

**DCMA**



ACQUISITION INSIGHT  GLOBAL ENGAGEMENT

# Commercial Item Group

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## Training Slide Template

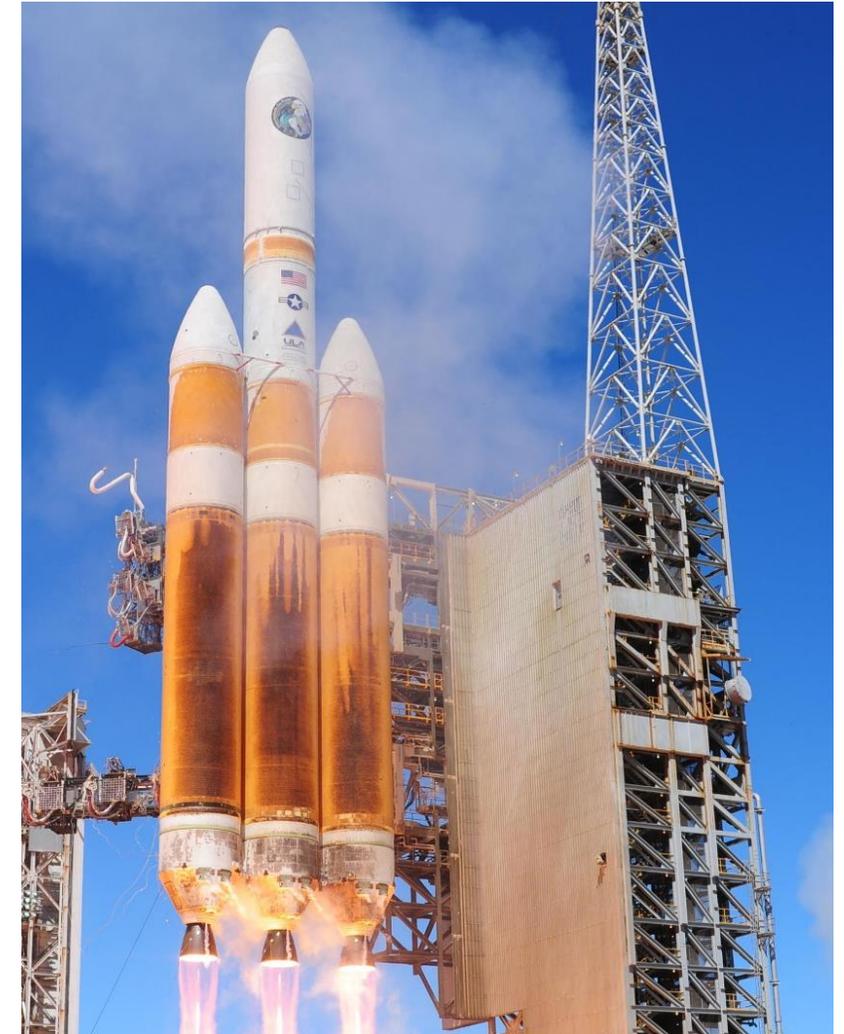


## MISSION

**Provide acquisition insight for the integration of commercial products and services within DoD to streamline procurements and ensure warfighters receive cutting-edge technology at fair and reasonable prices.**

What's "commercial"?

What's a "fair and reasonable"  
price?

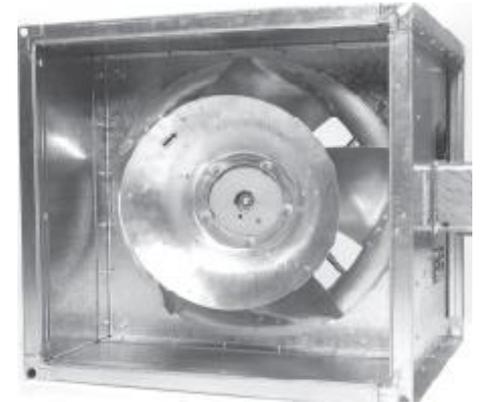


## Why do it? (for industry)

- It streamlines the acquisition process
  - Eliminates most government-unique terms and conditions
  - Vendors not required to submit certified cost and pricing data
- It provides a stepping stone for companies with no prior history of government sales

## Why do it? (for government)

- It leverages the commercial marketplace
  - Technical innovation
  - Price competition
  - Economies of scale



