



Price Reasonableness

PURPOSE

Prior to making a purchase for goods and services, the Purchasing Official should always determine that the proposed price for a good or service is fair and reasonable. Purchases for goods and services that exceed \$5,000 must include a statement of price reasonableness in the Procurement Justification of the Purchase Order/Contract file.

DEFINITIONS

Cost Analysis

The review and evaluation of the separate cost elements and profit or fee in the supplier's proposal to determine a fair and reasonable price or to determine cost realism.

Price Analysis

The process of examining and evaluating a proposed price without evaluating its separate cost elements or the proposed profit.

Fair and Reasonable Price

A fair and reasonable price determination is an assessment by the Purchasing Official that a supplier's proposed price for a good or service can be considered "fair and reasonable" on the basis of applying one or more price/cost analysis methods.

DOCUMENTATION FOR PRICE REASONABLENESS

Whenever possible, the Purchasing Official should base price reasonableness on competitive quotations or proposals. However, if there is only one quote or proposal, then the Purchasing Official can base their statement of price reasonableness with the following supporting documentation:

- Market research (e.g., published prices found on websites, catalogs, advertisements);
- Comparison of prices found reasonable on previous purchases within two years that were determined reasonable in price;
- Current price lists, catalogs, or advertisements (should be compared with other market prices for similar or comparable items to determine price reasonableness);
- A comparison with similar items in a related industry;
- Comparison to government negotiated prices (e.g., GSA schedules);
- Any other reasonable basis (e.g., adjustments to prices due to fluctuations in the Consumer Price Index (CPI), or the Purchasing Official's knowledge of the items/services being purchased).

PRICE/COST ANALYSIS METHODS

METHOD	DOCUMENTATION
Advertisement	* Page from publication with date and price (could be from website)
³ Value analysis	* Cost breakdown from supplier, including labor (hours and hourly rates by category, including calculation and any escalation factors), materials, overhead, G&A, and profit

¹ If the **Current Price Schedule** method is being used and Caltech is not receiving a discount from the published price list, then the Purchasing Official needs to determine the reason. If the Supplier offers the product to all customers at list price, then the Purchasing Official should use the **Similar Item in Related Industry or Market Price** method to determine if the price is fair and reasonable.

² If the **Previous Purchase** method is being used and the previous purchase references another previous purchase, then the Purchasing Official is encouraged to use at least one additional price/cost analysis method to determine if the price is fair and reasonable.

³ **Basis of Estimate** (BOE) can be used for the **Value Analysis** method. The BOE is a narrative for each labor category, including the tasks each specific category performs for the effort, as well as the rationale, calculations, and assumptions to establish the estimated hours.