

Preparing for Negotiations

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Introduction

Welcome to Preparing for Negotiations!

You might be wondering, "How will the information in this module help me in my job as a contract specialist?"

Having analyzed the individual elements of contract cost and profit/fee, you will need to meld the results of those analyses into a single prenegotiation position on contract pricing. It is your job as a contract specialist to prepare the Price Negotiation Memorandum for use in negotiations.

This module provides information on government negotiating techniques, styles, and strategies to assist in reaching a negotiated agreement, developing a negotiation position, and creating the Price Negotiation Memorandum.



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Objectives

At the end of this module, you will be able to:

- Identify factors that contribute to success in any negotiation
- Identify key terms involved during a contract negotiation
- Identify the importance of understanding cost drivers to ensure a successful outcome
- Identify strategies to mitigate cost risk
- Identify the key characteristics of a price negotiation memorandum

Sound good? All right, let's get started!

Select Next for a high-level overview of the content that will be presented in this module.



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Overview - Price Analysis

As you work to determine your prenegotiation position, it is important to have a thorough and accurate price analysis.

Price analysis is the process of examining and evaluating a proposed price to determine if it is fair and reasonable, without evaluating its separate cost elements and proposed profit.

Cost analysis is not a substitute for effective price analysis. You should perform a price analysis whenever there is a valid base for analysis.



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Overview - Cost Drivers and Risks

Important factors to consider when determining your prenegotiation position are cost drivers and cost risk.

Common alternatives affecting contract pricing involve changes in contract cost or cost risk that are related to changes in contract schedule or other performance requirements.

Cost drivers are those aspects of proposal or contract requirements that if changed would have a major impact on contract price.

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Possible cost drivers include contract terms and conditions, delivery requirements, or technical requirements.

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Overview - Key Pricing Elements

In preparing your negotiation objective, you must establish a position on each of the key elements that will define the contract pricing arrangement.

Depending on the contract type, you may be able to restrict negotiations to total price or you may be required to negotiate agreement on several elements needed to define the pricing arrangement.

Select the graphic to the right to learn more.

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I know that key pricing elements affect the contract pricing arrangement, but what counts as a key element?



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Overview - Key Pricing Elements

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Select the graphic to the right to learn more.

I know that key pricing elements affect the contract pricing

Key pricing elements

Examples of key pricing elements include:

- Base Price
- Target Cost
- Ceiling Price
- Target Profit

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Overview - Documentation

In many contracting activities, Contracting Officers must prepare written prenegotiation memoranda to document these prenegotiation objectives.

Whether you are involved with such an activity or not, you should draft the elements of the Price Negotiation Memorandum (PNM) before negotiations.

You should also document any important aspects of the procurement situation that affected your prenegotiation objectives.

Sample Table - Prenegotiation Position Summary

Cost Element	Proposed	Objective	Difference	Reference
Engineering Direct Labor	\$1,000,000	\$900,000	\$100,000	See Para A
Engineering Overhead	\$2,500,000	\$2,025,000	\$475,000	See Para B
Subtotal	\$3,500,000	\$2,925,000	\$575,000	
G&A Expense	\$350,000	\$292,500	\$57,500	See Para C
Total Cost	\$3,850,000	\$3,217,500	\$632,500	

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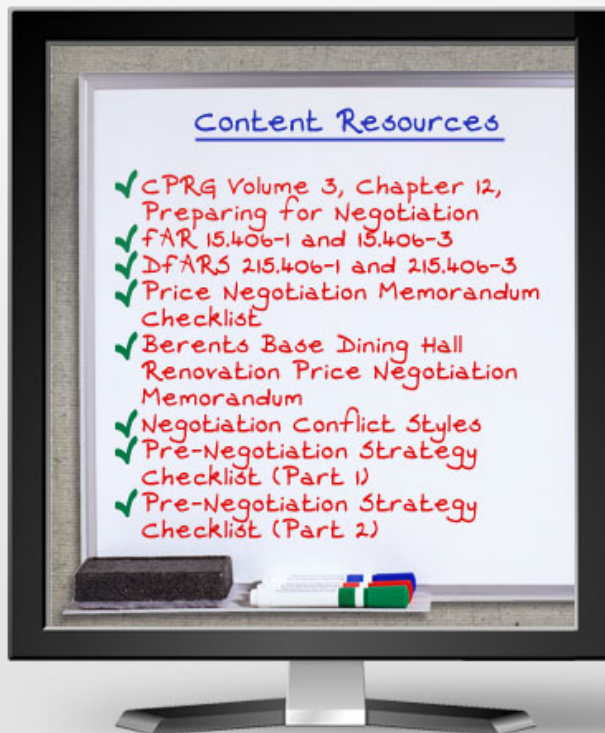
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Module Resources

Review the graphic to the right to see what specific resources are used as references for the content in this module.

It is strongly recommended that you review these resources before proceeding with the module. Doing so will put you "ahead of the game" and will help you to answer the challenge questions to come!

Select the Resources tab for links to these and other references.

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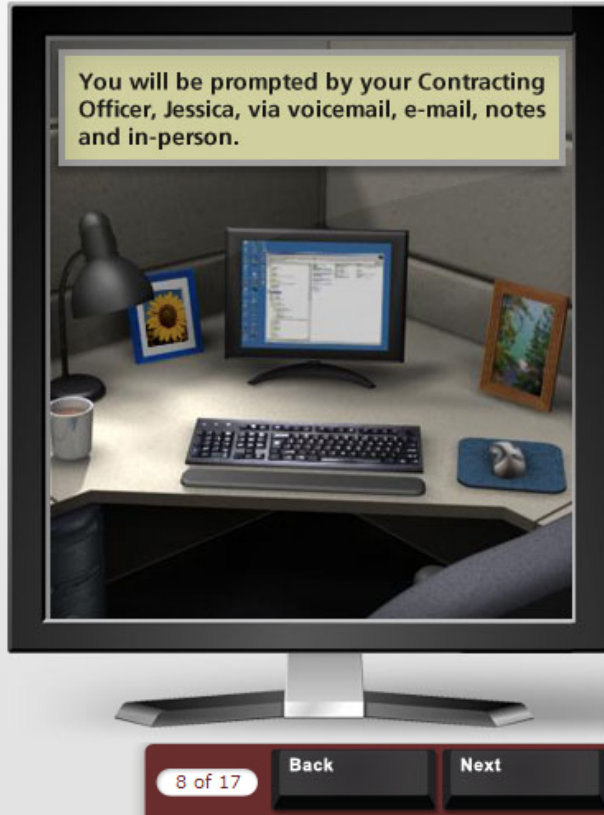
Simulation Overview

In this module, you are going to answer a series of Challenge Questions about preparing for negotiations. Do not worry if you miss a question - you will be directed to pertinent content and then given a chance to answer the question again.

Even if you get a question right the first time, it is strongly recommended that you elect to review the pertinent content by selecting the Review button. This review will help you answer the practice test questions at the end of the module.


Remember to use the Resources and Glossary tabs at any time during the simulation to access helpful information.

User Instructions: Select Next to continue.



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Are You Ready to Negotiate?

REWIND PLAY CAPTIONS


Hi, thanks for coming to see me. It has been a long road to get to this point, but you have done well in analyzing the proposal, working with DCAA

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The video player shows a woman sitting at a desk with a laptop. A blue box with white text asks 'Are You Ready to Negotiate?'. The video controls include a rewind button, a progress bar, a play button, and a captions button. The video is currently paused.

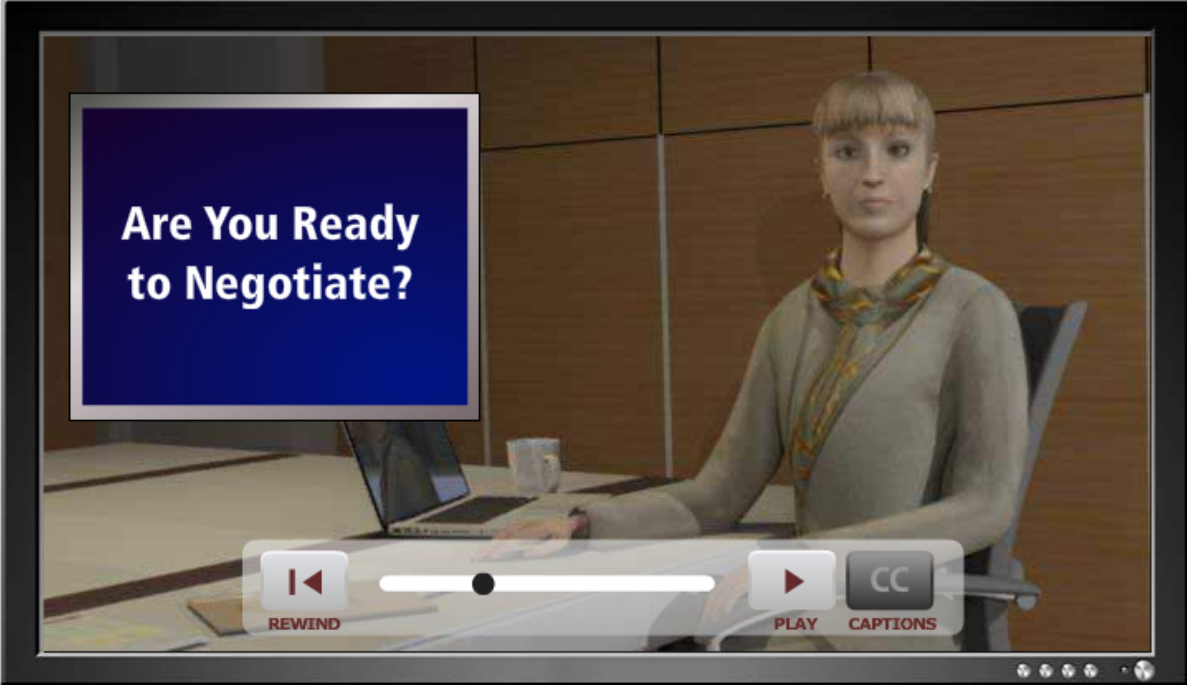
and coming up with our various negotiation positions. I want you to do just as well in the actual negotiation.