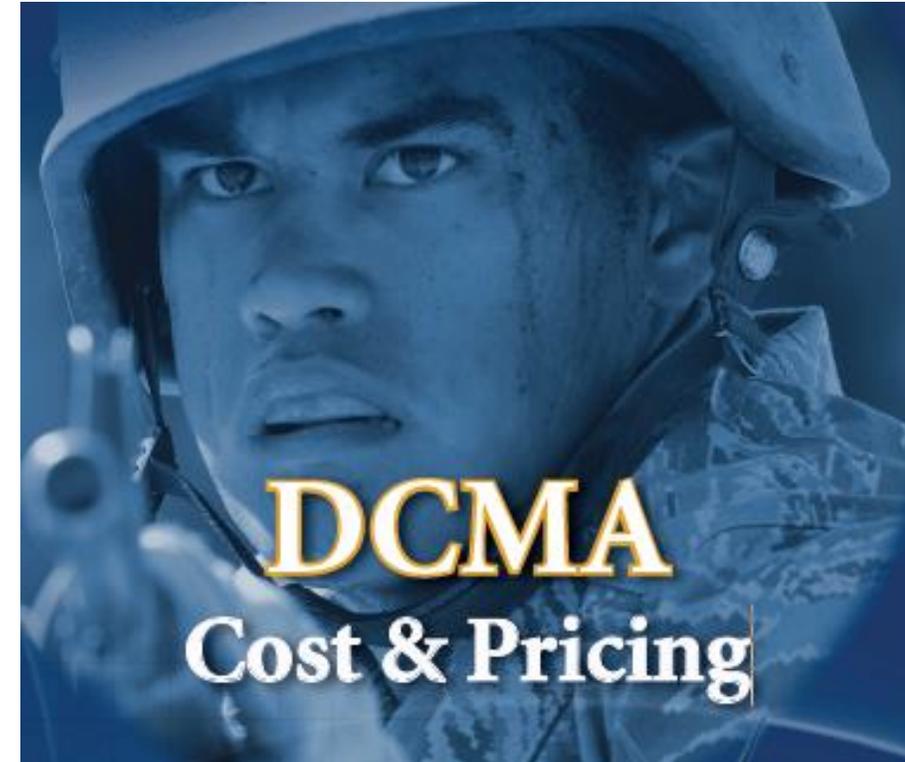
## Why do it? (continued)... because the **LAW** says we must!

- The Federal Acquisition Streamlining Act of 1994 (FASA) promoted maximum use of commercial items to meet the government's needs.
- Preference for commercial items is incorporated into FAR 1.102 and flowed down to **prime contractors** in FAR 52.244-6(b).
- FY2018 NDAA made commercial acquisition the default approach for **IT products and services** above the SAT.
- FY2018 NDAA also emphasized the need to conduct adequate **market research**



- NDAA 2013
  - Created a cadre of experts for commercial acquisition, led to CIG
- NDAA 2016:
  - Restricted the PCO's ability to change a commercial decision; HCA to overturn
  - Reliance on prior Government prices paid
  - Added scrutiny to convert from a FAR 12 to FAR 15
  - Required a database for recommendations and determinations of commerciality
- NDAA 2017
  - Emphasized market research for price analysis
  - Enforced/changed the build of a central database
  - Added many commercial related pilot programs
- NDAA 2018
  - Directed establishment of a program for buying COTS items on the internet
  - Established the existence of prior FAR 12 buys as a basis for commerciality

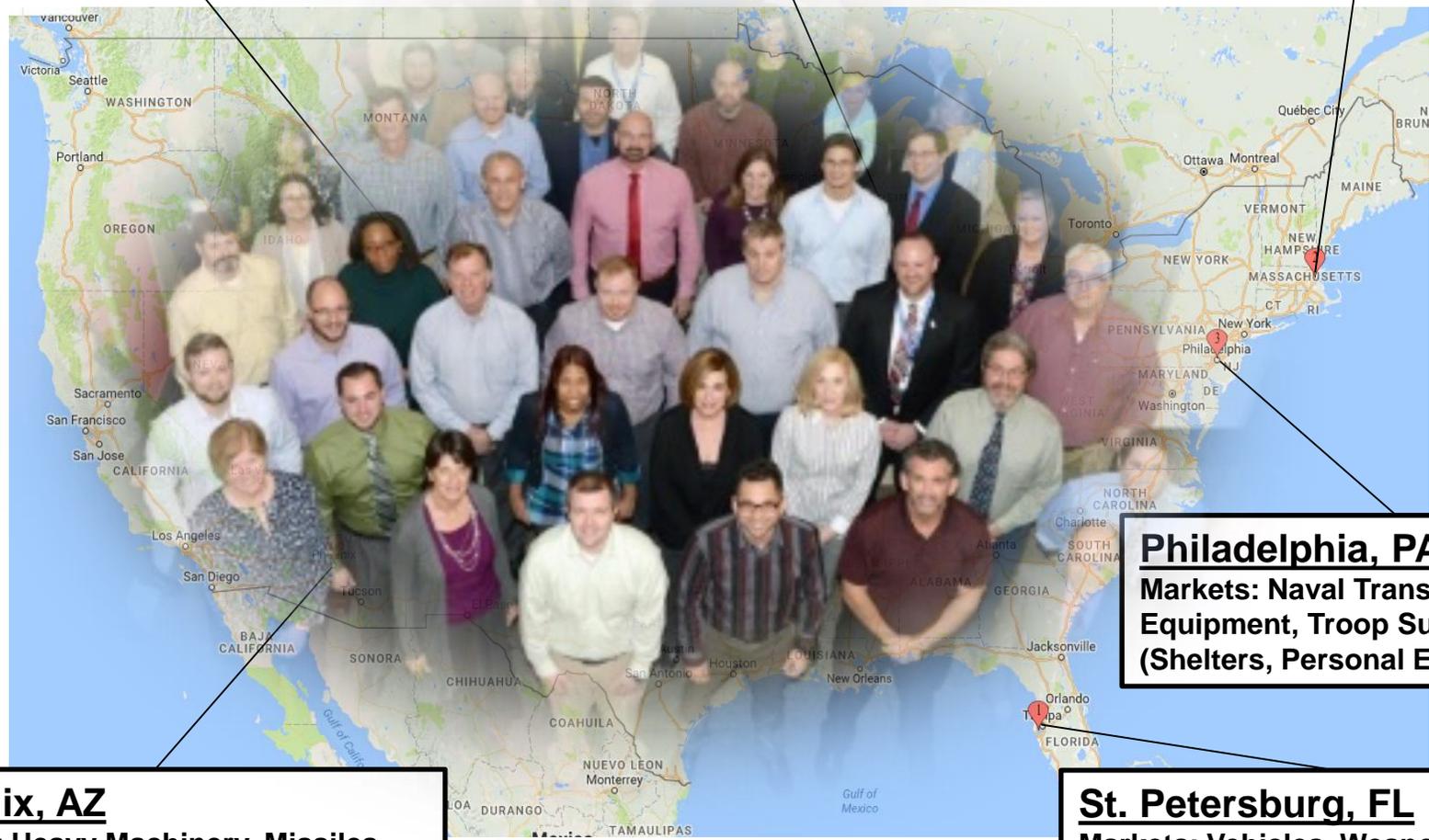
- February, 2013 NDAA FY2013 mandates creation of a “Cadre of Experts’ within DoD
- October, 2014 Pilot program started within the DCMA Cost & Pricing Center with 9 personnel
- June, 2016** **CIG goes operational**
- December, 2016 National Defense Authorization Act mandates creation of the Commercial Item Database



