



Price Reasonableness FAQ

1. What is price reasonableness aka price/cost analysis?

Procurement Services strives to provide valued customer service by using best business practices in the acquisition of goods and services at the best value. We accomplish this via formal competition such as quotes, bids or proposals. When there is not formal competition, the purchasing agent must still ensure the price the University is paying is fair and reasonable.

2. Why price or cost analysis?

A price or cost analysis ensures that funds are expended in the most cost effective manner and conserves limited resources. In addition, the Colorado State University Procurement Rules mandate the performance of price cost analysis under certain conditions.

3. What is a price analysis?

In simple terms, a price analysis is a review, analysis or examination of the price proposed by a supplier and an assessment or evaluation as to whether or not it is fair and reasonable. A determination that a price is fair and reasonable is really a conclusion that the proposed price is fair to both parties, considering the quality, delivery and other factors. The basis for reaching the conclusion is found in the facts and information considered and analyzed by the purchasing agent.

4. What is a cost analysis?

A cost analysis is different than a price analysis. The major difference is that a price analysis looks at the whole price. It does not involve an examination of the individual cost elements or components that collectively comprise the seller's total price. A cost analysis actually examines the individual cost elements that comprise the total proposed price. Depending on the purchase, these elements may vary but generally include such things as labor rates, material costs, overhead or indirect rates, a cost of money factor, general and administrative expenses (G&A) and a profit or fee.

5. When do we perform a price analysis or cost analysis?

An analysis of price or cost must be done when no competition is received. Typically, this occurs when the procurement is sole source justified or when we solicit competition and receive only one response. The CSU Procurement Rules and Federal law also mandate the performance of Price Cost Analysis on procurement of goods and services over \$10,000 and up to \$50,000.

6. How does Procurement Services justify price reasonableness?

The following are examples of how the purchasing agent will substantiate price reasonableness, together with a discount (discount alone is not justifiable), in order of preference:

- a. Price competition
- b. CSU, State, GPO, or specific GSA contract pricing, or comparison with prices under these existing contracts
- c. Prior price history, within the last 18 months, with the same vendor, same items
- d. Comparison with current, or recent prices (within the last three months) for a similar item(s) with another vendor

- e. Market research, and/or catalog or established price list (sales to the general public)

7. What documentation is required for price reasonableness?

Each price analysis or cost analysis must be documented on the requisition.

	Method Used	Documentation
a.	Price competition	Comparison of quotes
b.	CSU, State, GPO or specific GSA contract pricing	Comparison with prices under these existing agreements
c.	Prior price history with the same vendor, same items	Include the KFS PO number and \$ amount paid
d.	Comparison with current, or recent prices	Comparison of quotes
e.	Market research, and/or catalog or established price list	Copy of catalog or price list, Screen shot OK,

"Just make sure you can back up what they write with listings, price histories, or other data. Back up is the key. An auditor should not have to question anything." – ONR Auditor

8. What if the item is custom-built?

We will request a cost breakdown from the vendor, including labor (hours and hourly rates), materials, overhead, G&A, and profit AND a comparison of how the charges compare to other customers.

9. What happens if only one response is received to a competitive procurement?

An analysis will be done to ensure the price is fair and reasonable.

10. I have a directed purchase letter. Is price reasonableness still a factor?

A determination of price reasonableness through price or cost analysis is required even though the procurement is source directed by the contracting officer of the sponsoring agency.

11. What happens if the price is not fair and reasonable?

If, after analysis, the purchasing agent does not feel the price is fair and reasonable, he/she will do one of the two things:

- a. Seek competition
- b. Negotiate a lower price with the vendor

12. What are some resources?

- IBISWorld (Database through Morgan Library)
<http://clients.ibisworld.com/>
- GSA eLibrary
<https://www.gsaelibrary.gsa.gov/ElibMain/home.do>
- Bureau of Labor Statistics
<https://www.bls.gov/data/>