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The video player shows a woman with short blonde hair, wearing a grey sweater and a patterned scarf, sitting at a desk with a laptop and a glass of water. A blue box with white text "Are You Ready to Negotiate?" is overlaid on the left side of the video. The video player controls include a rewind button, a play button, and a captions button. A progress bar is also visible.

The FAR directs us to obtain the best value for the government. In the government this is referred to as a Win/Win negotiation strategy.

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Challenge Question #1

Which of the following are factors of most successful negotiations? Select all of the correct answers.

- ☐ A. Effectively prepare and plan
- ☐ B. Prevent disclosure of parties' interests
- ☐ C. Communicate effectively
- ☐ D. Foster team cooperation
- ☐ E. Apply good business judgment

[Check Answer](#)

User Instructions: Select the correct answers and then select the Check Answer button.

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Factors of a Successful Negotiation

Although each negotiation is unique, there are certain factors that are present in most successful negotiations.

Select each of the photos below to learn more about those factors.



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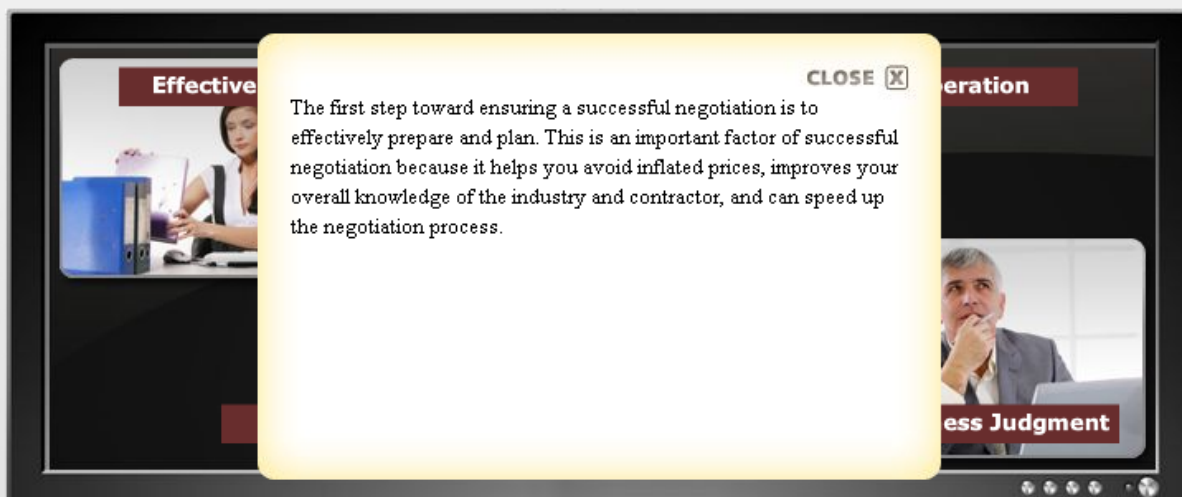
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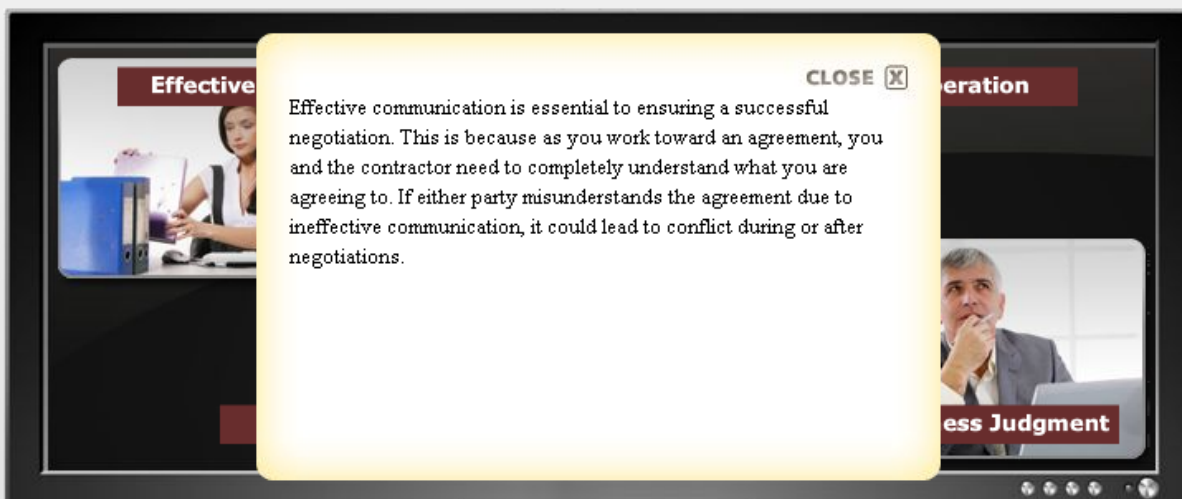
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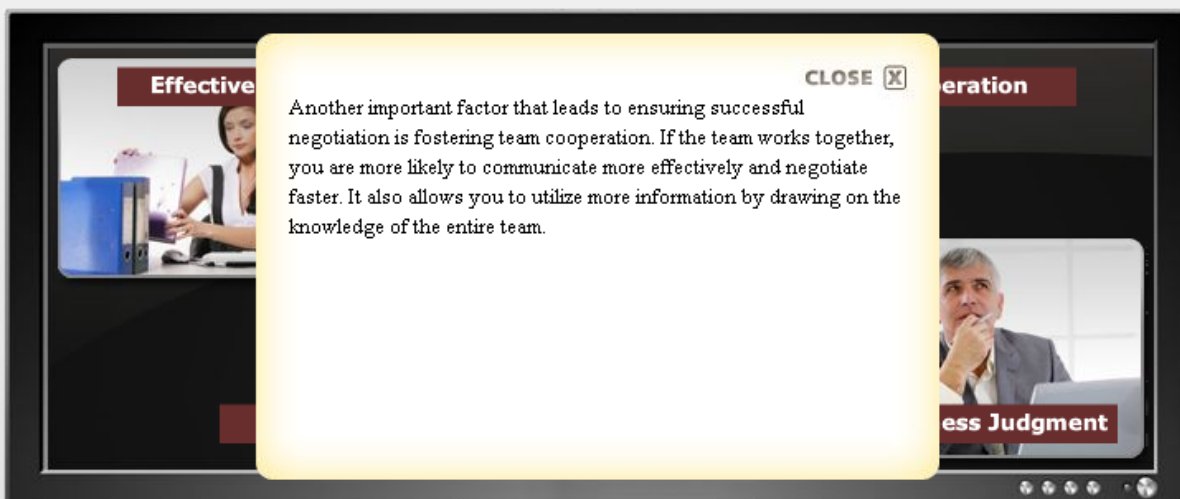
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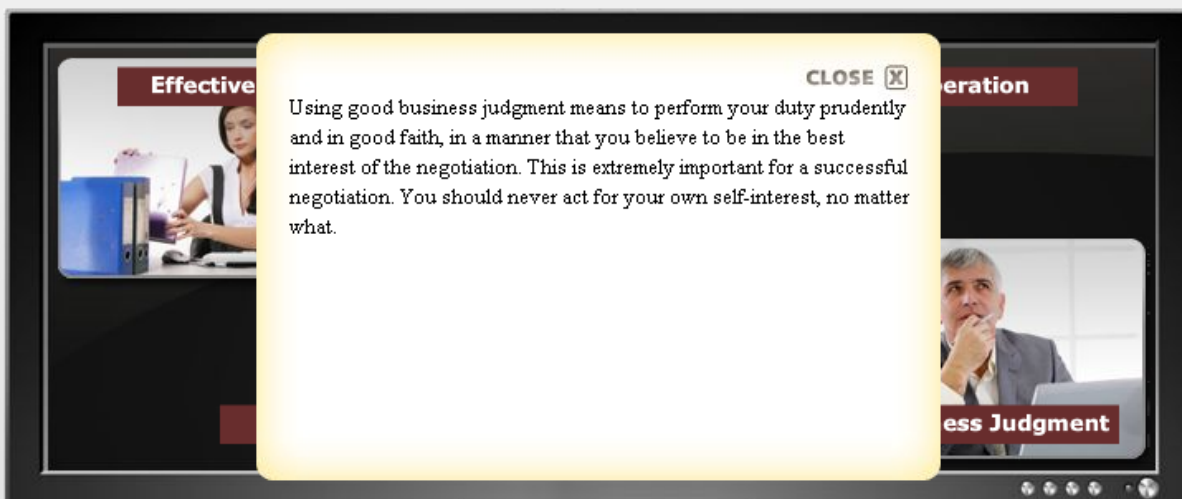
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Understanding Negotiation Styles

The first thing you need to know about negotiation style is that there is no single 'best' or 'right' approach to negotiation. The five styles of dealing with conflict can all be useful in different situations.