**Denver, CO**  
Markets: Space (Spacecraft and Lift), C4I (Systems, Cyber and Services), UAS

**Indianapolis, IN**  
Markets: Automotive, Aeronautics, Aircraft Engines

**Boston, MA**  
Markets: Services (MRO), Chemicals and Materials



**Phoenix, AZ**  
Markets: Heavy Machinery, Missiles

**Philadelphia, PA**  
Markets: Naval Transport & Equipment, Troop Supply (Shelters, Personal Equipment)

**St. Petersburg, FL**  
Markets: Vehicles, Weapons, Ammo

CIG staff  
Price/Cost Analysts: 37  
Engineers: 20  
Management Analysts: 1  
Director: 1

## Our services:

- Commerciality Analysis
- Price Analysis
- Market Research
- Negotiation Support
- Training and Assistance
- Support for Contractor Purchasing System Reviews (CPSRs)
- Pre-RFP support



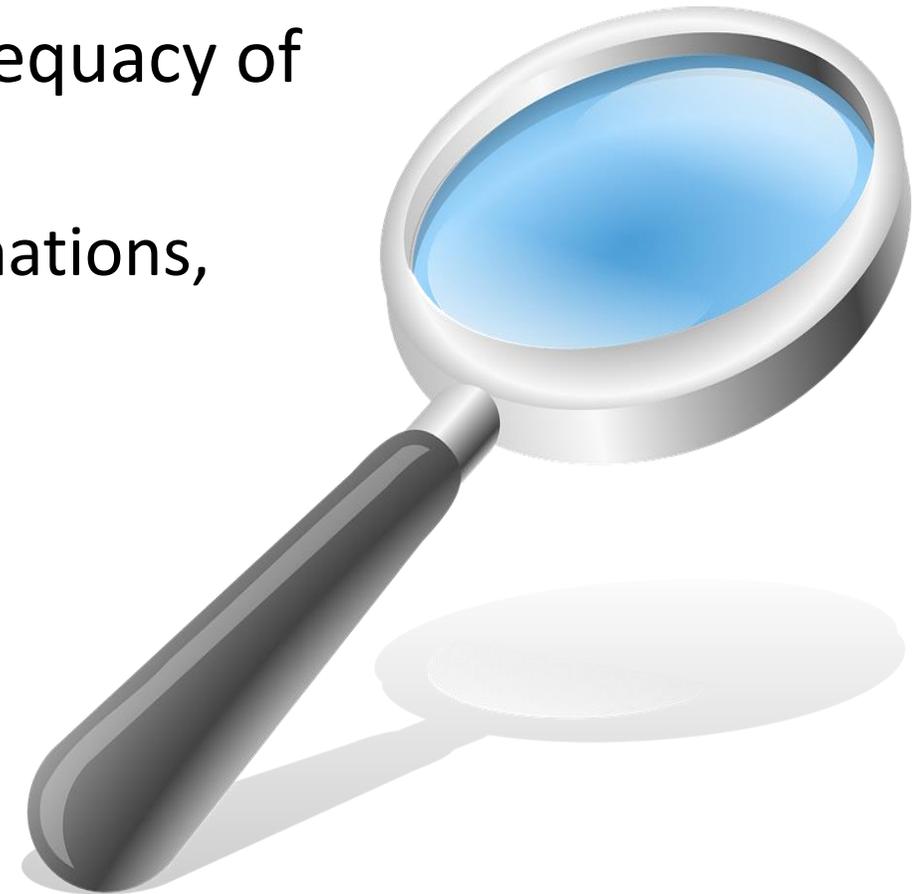
## Other CIG activities:

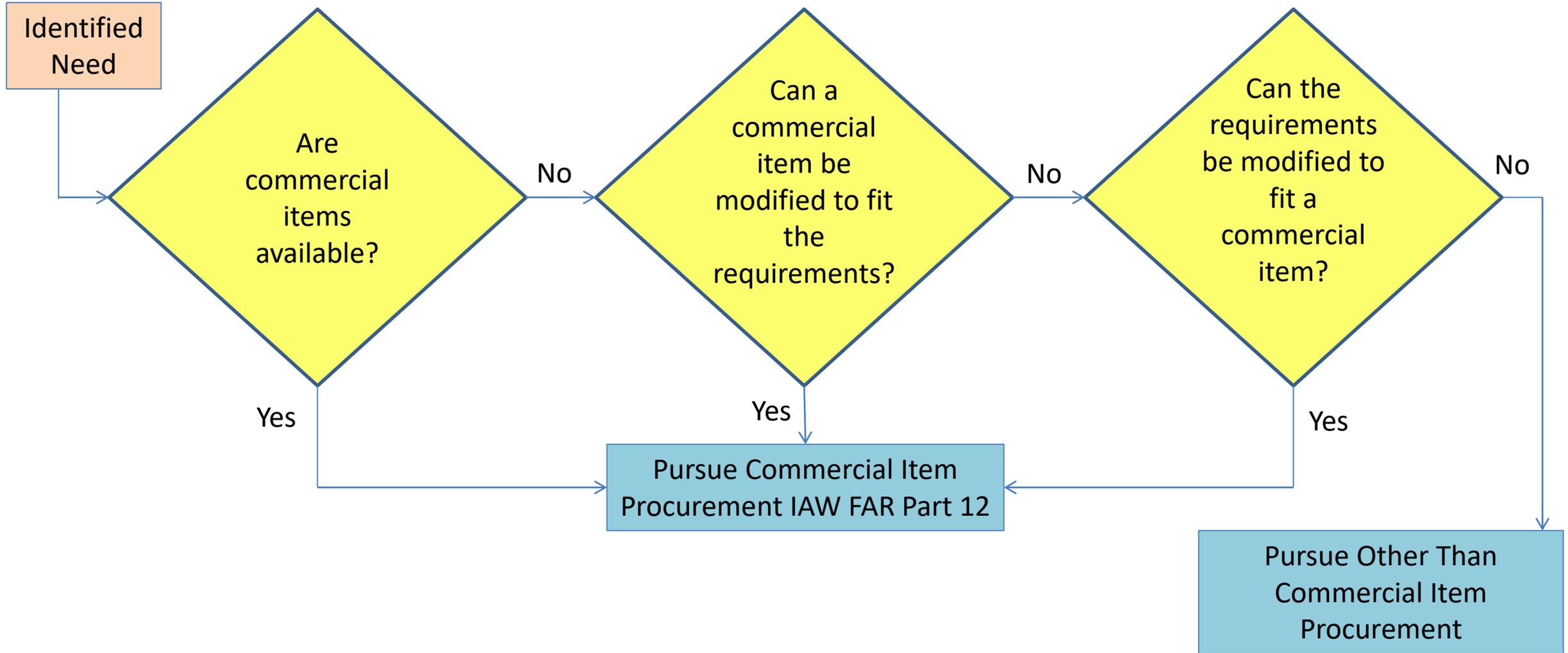
- Ongoing market research in key sectors
- Maintaining the Commercial Item Database
- Establishing a [“Common Framework”](#) with industry partners
- Training for government and industry on commerciality and pricing analysis



The CIG can assist with reviews of contractor purchasing systems to determine the adequacy of the contractor's processes for

- documenting commercial item determinations,
- performing market research, and
- determining fair and reasonable pricing.





- Currently maintained in Excel format
- Tens-of-thousands of parts – and growing
- Not all-inclusive (but we’re working on that)
- Sources of data:
  - Commercial Item **Determinations** by Procuring Contracting Officers
  - Commercial Item **Recommendations** by CIG personnel
  - Others
- Need information? Contact [commercial@dcma.mil](mailto:commercial@dcma.mil)

Part Number	Description	Agency
822-0788-001	Receiver-Transmitter	ARC
822-0788-003	Receiver-Transmitter	ARC
822-0789-001	PA / Coupler Mount -	ARC
822-0791-001	R/T Mount - Hard	ARC
522-4408-013	Control	ARN
622-6376-015	Receiver, FM Immune	ARN
622-6376-020	Receiver, FM Immune	ARN
622-6380-001	Mount	ARN
622-6812-102	Rcvr (Replaces -002)	ARN
622-6820-001	Antenna, White	ARN
622-6820-003	Antenna, Black	ARN
622-7210-001	Mount	ARN
822-2612-002	Autopilot Panel, APP-	Auto
822-2614-100	Autopilot Computer,	Auto
822-2954-001	Mode Select Panel, MSP-	Auto
597-2147-001	ANT-430 DF Antenna	Dire
597-2172-101	Mount for LPT-125G /	Dire
597-2377-001	DF-500 Receiver and	Dire
597-2147-101	ANT-430 DF Antenna	Dire
822-2506-013	DATA AND VOICE	DVE
822-1069-002	Receiver-Transmitter	ARC



- What is Market Research?
  - “Market research” means collecting and analyzing information about capabilities within the market to satisfy agency needs (FAR 2.101)
- Do I have to do market research on pricing?
  - Yes, NDAA 2017 *requires* market research for price reasonableness
- Who is responsible?
  - The Government (FAR 10.002)
  - Prime contractors in other-than-commercial contracts (FAR 10.003)
- Exception: market research *not* required for procurements under the Simplified Acquisition Threshold unless “adequate information is not available and the circumstances justify its cost.”



