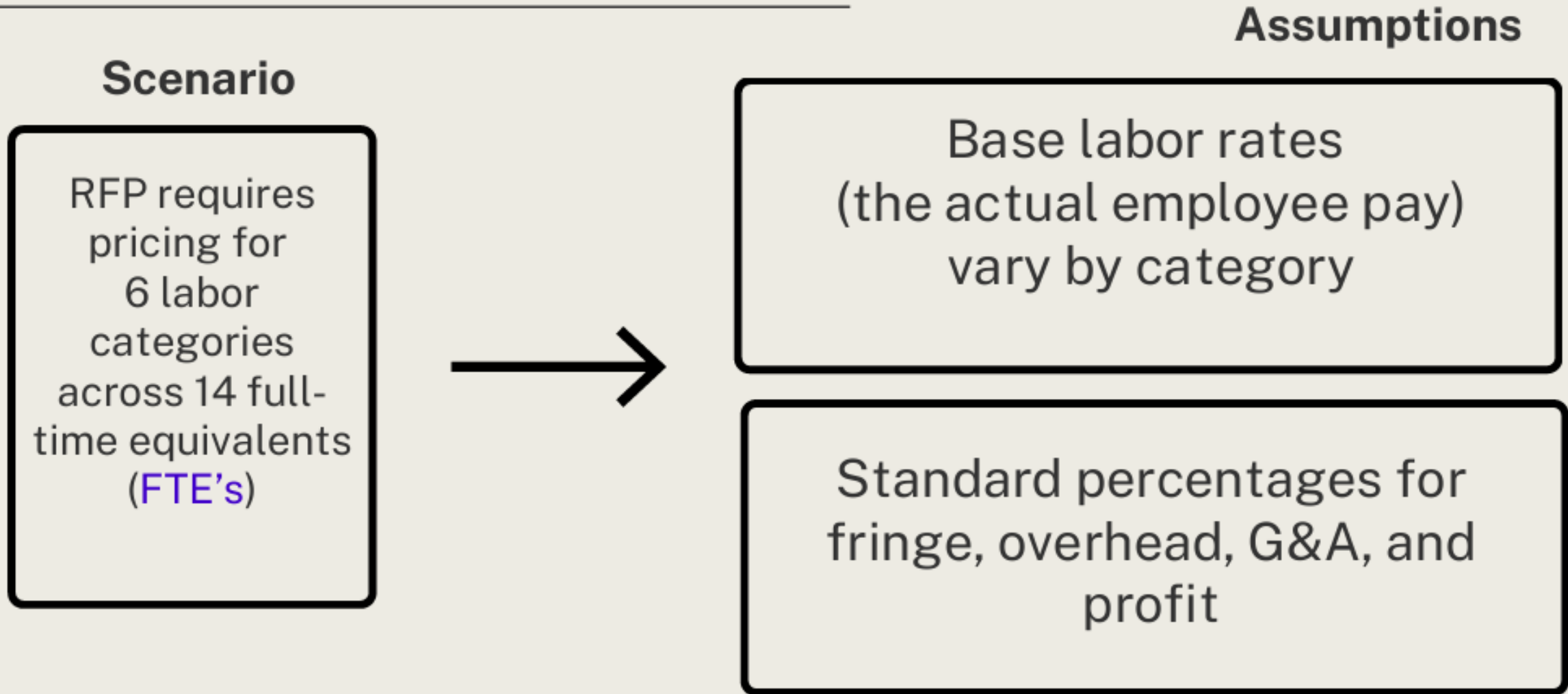
COMPONENTS OF FULLY BURDENED LABOR RATES



- 1. Base hourly rate**
- 2. Fringe benefits**
- 3. Overhead**
- 4. General & Administrative (G&A) expenses**
- 5. Profit**

EACH COMPONENT CONTRIBUTES TO
THE FULLY BURDENED LABOR RATE

Step-by-Step Example Setup



But (and here's a SECRET)

Those LCat rates & %'s can be (and perhaps should be?!) adjusted!

Base Hourly Rates and Wrap Rate

E.g., LCats & Base Pay:

1. Program Manager - \$60/hr
2. Software Engineer - \$50/hr
3. Systems Analyst - \$45/hr
4. Technical Writer - \$40/hr
5. Financial Analyst - \$38/hr
6. Administrative Assistant - \$30/hr

Wrap Rate (Assumed Rates):

Fringe Benefits: 30%

Overhead: 25%

G&A: 12%

Profit: 10%

Wrap Rate Calculation:

$(1 + \text{Fringe}) \times (1 + \text{Overhead}) \times (1 + \text{G\&A}) \times (1 + \text{Profit})$

Total Wrap Rate: $1.30 \times 1.25 \times 1.12 \times 1.10 = \mathbf{2.002}$

TOTAL COST CALCULATION

Assume each full-time equivalent (FTE) works 1912 hours per year

Labor Category	Base Rate	Fringe (30%)	Overhead (25%)	G&A (12%)	Profit (10%)	Hourly Rate	FTEs	Annual Hrs/FTE	Total Cost
Program Manager	\$60.00	\$78.00	\$97.50	\$109.20	\$120.12	\$120.12	1	1912	\$229,668
Software Engineer	\$50.00	\$65.00	\$81.25	\$91.00	\$100.10	\$100.10	3	1912	\$573,881
Systems Analyst	\$45.00	\$58.50	\$73.12	\$81.90	\$90.09	\$90.09	2	1912	\$344,560
Technical Writer	\$40.00	\$52.00	\$65.00	\$72.80	\$80.08	\$80.08	4	1912	\$612,280
Financial Analyst	\$38.00	\$49.40	\$61.75	\$69.10	\$76.01	\$76.01	3	1912	\$436,034
Administrative Assistant	\$30.00	\$39.00	\$48.75	\$54.60	\$60.06	\$60.06	1	1912	\$114,793
TOTAL COST	These %'s = Wrap Rate of 2.002						14		\$2,311,216

The total fully burdened labor cost for all positions is \$2,311,216 per year.

OPTIONS TO REDUCE TOTAL COST

SAY YOUR COMPANY BELIEVES A “COMPETITIVE BID” WOULD BE \$2.08M TO WIN THE CONTRACT
GOAL: REDUCE TOTAL COST BY 10% (\$231,122 SAVINGS)

ADJUSTMENT SCENARIOS:

- REDUCE FRINGE BENEFITS FROM 30% TO 27%
- LOWER OVERHEAD FROM 25% TO 22%
- DECREASE G&A FROM 12% TO 10%
- REDUCE PROFIT FROM 10% TO 8%

Take -away:

Adjusting the PERCENTAGES can achieve the 10% reduction.

Can do the same math with BASE HOURLY LABOR RATES.

A combination of both can “spread the pain” on company profits yet WIN!



Conclusion & Key Takeaways

Summary of the pricing structure

- Importance of compliance with FAR regulations
- Key considerations for accurate labor pricing
- “Fiddling” with the hourly labor rates and/or rates can boost ‘p-win’



**I have more contract pricing math secrets!
Ask those questions!**

QUESTIONS?

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