Though you are capable of using all five, most people tend to have one or two preferred negotiation conflict styles that are used unconsciously in most conflict situations.

You may be wondering, "Why is that?"

It is either because a preferred style has worked in the past, because of temperament (nature), or because of upbringing (nurture).

Select Negotiation Conflict Styles under the Resources tab to learn more.

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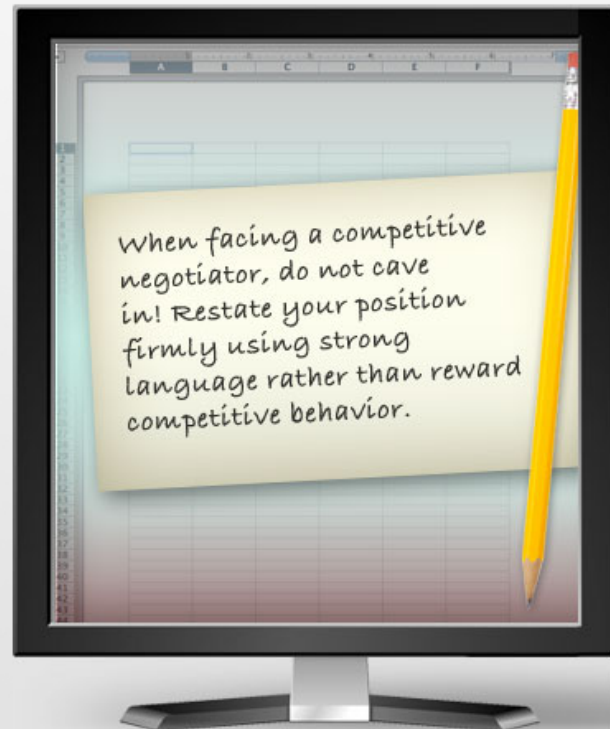
Style #1 - Competing

Competitive-style negotiators typically pursue their own needs (or their company's needs), even when this approach means others suffer. This is typically not because they want to cause others to suffer and lose; they are just narrowly focused on their shorter term gains.

These negotiators often use whatever power and tactics they can muster, including personality, position, economic threats, brand strength, or market share.

If you need to act or get results quickly, you might consider using a competitive style. Competition is critical when you are certain that something is not negotiable and immediate compliance is required.

Competition can also be an effective defense or counter balance to use against negotiators with a competitive conflict profile. Keep in mind, though, that it may be more effective to use a blended approach to avoid deadlock.



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Style #2 - Accommodating

Accommodating is a negotiation style that is the opposite of competing. For accommodating style negotiators, the relationship is everything. Accommodating profiles think that the route to winning people over is to give them what they want.

It is almost always a bad idea to **accommodate** when negotiating **against** high compete styles. With high compete negotiators, your generosity will be seen as a sign of weakness to be taken advantage of.

Giving away value early in the negotiation can leave you with a poor hand to play in the rest of the negotiation. With very little to offer, and relying upon the other side's generosity, you are gambling.

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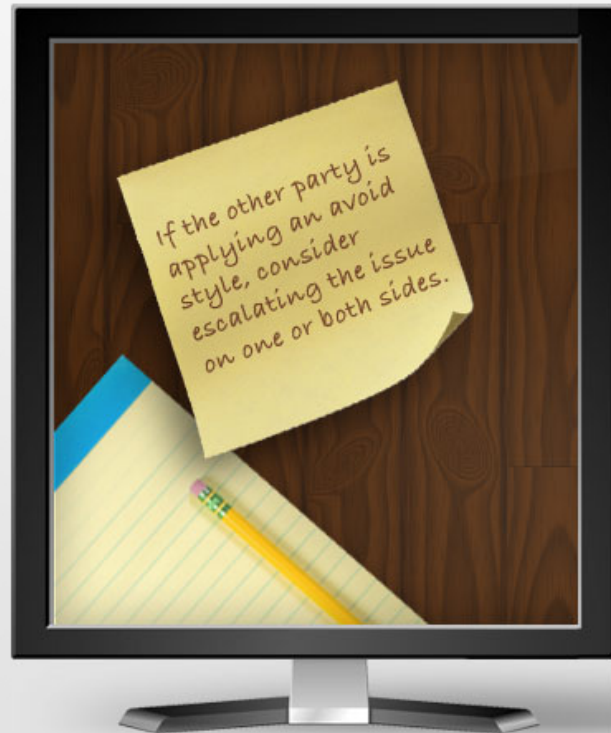
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Style #3 - Avoiding

The avoiding negotiation style is most often referred to as "passive aggressive." People who habitually use this style really dislike conflict. Rather than talk directly with you about the issue, **avoid** styles may instead try to take revenge without you knowing about it.

Avoidance should be used when there is a lot of emotion in a negotiation. It is better to allow people to calm down first so that reason and rationality can reappear. At that point, an avoid style is likely the most pragmatic alternative - suggest a timeout of 15-20 minutes.

Paradoxically, avoid profile negotiators are frequently seeking to avoid conflict - and their avoid style instead lands them in more conflict. When differences are eventually aired, emotions and negotiation positions are often more difficult and fixed than they need be.



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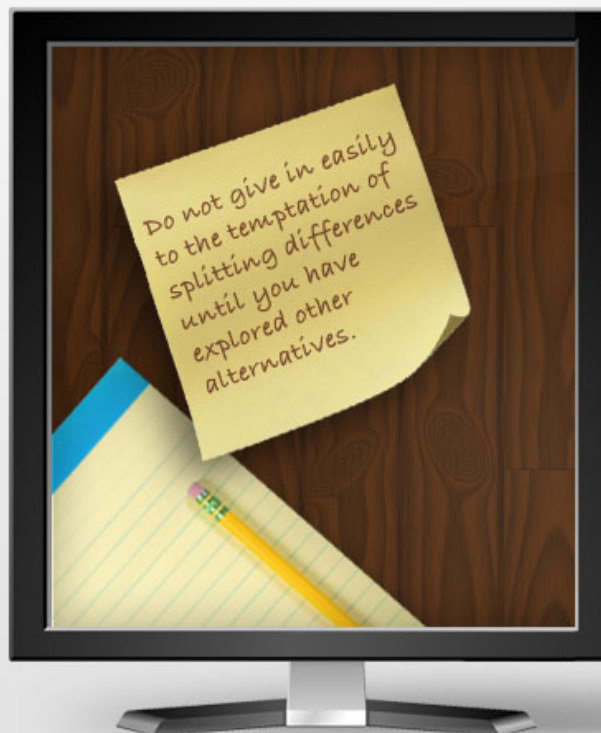
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Style #4 - Compromising

Compromising is the style that most people think of as negotiation, but in reality compromising is usually just haggling. Compromising often involves splitting the difference, usually resulting in an end position of about half way between both party's opening positions.

Half way between the two positions may seem "fair," but the people that take the most extreme positions tend to get more of what is on offer.

You can compromise when you are pushed for time and dealing with someone you trust, but be sure to make it clear that winning a cheap victory is not in their best interest in the long run.



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Style #5 - Collaborating

Most people confuse "Win/Win" or the collaboration style with the compromising style. This is most definitely not the case. "Win/Win" is about making sure both parties have their needs met, and as much mutual value as can be created is created.

Under most circumstances collaboration is the primary style you should use for most goals in business to business negotiations. Collaborative profile negotiators are adamant that their needs must be met - and they acknowledge that the other party has needs that must be met, too.

These negotiators are willing to invest more time and energy in finding innovative solutions, feeling secure in the fact that there will be more value to share later on.

Be careful not to collaborate with competitive style negotiators - **unless** they agree to and live up to your agreed rules of collaboration.



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Pre-Negotiation Strategy Check List

To perform well in a negotiation setting, or any setting for that matter, it is important to prepare yourself as much as possible.

While you may be a natural at negotiations, being prepared can never hurt your prenegotiation position, so it is best to be as prepared as possible.

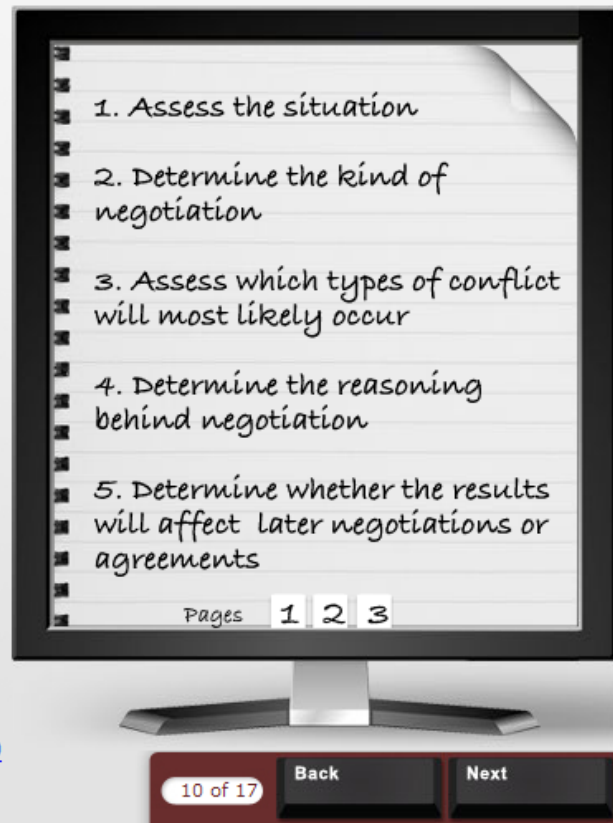
One way to ensure that you have prepared yourself well for negotiations is to use the Pre-Negotiation Strategy Checklist.