- First, understand the requirements
  - Know the specifications for form, fit, and function
  - Know any special military requirements such as paint, labeling, qualification, testing
  
- Is the exact same item (part number) advertised for sale?
  - Google it
  - Check specialized websites such as military surplus & aviation parts resellers
  - BUT, are sufficient quantities available? What are the terms & conditions?
  
- Do similar items exist?
  - Check the commercial item database
  - Use research sites such as ones listed on CIG resource page



Talk to suppliers  
and other subject  
matter experts

Let me call  
a buddy of  
mine...





- There is no single website, person, or tool that has all the answers
- There is no checklist or template, since each part or service has its own unique circumstances
- Be creative, use your own best judgment
- Combine all sources of information to paint a complete picture, and...

**...document it!**



Door #1 An item that is OF A TYPE customarily used by the general public or by non-government entities for non-government purposes, and has been sold, leased, licensed or offered for sale to the general public.

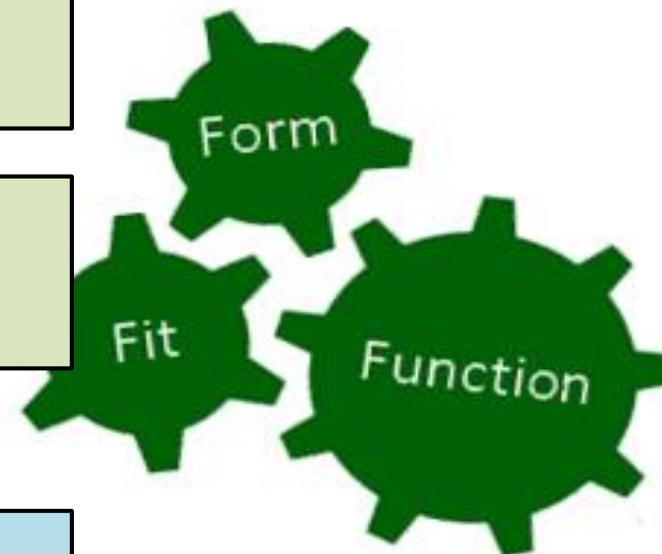
What to look for:

Invoices showing sales to nongovernment buyers. Catalogs showing the item is offered for sale to the general public. On-line ads.

Door #2 An item that would fit through Door #1 except that it hasn't hit the marketplace yet, but it will hit the marketplace by the time the government needs it.

What to look for:

Product launch planning documents. Contracts for future deliveries.



Important: The regulations have been edited to fit on this slide. See FAR 2.101 for original.

Door #3 An item that would go through Door #1 or #2 BUT FOR  
(i) Modifications that are customarily available in the commercial marketplace, or  
(ii) Minor modifications to meet government requirements but do not significantly change the functional characteristics of the item

What to look for:

Documents for a comparison item showing that it is similar to the subject item in most respects and fits through Doors #1 or #2, and...

Details on the modification (differences) to show that the modifications meet (i) or (ii).

What else to look for:

Drawings, photographs, specifications. Contract terms & conditions.

Show-stoppers:

Government-unique functions or characteristics that are NOT minor mods.



Important: The regulations have been edited to fit on this slide. See FAR 2.101 for original.

Door #4 A combination of items that can go through Door #1, #2, #3, or #5.

Door #5 Installation, maintenance, repair, training, and other services, IF...

Such services are procured for support of an item that goes through any of Doors 1-4; and...

...the services are available to the general public under similar terms & conditions.

What to look for:  
Evidence that the item goes through any of Doors 1-4. Statements of work, contracts showing terms & conditions. Advertisements for services.



Important: The regulations have been edited to fit on this slide. See FAR 2.101 for original.

Door #6 Services OF A TYPE offered and sold competitively in substantial quantities based on established catalog or market prices for specific tasks or outcomes, under standard commercial terms & conditions.

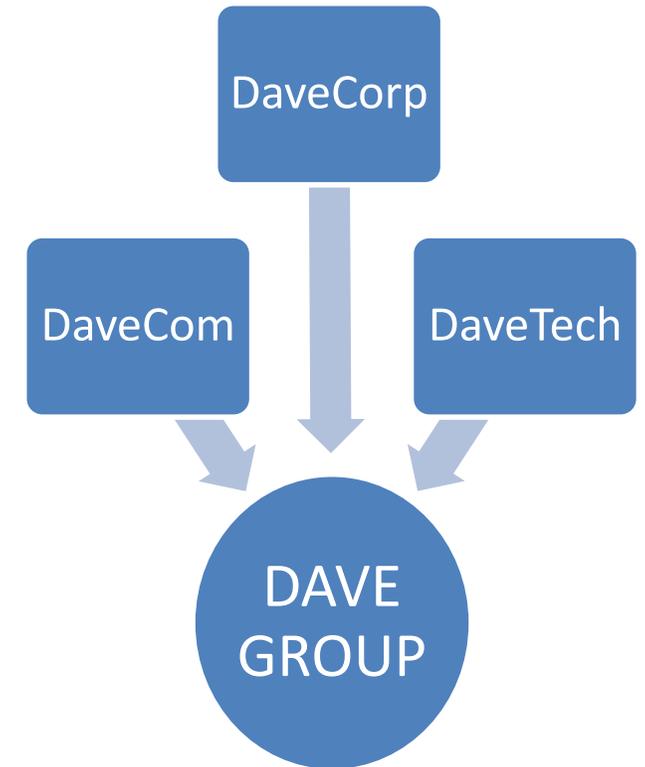
What to look for:

Statements of work. Contracts showing terms & conditions. Advertisements for services.

