

# Discussion Topics & References

**Mike Taylor, C.P.M.**

[mlt@mltweb.com](mailto:mlt@mltweb.com), [www.mltweb.com](http://www.mltweb.com)

## Cost & Price Principles

- A. Where do prices come from? How do suppliers decide what price to charge
- B. What is the difference between Cost and Price
  - a. Price is set by supplier to perform one of many functions; obtain new customers, meet competition, move inventory, make a profit after covering costs
  - b. Costs are the material, labor and business operation expenses invested by the supplier in producing and selling the product or service
  - c. Impact from a buyer's perspective
    - i. Price can be negotiated**
    - ii. Costs must be mitigated**
- C. Why do we care about supplier's costs?
  - a. Direct impact to the selling price
  - b. Long term impact to supply chain
- D. Costs are not created equally....
  - a. Who charges time directly to project cost and who charges to overhead?
    - i. Concerns regarding correctly accumulating, reporting and allocating costs
    - ii. Concern for duplicate and overlapping charges
- E. Indirect Cost pools
  - a. What types of expenses can be included in indirect cost pools?
  - b. Moving costs from direct-charge to a cost pool to change the competitiveness of a quotation.  
Example: Boeing Aircraft with a large material acquisition costs –selling engineering services.
- F. Extrapolation: What are direct and indirect costs?
  - a. Procuring an object
    - i. Centrifugal Pump; Valve; Fabricated Steel Box
  - b. Procuring a service
    - i. Electrical distributor ; HVAC Cleaning; Construction
- G. What information do we want to request in a solicitation? E.g Zamboni
  - i. What information do we want in the proposal?
  - ii. What do we want to know about subcontractors?
  - iii. What administrative controls do we want in the contract?
  - iv. What invoicing and closeout controls?
- H. What does it cost to do business with me?
- I. How do post-award changes impact price?
- J. Buyer provided services (GFE / GFS) What do I have the expertise or capability of furnishing/performing more cost effectively than the seller does?
  - a. How could a customer get a better price on raw materials than a manufacturer?
  - b. The green stuff – MolyD grease or food grade grease - which is a special order and way more than the contractor needs for my job.
  - c. Assist a supplier in obtaining products or services where I have more leverage
    - i. Steel for which I have an allocation but the fabricator does not
    - ii. Special tools which the supplier's work team can use to do the job in my facility.
  - d. Self-perform part of the service that I can do less expensively

- i. Backhaul from Mill & bulk chemical
  - ii. NDE inspector which I have on staff
- K. How can a product or service be more valuable to one party than the other?
  - a. How can we take advantage of that delta when formulating an agreement?
- L. Fact Finding Questions:
  - a. Do I have to buy materials in standard quantities? So I end up with more material than I need to make the current order.
  - b. Scrap value. Does the left-over or waste material have a residual value?
  - c. Labor mix – is it more cost effective to have more skilled labor at a higher price?
  - d. How detailed of an item are you talking about?
  - e. Is it a critical or non-critical cost element?
  - f. Make or buy item?
  - g. Commodity pricing and hedging
  - h. Machining cost vs subcontracting? Example: French shaft forging
  - i. Cost of special tooling vs near and long term savings
  - j. Storage constraints, volume discounts and/or variance?
- M. If the casting industry has a 25% price increase because of fuel shortages what component of the price should receive the 25% adder? Where will the seller try to add it if we are not paying close attention?
- N. What reference can we use to discover more about accounting systems and how direct and indirect cost pools work? GAAP

## References:

1. **Articles and comments by Mike Taylor**
  - a. <http://www.mltweb.com/tools/tools.htm>
2. **Handouts and presentations from workshops by Mike Taylor**
  - a. <http://www.mltweb.com/handouts/index.htm>
3. **HUD cost/price Q&A**
  - a. [www.hud.gov/offices/cpo/grantees/cstprice.cfm](http://www.hud.gov/offices/cpo/grantees/cstprice.cfm)
4. **Federal Acquisition Regulation**
  - a. <https://www.acquisition.gov/far/>
5. **NASA Cost Estimating Handbook**
  - a. [http://www.nasa.gov/pdf/263676main\\_2008-NASA-Cost-Handbook-FINAL\\_v6.pdf](http://www.nasa.gov/pdf/263676main_2008-NASA-Cost-Handbook-FINAL_v6.pdf)
6. **Society of Cost Estimating and Analysis**
  - a. [www.sceaonline.org/](http://www.sceaonline.org/)
7. **Microeconomics vs. Macro economics**
  - a. [www.tutor2u.net/economics/presentations.html](http://www.tutor2u.net/economics/presentations.html)
8. **OMB [https://www.whitehouse.gov/omb/circulars\\_index-procure/](https://www.whitehouse.gov/omb/circulars_index-procure/)**
  - a. Circular A-76 – Commercial Activities
  - b. Circular 123 – Mgmt accountability (SOX)
9. **DCAA Audit Guidance and checklists**
  - a. [www.dcaa.mil/](http://www.dcaa.mil/)
10. **DCAA CAS Standards checklist and link to standards**
  - a. <http://www.dcaa.mil/cas.html>
11. **Defense Acquisition University**
  - a. [www.dau.mil/](http://www.dau.mil/)
12. **DAU Program Managers e-Tool Kit**  
<https://pmtoolkit.dau.mil/>
13. **U.S. Dept of Labor Bureau of Labor Statistics**
  - a. <http://www.bls.gov/>