By following these steps, you ensure that you have all the information you need to make informed decisions during the negotiation process.

Select the page numbers at the bottom of the graphic to learn more about the contents of the Pre-Negotiation Strategy Checklist.

To review the checklist, select Parts 1 and 2 of the Pre-Negotiation Strategy Checklist under the Resources tab.

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Preparing for Negotiations

Pre-Negotiation Strategy Check List

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6. Decide if agreement is necessary

7. Note any parties needed to formally approve the agreement, if applicable

8. Establish timeline requirements for the project

9. Choose a location for negotiations

10. Determine the amount of public exposure

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Pre-Negotiation Strategy Check List

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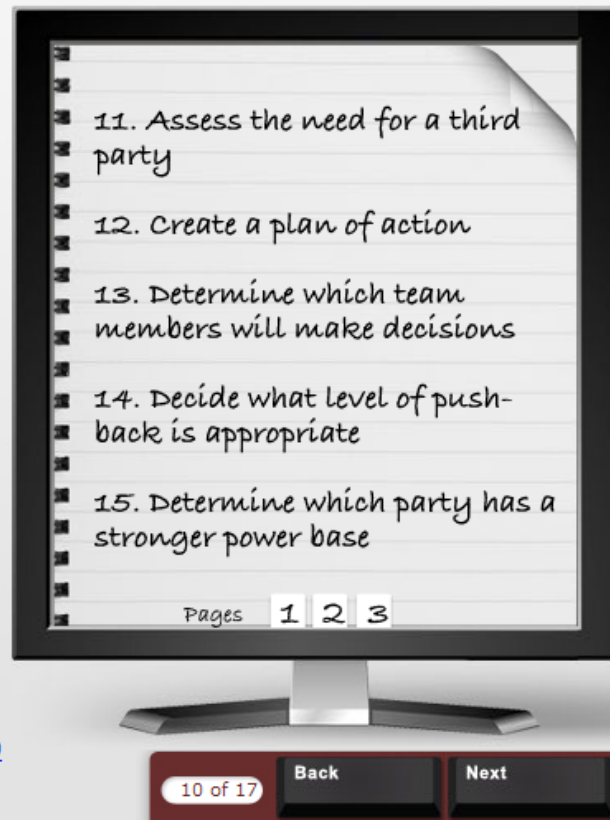
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Flexibility and Preparation

Negotiation strategies need to be developed by considering a whole host of factors that might have a powerful impact on our success.

It is also wise to remember that your strategy has to be flexible and will need to be adjusted as the game plays itself out.

You cannot know everything before you go into the first meeting, so you need to prepare to adjust your strategy and tactics, as the situations warps and changes shape.



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Challenge Question #2

What is the most accurate definition of cost drivers?

- ☐ A. Inflation and other factors that can affect the contractor's cost after contract performance begins
- ☐ B. Spreadsheet tools which track, predict, and graphically represent increases and decreases in cost using historical data
- ☐ C. Competitively priced negotiated requirements
- ☐ D. Aspects of the proposal or contract requirements that if changed would have a major impact on contract price.

[Check Answer](#)


User Instructions: Select the correct answer.

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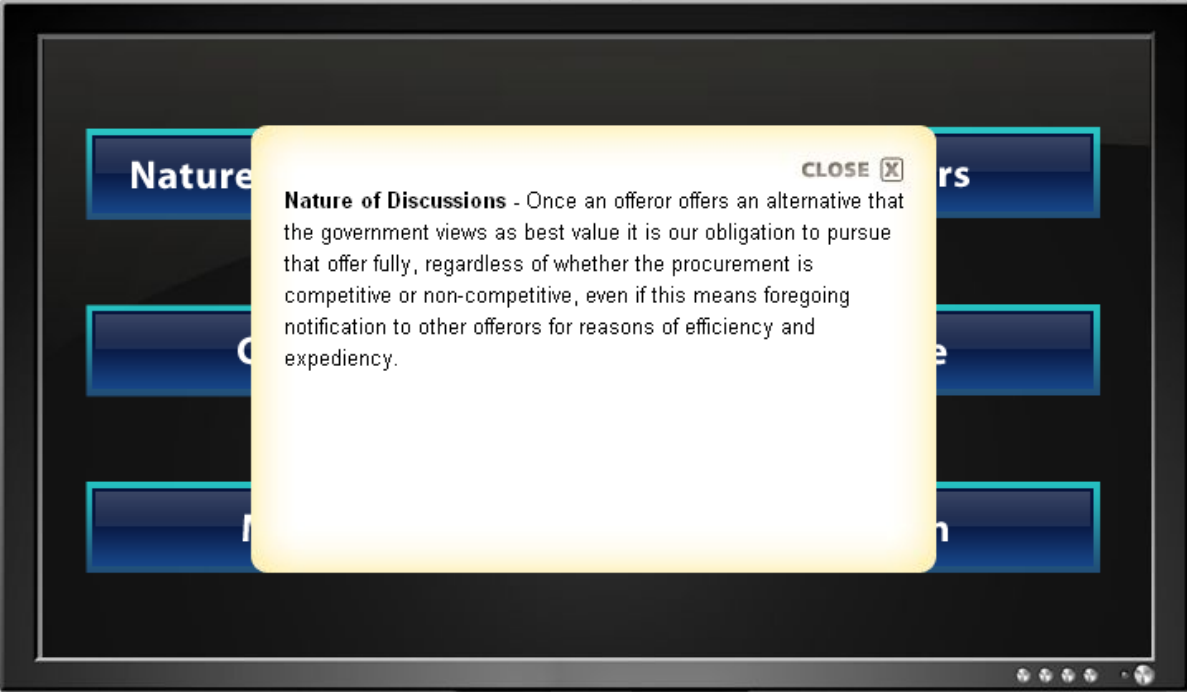
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The screenshot shows a presentation slide titled "Nature of Discussions". A yellow callout box is overlaid on the slide, containing the following text:

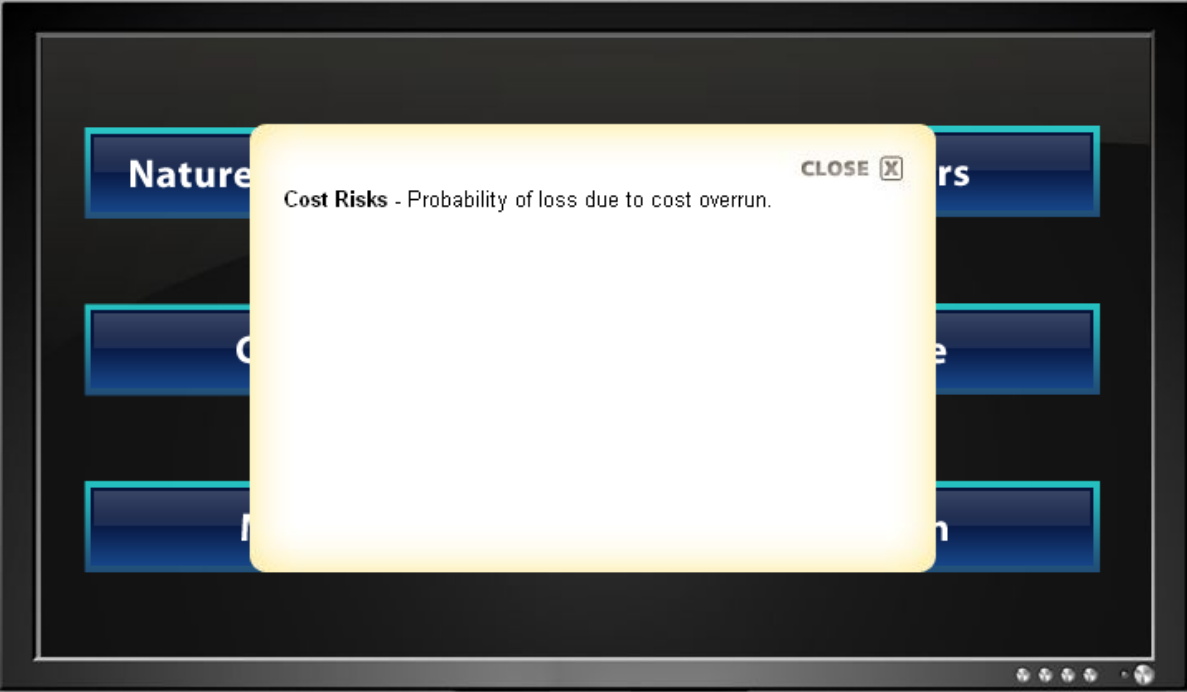
Nature of Discussions - Once an offeror offers an alternative that the government views as best value it is our obligation to pursue that offer fully, regardless of whether the procurement is competitive or non-competitive, even if this means foregoing notification to other offerors for reasons of efficiency and expediency.