The FAR further defines “catalog price” and “market prices”

Door #7 Any combination of items and services that go through Doors 1-6...

...NOTWITHSTANDING the fact that items/services are transferred between separate divisions, subsidiaries, or affiliates of a contractor



Important: The regulations have been edited to fit on this slide. See FAR 2.101 for original.

Door #8 A nondevelopmental item, if the procuring agency determines that the item was developed exclusively at private expense and sold in substantial quantities, on a competitive basis, to multiple State and local governments.

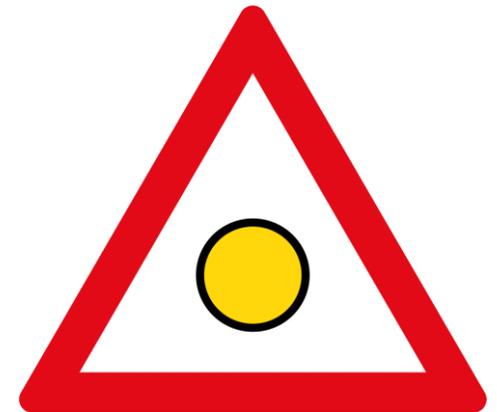
What to look for:

- Evidence of private funding for development,
- Quantities that are “substantial,”
- Evidence of market competition, and
- State/local government sales invoices



# Misconceptions about Commerciality

- The products of a “commercial company” are certainly commercial
- The output of a “commercial facility” is certainly commercial
- Non-developmental items are always commercial
- If an item is developed at private expense, it must be commercial
- An item that has no commercial sales cannot be commercial
- All you need to prove an item is commercial is to list it on your company website
- Invoices can be “too old” for consideration in commerciality
- If it’s ITAR-restricted, it cannot be commercial
- If it’s commercial, the asking price must be fair and reasonable
- Catalog prices are automatically fair and reasonable





Pizza  
Meal Ready-  
to-Eat  
(MRE)



## Proposed “Similar-to” Commercial Product: Frozen pizza



## Composition:

- Pepperoni
- Flour-based crust
- Tomatoes
- Cheese

**Packaging:** shrink film wrapping inside a chipboard box



## Composition:

- Pepperoni
- Flour-based crust
- Tomatoes
- Cheese

**Packaging:** Must be able to withstand parachute drops from 380 meters and non-parachute drops of 30 meters

## Shelf life:

- 18 months if kept frozen (0°C)

Energy: approx. 280  
Calories per  
standard serving

## Steps to Prepare:

Unwrap pizza. Place  
on baking sheet.  
Bake 13-15 minutes  
at 400°F



## Shelf life:

- 3.5 years at 27°C  
or below
- 9 months at 38°C

## Energy:

1200 Calories per  
package, including  
sides

## Steps to Prepare:

Cut open polybag  
containing flameless  
heater, add pizza  
pouch & water, wait  
12-15 min.

## Market factors:

- Strong competition among producers
- Large volume – more than \$3 billion in sales in 2017

**MATURE  
MARKETPLACE = low  
price**



## Market factors:

- In development – no product satisfying the government’s requirements yet exists

**IMMATURE  
MARKETPLACE =  
high price**



How can we determine a fair and reasonable price? What is Price analysis vs Cost analysis?

# Commercial Item Pricing

- Evaluate price, not cost
  - Cost plus a certain profit is not the F&R way to look at commercial pricing
  - PB&J example
- Be a prudent business person
- Understand the competitive market conditions
  - Direct competition, if commercial, why isn't it being competed
  - Who makes products/services similar? Who buys besides USG?
- Reasonable knowledge of the market
  - What has the Government paid, what do others pay?
  - What is the value of the item/service; complexity, risk, difficulty
- Collecting data, and compiling it all to make informed recommendation

- Price Analysis Techniques
  - Comparison to other prices received from other companies
  - Comparison to historic prices paid
  - Parametric estimating methods
  - Government cost estimates
  - Market research on same or similar items (NDAA 2017 – required)
  - Data other than certified cost or pricing data
  - Value based pricing (NDAA 2017 – allowable)
- What we do (CIG)
  - Combination of as many techniques as possible





- Tastes great
- Convenient location
- Fair trade sourcing
- Costs \$5 to make 12 oz. cup
- Customer price is \$6
- 20% markup on the sale



- Tastes great
- Convenient location
- Fair trade sourcing
- Costs \$2.50 to make 12 oz. cup
- Customer price is \$5
- 100% markup on the sale