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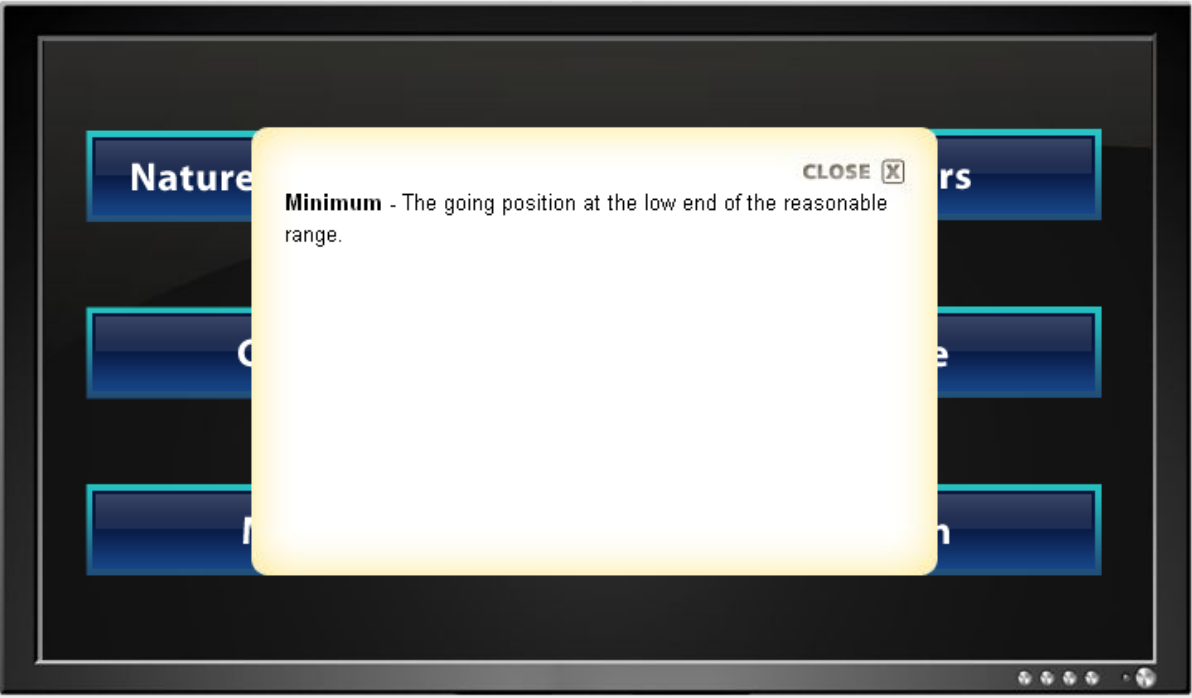
The screenshot shows a software window titled "Preparing for Negotiations". Inside the window, there is a dark background with several blue buttons. A yellow pop-up box is centered on the screen, displaying the text "Cost Risks - Probability of loss due to cost overrun." and a "CLOSE X" button in the top right corner. The background buttons include "Nature", "Cost Risks", "Probability of loss", "due to cost overrun", "Back", and "Next".

User Instructions: Select Next to continue.

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The screenshot shows a software window titled "Preparing for Negotiations". Inside the window, there is a dark background with several blue buttons. A yellow pop-up box is centered on the screen, containing the text: "Minimum - The going position at the low end of the reasonable range." The pop-up box has a "CLOSE" button with a small 'X' icon in the top right corner. The background buttons are partially visible and include the words "Nature", "Minimum", "Maximum", "Goal", "Position", and "Range".

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Nature

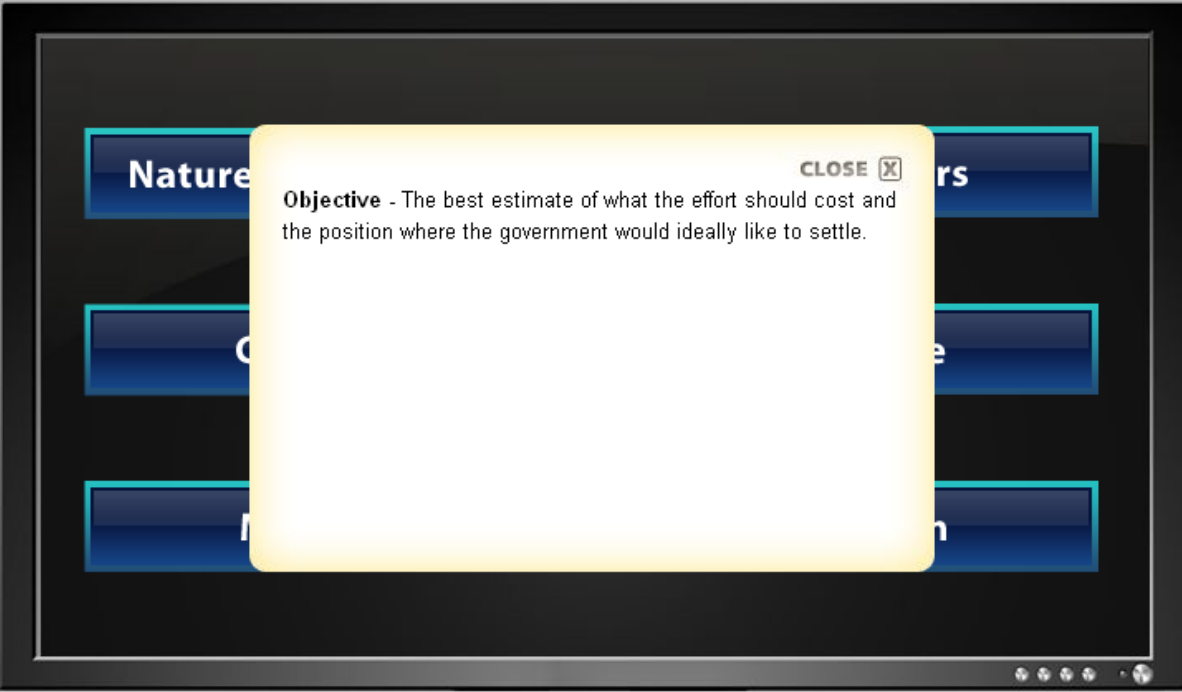
Cost Drivers - Aspects of the proposal or contract requirements that if changed would have a major impact on contract price.

CLOSE [X]

User Instructions: Select Next to continue.

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The screenshot shows a software interface with a dark background. A yellow pop-up box is centered, containing the text: **Objective** - The best estimate of what the effort should cost and the position where the government would ideally like to settle. The pop-up has a 'CLOSE' button with an 'X' icon in the top right corner. In the background, there are several blue buttons with white text, including 'Nature', 'rs', 'e', and 'n'. At the bottom of the interface, there is a 'User Instructions' section and navigation buttons.

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Nature

Maximum - The high end of the reasonable range and reflects that maximum price that can be paid without additional data and analysis.


CLOSE X

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Hi, it's Jessica. Now that you know the factors that contribute to success in negotiations and key terms that we will be using, I want you to do some research on cost drivers and cost risk.

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Before negotiating, it is important for you to target areas that, if changed, would have a major impact on contract price. Then, you can review the impact of possible alternatives.

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You should also consider the volatility of market prices or a lack of cost information on the market. Identifying these types of cost risks prior to negotiations is essential.

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Let me know if you have any questions. Talk to you soon. Bye

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Challenge Question #3

Which of the following are examples of cost drivers?
Select all of the correct answers.

- ☐ A. Labor rate
- ☐ B. Delivery requirements
- ☐ C. Contract terms
- ☐ D. Technical requirements

[Check Answer](#)

User Instructions: Select the correct answers and then select the Check Answer button.

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Identifying Cost Drivers

Cost drivers are those aspects of the proposal or contract requirements that if changed would have a major impact on contract price. Possible cost drivers include contract terms and conditions, delivery requirements, or technical requirements.

For example:

- If the contract does not allow for use of existing government property, then offered prices may include costs for the acquisition or fabrication of additional tooling or test equipment.
- If delivery is needed on an expedited basis, then premium charges may be incurred.
- If contract technical requirements call for an expensive process when another less expensive process would meet the needs of end users, then offered prices would be fair but unreasonably high through no fault of the offerors.



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Effect on Contract Pricing

Work with other members of the Acquisition Team to identify the cost drivers that appear to be affecting contract price in the current acquisition environment.

Having identified the factors that appear to be driving contract cost, you can begin reviewing the impact of alternatives.

Select each of the photos to the right to view examples of how you might consider the effect of schedule changes on contract price.



User Instructions: Select Next to continue.

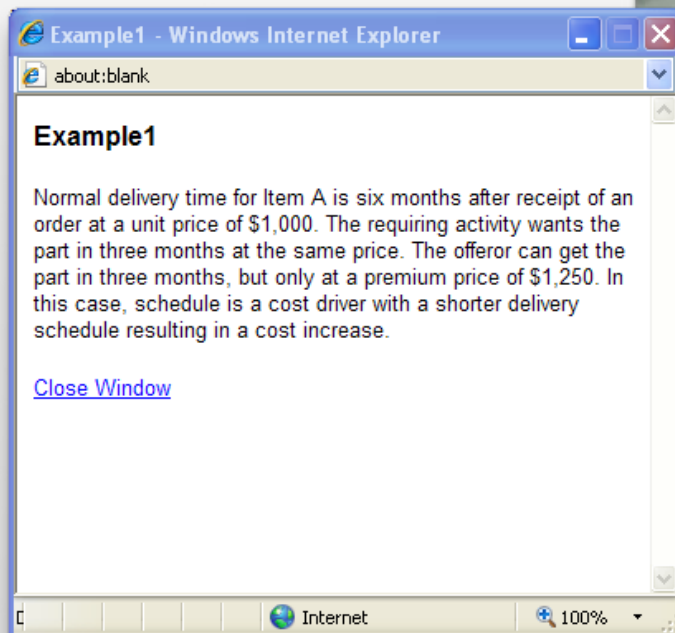
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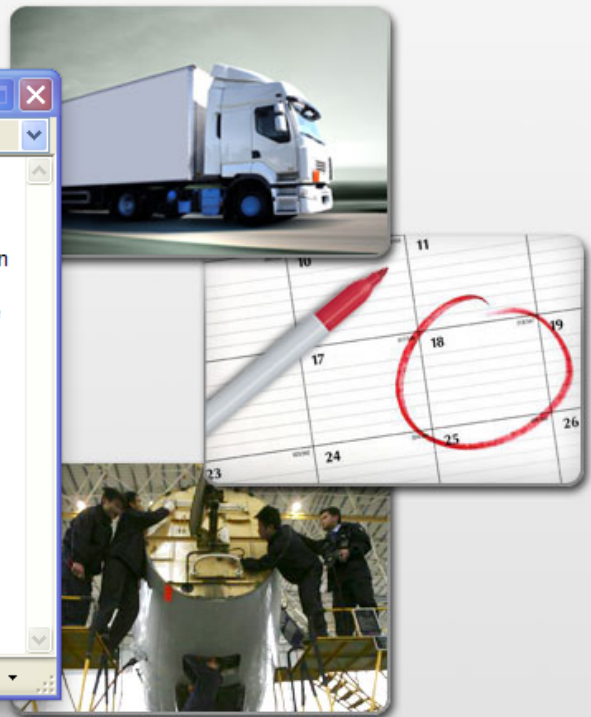
Effect on Contract Pricing



Example1

Normal delivery time for Item A is six months after receipt of an order at a unit price of \$1,000. The requiring activity wants the part in three months at the same price. The offeror can get the part in three months, but only at a premium price of \$1,250. In this case, schedule is a cost driver with a shorter delivery schedule resulting in a cost increase.

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Effect on Contract Pricing

Example2

The requiring agency has requested delivery of Item B, 12 months from today. The offeror has quoted a unit price of \$5,000 for the 12-month delivery. At the same time, the offeror has offered to add this Item B requirement to a projected production run. By combining the requirements, a second set-up charge can be avoided and the part can be purchased for \$4,500, but delivery cannot be made in less than 15 months. If the requiring activity cannot accept the 15 month delivery, schedule will be a significant cost driver.

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Effect on Contract Pricing

Example3 - Windows Internet Explorer

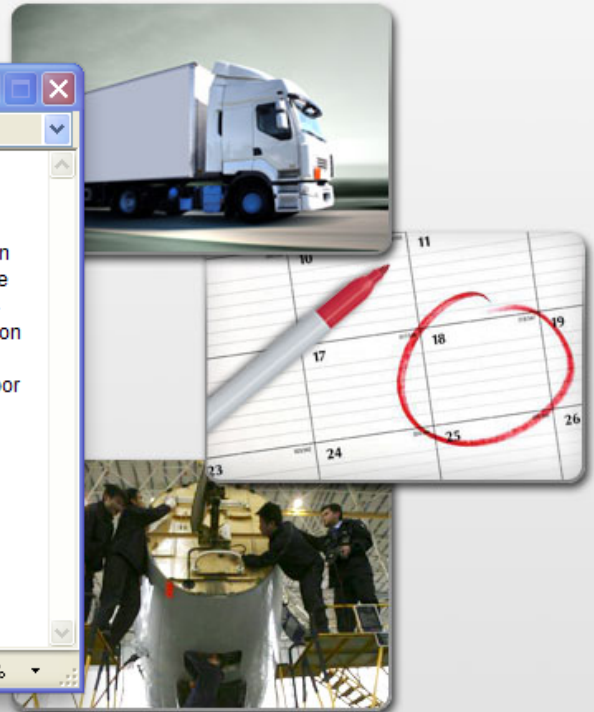
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Example3

The proposal calls for a delivery 36 months after receipt of an order. During the technical analysis, you determined that the offeror's shop loading schedule would allow for delivery in 24 months. The proposed part has been in continuous production for several years and is "well down the improvement curve." The earlier delivery year has significantly lower projected labor rates, and the additional volume would significantly reduce overhead rates. As a result, earlier delivery should actually reduce contract cost.

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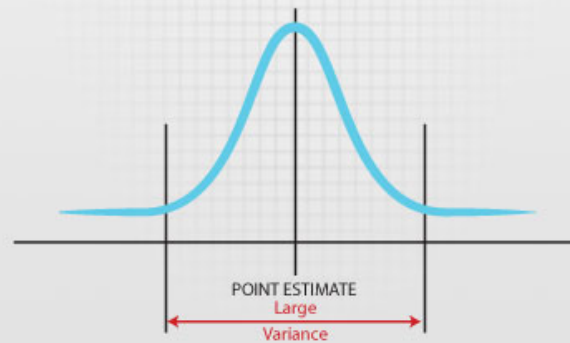
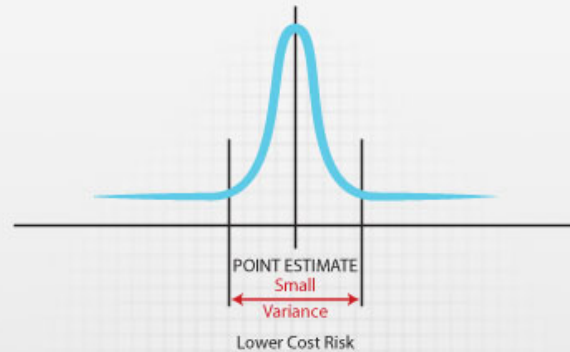
Identifying Sources of Cost Risk

Most cost estimates, whether they are the offeror's proposed or the government's recommended, include a "point estimate."

A point estimate is an estimate of what the estimator believes is most likely to happen. In most cases, the point estimate is one of a range of possible costs.

Since things rarely happen exactly as predicted, there are usually variances between projected and actual costs.

Known to statisticians as an error probability distribution, the greater the potential variability between the projected and actual cost, the greater the cost risk.



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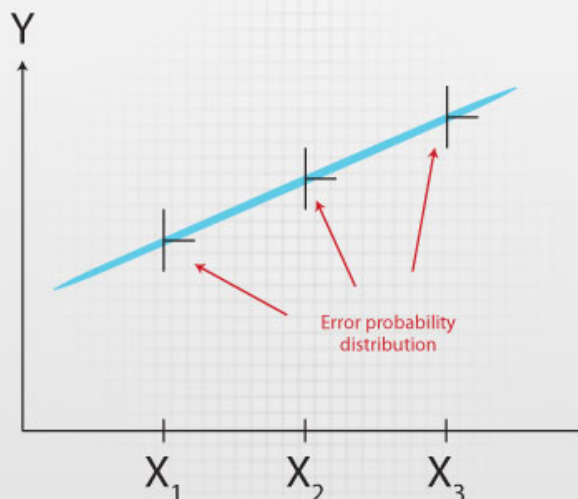
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Identifying Sources of Cost Risk (cont.)

Even in the case of a line-of-best-fit trend analysis, you are dealing with a point estimate - a point on the best-fit line with a probability distribution surrounding it.

Typically, cost risk increases when market prices are volatile or you lack cost information on the market. For example, cost risk is typically quite high for contracts that require new and untested product technology.

Even when there is substantial cost risk, you can make a point estimate. However as contractor cost risk increases, contractors normally become more concerned about the upper limit of cost risk and less concerned about the point estimate. In such situations, you must find a way to amend the risk involved.



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Reduce or Control Contractor Cost Risk

Remember that there are a variety of methods that you should consider for reducing and controlling contract cost.

Among the most important are the appropriate use of:

- An appropriate contract type
- Clear technical requirements
- Government furnished property
- Other contract terms and conditions




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Hi. Now that you have a solid foundation for negotiation, I would like to start working on the price negotiation memorandum.

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We will need to analyze the numbers and come up with our opening/minimum position, our price objective, and our maximum/worst case position. If you are ready, let's get started.

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Challenge Question #4

In preparing your prenegotiation documentation, you should document which of the following? Select all of the correct answers.

- ☐ A. Your position on each of the key elements that will define the contract pricing arrangement
- ☐ B. The purpose of the negotiation
- ☐ C. Any unique aspects of the procurement action
- ☐ D. The final negotiated profit rate
- ☐ E. A summary of the contractor's proposal

[Check Answer](#)

User Instructions: Select the correct answers and then select the Check Answer button.