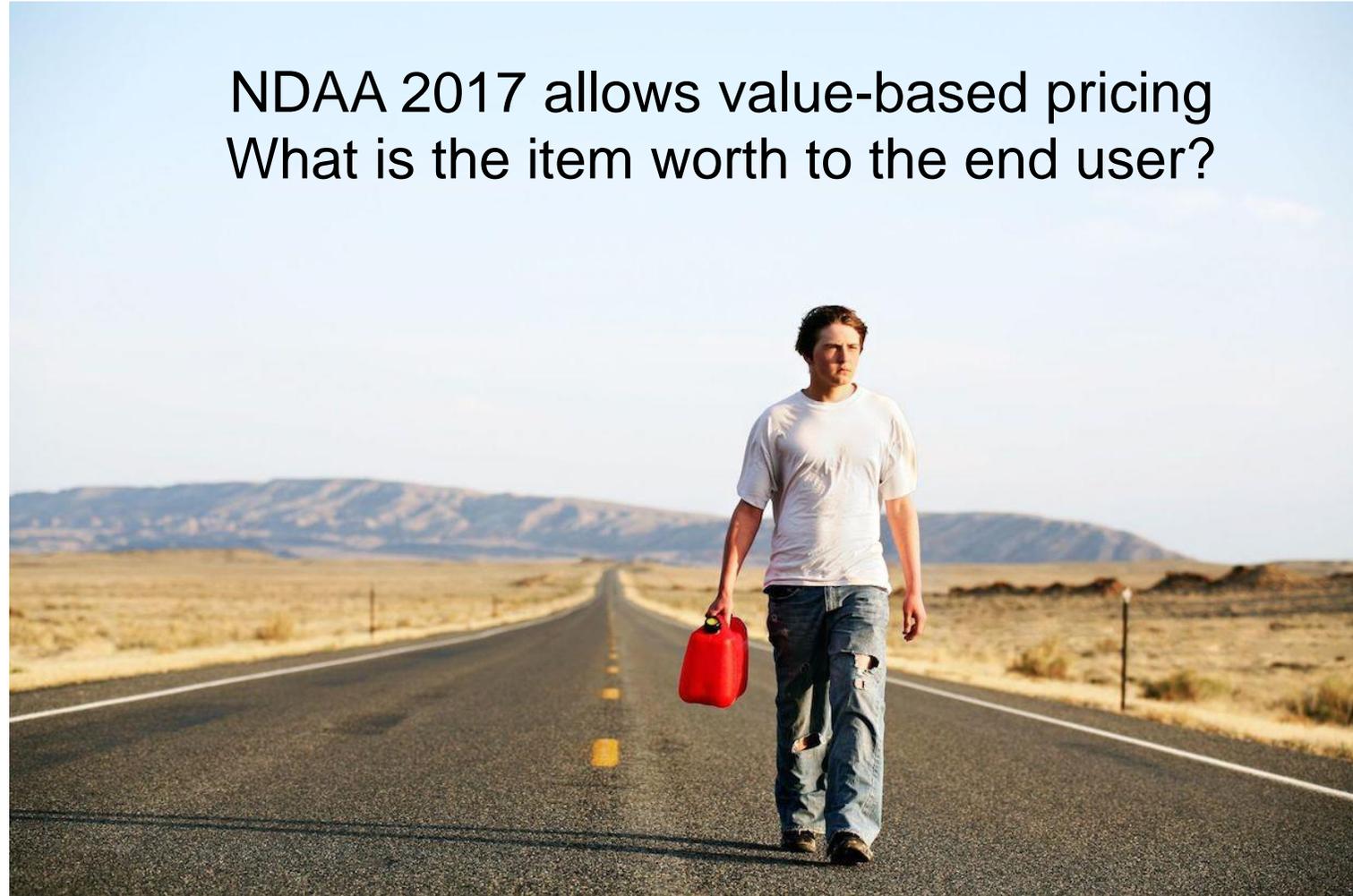
## Gather data:

- Advertisements for the same or similar items
- Competitor quotes
- Invoices from past procurements

## Adjust for:

- Changes in market conditions (supply, demand)
- Cost of starting or re-starting production
- Quantity
- Escalation
- Delivery schedule, warranty, other contract terms & conditions

NDAA 2017 allows value-based pricing  
What is the item worth to the end user?



# Commercial Part Example

- Buying a Valve
  - Contractor makes custom valves for various military and commercial application
- Review the contractors proposal
  - Contractor provides data showing various part numbers and technical specifications, including price for each valve they made
  - Never made this specific valve before, but they have sold valves commercially

Is the valve commercial?

- We are going to review to see if it fits into “of a type”
  - Compare the Form, Fit and Function of the commercially sold valves, to the one we are buying.

- Contractor provided sales history of commercial sales
- CIG performed mkt research and found other similar for sale
- Government-requirements
  - 2.25" diameter
  - 2000 PSI
  - 10" long
  - Max Temp 2,000 degrees

Is the valve commercial?