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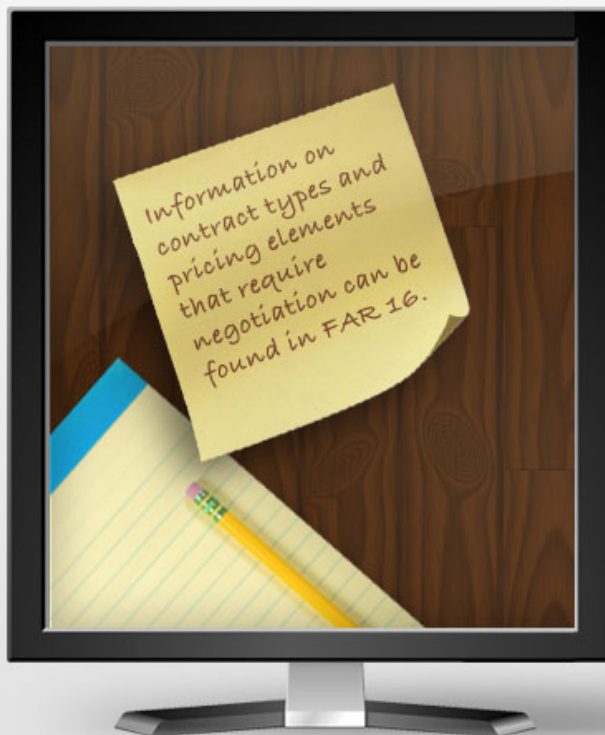
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Key Pricing Elements in Prenegotiation Objectives

In preparing your negotiation objective, you must establish a position on each of the key elements that will define the contract pricing arrangement.

Depending on the contract type, you may be able to restrict negotiations to total price or you may be required to negotiate agreement on several elements needed to define the pricing arrangement.

But what key pricing elements need to be negotiated for the different contract types?



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Contract Elements by Contract Type


As the FAR tells you, the contract type helps you identify the pricing elements that require negotiation. Contract types include fixed price and firm price, cost plus fee, time and materials, and labor hour.

[Select here to see a table that provides more detail on contract elements by contract type and the pricing elements that require negotiation.](#)

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How do I know which pricing elements require negotiation?



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http://performtech.com/dau_con/clc056/16/images/ca_16_01_0150_20_popTable.htm

Contract Elements by Contract Type	
Contract Type	Pricing Elements Requiring Negotiation
Firm fixed-price and firm fixed-price level of effort	Total price
Fixed-price economic price adjustment	Base price
	Contract amount subject to adjustment
	Basis for determining economic adjustment
	Limits on economic adjustment
Fixed-price incentive firm	Target cost
	Target profit
	Cost sharing arrangement under target cost
	Cost sharing arrangement over target cost
	Ceiling price
Fixed-price incentive successive targets	Initial target cost
	Initial target profit
	Initial cost sharing arrangement under target
	Initial cost sharing arrangement over target
	Ceiling for firm target profit
	Floor for firm target profit
	Point(s) where firm target cost and firm target profit will be negotiated
Fixed-price with prospective price redetermination	Ceiling price
	Firm fixed-price for initial period
Fixed-price contract with retroactive price redetermination	Stated time(s) for prospective price redetermination
	Fixed ceiling price
Fixed-price award fee	Agreement to price redetermination after contract completion
	Fixed price (including normal profit)
	Award fee pool
	Plan for periodic evaluation

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http://performtech.com/dau_con/clc056/16/images/ca_16_01_0150_20_popTable.htm

	Floor for firm target profit Point(s) where firm target cost and firm target profit will be negotiated Ceiling price
Fixed-price with prospective price redetermination	Firm fixed-price for initial period Stated time(s) for prospective price redetermination
Fixed-price contract with retroactive price redetermination	Fixed ceiling price Agreement to price redetermination after contract completion
Fixed-price award fee	Fixed price (including normal profit) Award fee pool Plan for periodic evaluation
Cost-plus-incentive-fee	Target cost Target fee Cost sharing arrangement under target cost Cost sharing arrangement over target cost Minimum fee Maximum fee
Cost-plus-award-fee	Estimated cost Base fee Award fee
Cost-plus-fixed-fee	Estimated cost Fixed fee
Time-and-materials	Labor-hour rate(s) Material handling costs (indirect costs) or provision to charge material on a basis other than cost Ceiling price
Labor-hour	Labor-hour rate(s) Ceiling price

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Documenting Prenegotiation Positions

document these prenegotiation objectives. You should draft the following elements of the Price Negotiation Memorandum (PNM) **before** negotiations:

- The purpose of the negotiation (new contract, final pricing, etc.)
- The description of the acquisition, including appropriate identifying numbers (e.g., Request for Proposal ((RFP)) number).
- The current status of any contractor systems (e.g., purchasing, estimating, accounting, and compensation) considered in developing the prenegotiation objective.
- If the offeror was not required to submit cost or pricing data to support any price negotiation over the certified cost or pricing data threshold, the exception used and the basis for using it.
- If the offeror was required to submit certified cost or pricing data, the extent to which the contracting officer:
 - Relied on the data submitted and used them in preparing negotiation objectives;
 - Recognized any submitted data as inaccurate, incomplete, or noncurrent and the action that the contracting officer has taken or will take; or
 - Determined that an exception applies and will not require certification.
- A summary of the contractor's proposal, field pricing and internal analysis, and the government prenegotiation objective.
- A summary of the most significant facts or considerations controlling the establishment of the prenegotiation price objective.
- A summary and quantification of any significant effect that direction from Congress, other agencies, or higher-level officials has had on the contract action.
- The basis for the profit/fee prenegotiation objective.

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Prenegotiation Documentation

In your prenegotiation documentation, you should also document any important aspects of the procurement situation that affected your prenegotiation objectives.

These aspects may include:

- The items or services and quantities being purchased
- The place of contract performance
- The delivery schedule or period of performance
- Any differences between the proposed delivery schedule and the objective schedule
- Any previous buys of similar products and related information
- Any unique aspects of the procurement action
- Any outside influences or time pressures associated with the procurement

When documenting previous buys of similar products and related information include the following information:

- When
- How many were acquired
- Schedule/production rate
- Contract type
- Unit prices or total prices
- Any government-furnished material which will be provided as a result of the contract and its estimated dollar value

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Summarizing Prenegotiation Positions

As a minimum, your prenegotiation documentation should outline the offeror's estimating rationale, the government's prenegotiation objective, and key differences between the two.

Generally, this summary begins with a tabular presentation similar to the table to the right. Using this, you can identify the areas and degree of differences and provide a general format for more detailed analysis.

In Paragraph A, describe the rationale used to develop the proposal and by the government in developing the government objective. Focus on differences between the two.

Also, reference any audit or technical reports and outline your proposed disposition.

In Paragraphs B and C, address the same subjects found in Paragraph A with one major exception. Address the differences in the application base or in the rates themselves.

Cost Element	Proposed	Objective	Difference	Reference
Engineering Direct Labor	\$1,000,000	\$900,000	\$100,000	See Para A
Engineering Overhead	\$2,500,000	\$2,025,000	\$475,000	See Para B
Subtotal	\$3,500,000	\$2,925,000	\$575,000	
G&A Expense	\$350,000	\$292,500	\$57,500	See Para C
Total Cost	\$3,850,000	\$3,217,500	\$632,500	

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Developing a Range of Positions

The government objective is a point estimate within a range of reasonable prices, and you should consider reasonable positions based on the information available.

While your agency or contracting activity guidance may vary, the classic approach to developing a negotiation range calls for three positions:

- **Objective:** Your best estimate of what the effort should cost, and the position where you would ideally like to settle.
- **Minimum:** The low end of the reasonable range. In effect, you are saying that a price lower than the minimum is unreasonably low. Support this position with a detailed rationale.
- **Maximum:** The high end of the reasonable range. In effect, you are saying that a price higher than the maximum is unreasonably high. You would not go above your maximum without additional data that would validate a higher figure.



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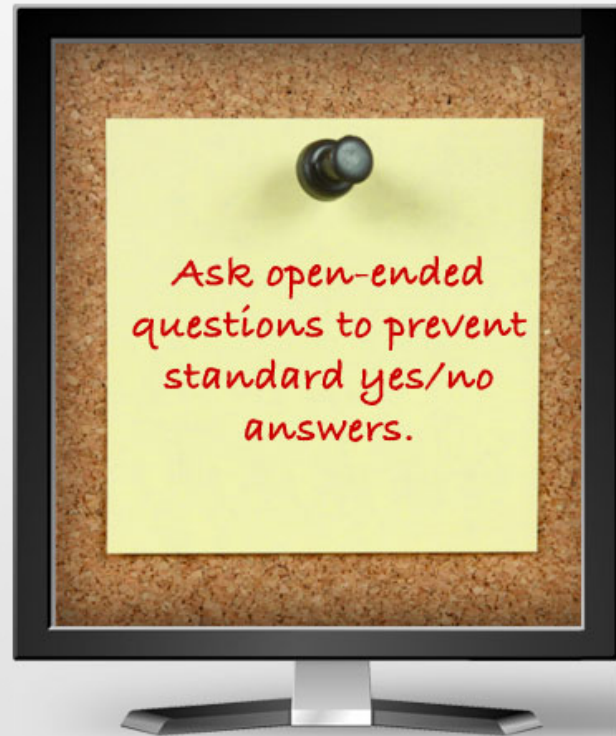
Range of Positions (cont.)

An offeror may propose a cost below your minimum objective. In such situations, present your reasons for believing that the proposed cost is unreasonably low.

If the offeror fails to change or support the cost, consider that failure in your analysis of proposal cost realism.

It is possible that you have either not correctly assessed the proposal and/or the offeror's solution, or the offeror has included the missing costs elsewhere in the proposal.

Strive to ask open ended questions to uncover which situation exists and respond accordingly to ensure that the negotiated cost/price is realistic and presents a low risk to the government.



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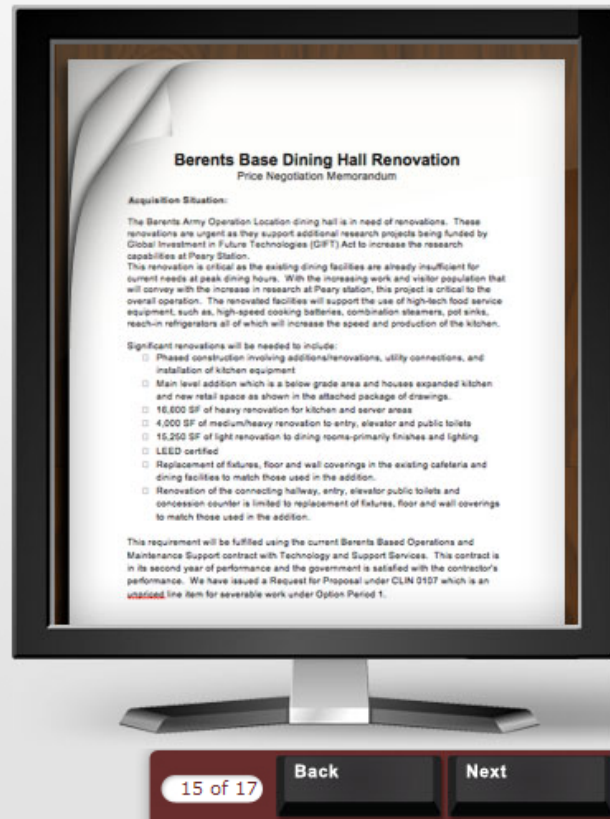
Writing the PNM

The final step in preparing for negotiations is to write the Price Negotiation Memorandum, or PNM. The graphics on this screen and those that follow show examples of the important components of a PNM found in the Berent's Dining Hall PNM.

When creating the PNM, be sure to include the purpose of the negotiation and a description of the acquisition. You should also include the name, position, and organization of everyone in attendance.

Next, describe the current status of any contractor systems (e.g., purchasing, accounting, and compensation) to the extent they affected and were considered in the negotiation.

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Preparing for Negotiations

Cost or Pricing Data

When analyzing cost or pricing data, consider the following:

- If certified cost or pricing data were not required in the case of any price negotiation exceeding the certified cost or pricing data threshold, include the exception and basis for it.
- If certified cost or pricing data were required, include the extent to which the contracting officer:
 - Relied on the cost or pricing data submitted and used them in negotiating the price
 - Recognized as inaccurate, incomplete, or noncurrent any certified cost or pricing data submitted; the action taken as a result; and the effect of the defective data on the price negotiated
 - Determined that an exception applied after the data were submitted and, therefore, considered not to be certified cost or pricing data

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A technical analysis of the proposal was performed and no exception was taken to the contractor's proposed hours, nor to the items contained in their Bill of Material and Other Direct Cost Items.

Cost Analysis Summary

A thorough analysis of the costs proposed by TSS has been conducted. This analysis included:

- Technical Assessment of labor and materials proposed and their suitability for the work contemplated
- Analysis of the contractor's proposal to determine if the proposed costs were reasonable
- DCAA analyzed the labor and materials proposed and their suitability for the work contemplated
- DCAA verified that the proposed costs were reasonable
- The 345 Contract was reviewed and the proposed costs were found to be reasonable

Berents Base Dining Hall Renovation
Price Negotiation Memorandum

Acquisition Situation:

The Berents Army Operation Location dining hall is in need of renovation. The renovations are urgent as they support additional research project Global Investment in Future Technologies (GIFT) Act to increase capabilities at Peary Station. This renovation is critical as the existing dining facilities are already at capacity and will not support the increasing work and research at Peary station, this project will support the overall operation. The renovated facilities will support the use of equipment, such as, high-speed cooking batteries, combination ovens, and reach-in refrigerators all of which will increase the speed and productivity of the dining hall.

Significant renovations will be needed to include:

- Phased construction involving additions/renovations, utility installation of kitchen equipment
- Main level addition which is a facility area and house

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Summary of the Proposal

Always include a summary of the contractor's proposal, any field pricing assistance recommendations (including the reasons for any pertinent variances from them), the government's negotiation objective, and the negotiated position.

Where the determination of a fair and reasonable price is based on cost analysis, the summary shall address each major cost element.

When determination of a fair and reasonable price is based on price analysis, the summary shall include the source and type of data used to support the determination.

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Cost Element	Proposed	Objective
Material	\$420,679.91	\$ 383,656.00
Subcontract	\$191,231	\$ 191,231.00
Direct Labor	\$107,910	\$ 107,910.00
Indirect Expenses	\$37,775	\$ 37,769.00
Other Direct Costs	\$88,526	\$ 88,526.00
Subtotal Costs	\$887,122.91	\$ 809,092.00
GSA		
Total Costs		
Profit/Fee		
Total Price		
Bonding		
Total Price w/ Bonding**		

1. Materials
amounts above
Material Element
Aggregate of
Sample
100% Analysis
Total
Scrap
Total Materials

The Bill of Materials analysis was more than \$10,000 Material and Items on hand was used to from the right this examination

Cost Analysis Summary

A thorough analysis of the costs proposed by TSS has been conducted, including:

- Technical Assessment of labor and materials proposed and the work contemplated
- Analysis of the contractor's proposal by 345 Contracting Squadron
 - DCAA analyzed the labor, material, DDCs and indirect costs were questioned no material discrepancies were uncovered. DCAA verified that the contractor's systems were adequate performance and segregation of costs under this FPIF model.
 - The 345 Contracting Squadron also reviewed the contractor's costs and the findings of DCAA. All DCAA findings were the objective pricing position and will remain our objective as we receive additional information indicating that a modification may be required. The 345 Contracting Squadron the proposed subcontractor costs. TSS issued an IFB to services including plumbing, carpentry, HVAC and electric received 3 bids and made award to the lowest responsible bidder, Elite. Supporting documentation of this process is provided and reviewed. Finally, the 345 Contracting Squadron the contractor's proposed profit and in accordance with D

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Other Items to Include

Here are some other items to include when creating the PNM.

- Significant facts or considerations controlling the establishment of the prenegotiation objectives and the negotiated agreement
- Discussion and quantification of the impact of direction given by Congress, other agencies, and higher-level officials
- Basis for the profit or fee prenegotiation objective and the profit or fee negotiated
- Documentation of fair and reasonable pricing
 - Whenever field pricing assistance has been obtained, the contracting officer shall forward a copy of the negotiation documentation to the office(s) providing assistance.
 - When appropriate, information on how advisory field support can be made more effective should be provided separately.



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What Does DFARS Say?

According to DFARS PGI 215.406.3, the PNM must include the principal factors related to the disposition of findings and recommendations contained in pre-award and post-award contract audit and other advisory reports.

The PNM must:

- Address significant deviations from the prenegotiation profit objective
- Address the rationale for not using the weighted guidelines method when its use would otherwise be required by DFARS 215.404-70

In addition, you should include the DD Form 1547, Record of Weighted Guidelines Application.



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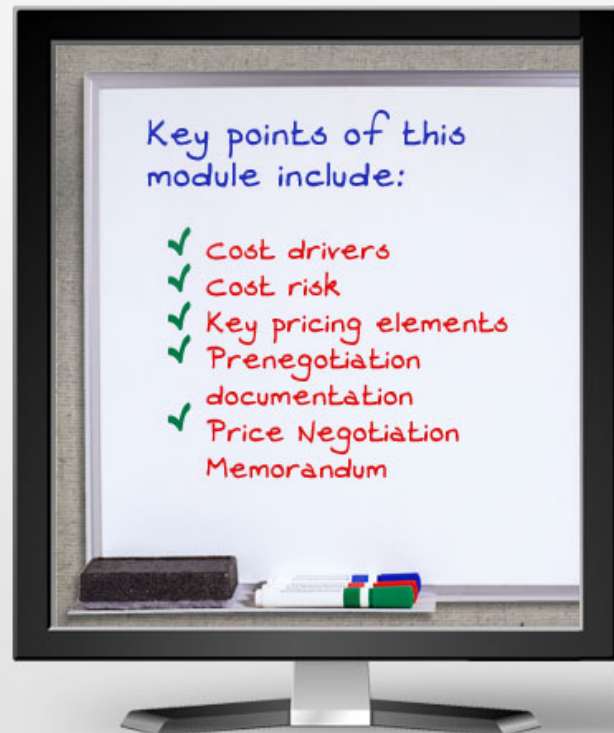
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Summary

Congratulations! You have completed this module that discussed how to prepare for negotiations.

Review the graphic on the right to see the key points for this module.



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Summary (cont.)

Now that you have completed this module, you should be able to:

- Identify factors that contribute to success in any negotiation
- Identify key terms involved during a contract negotiation
- Identify the importance of understanding cost drivers to ensure a successful outcome
- Identify strategies to mitigate cost risk
- Identify the key characteristics of a price negotiation memorandum



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