- CIG opinion is yes. This fits into the “of a type” scope, not offered for sale; therefore, *definition 3*

Part Numbers	Diameter	Material	Pressure Rating (psi)	Length (")	Temperature	Average Price
KTR Part No 001	2.25"	Steel	250	8"	750	\$ 56,550
KTR Part No 002	4.4"	SS	125	14"	4000	\$ 16,964
KTR Part No 003	2.25"	Steel	125	8"	750	\$ 30,476
KTR Part No 004	2.25"	Steel	125	8"	2000	\$ 26,469
KTR Part No 005	2.25"	SS	125	8"	1250	\$ 26,670
KTR Part No 006	2.25"	Steel	125	8"	750	\$ 25,846
KTR Part No 007	2.25"	Steel	125	8"	750	\$ 36,725
KTR Part No 008	7.6"	Steel	125	24"	2000	\$ 63,603
KTR Part No 009	2.25"	Steel	150	8"	750	\$ 21,123
KTR Part No 010	2.25"	Steel	125	8"	450	\$ 15,669
KTR Part No 011	2.25"	SS	125	8"	750	\$ 21,603
KTR Part No 012	2.25"	Steel	125	8"	750	\$ 10,754
KTR Part No 013	1.25"	SS	3000	4.5"	450	\$ 15,269
KTR Part No 014	1.25"	SS	3000	4.5"	750	\$ 17,607
MKT Part No 001	1.25"	SS	3000	4.5"	1250	\$ 21,426
MKT Part No 002	1.25"	SS	3000	4.5"	2000	\$ 25,263
MKT Part No 003	2.25"	SS	600	8"	750	\$ 28,043
MKT Part No 004	2.25"	SS	125	8"	750	\$ 23,980
MKT Part No 005	2.25"	SS	300	8"	1250	\$ 27,723
MKT Part No 006	2.25"	SS	675	8"	1250	\$ 20,806
MKT Part No 007	2.25"	SS	150	8"	750	\$ 22,007
MKT Part No 008	4.4"	Steel	125	14"	1250	\$ 14,786
MKT Part No 009	4.4"	SS	200	14"	4000	\$ 44,631
MKT Part No 010	4.4"	SS	150	14"	7500	\$ 23,356

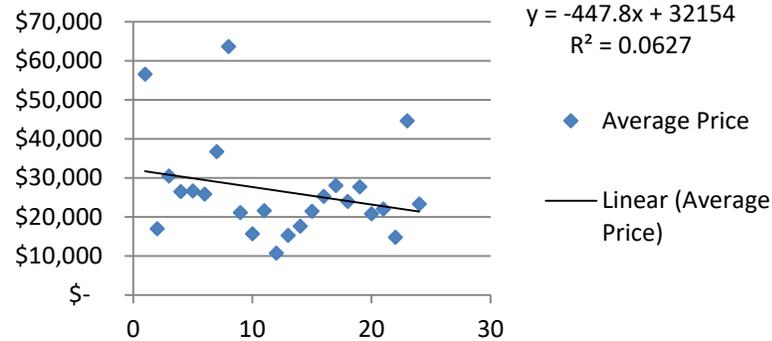
- What about pricing?
  - KTR proposed \$50k
  - Some are higher some are lower

Is \$50k reasonable?

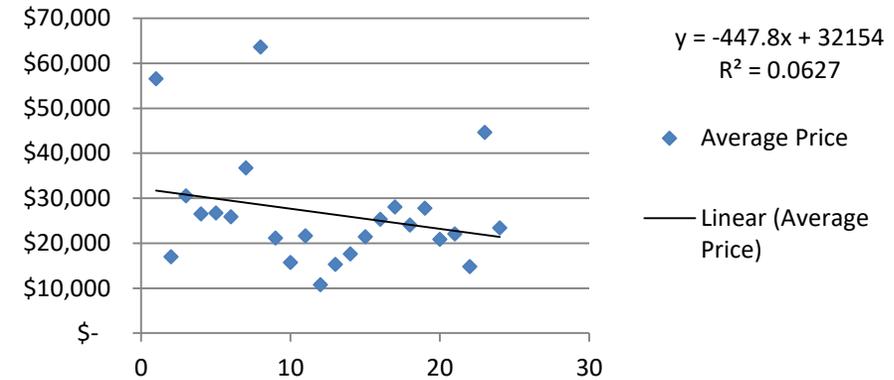
- Let's Compare various technical specs to the average price sold/offered for sale

Part Numbers	Diameter	Material	Pressure Rating (psi)	Length (")	Temperature	Average Price
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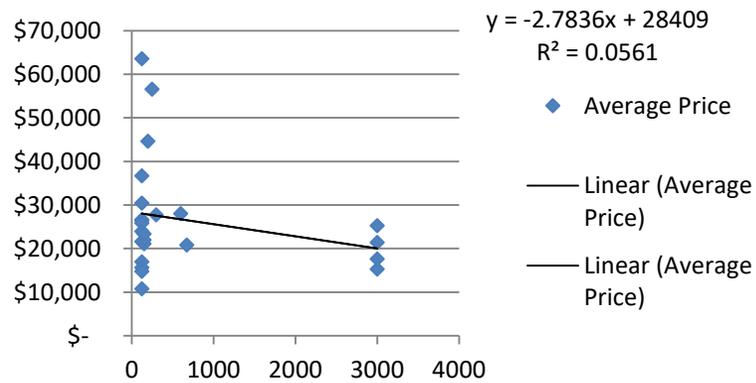
### Length



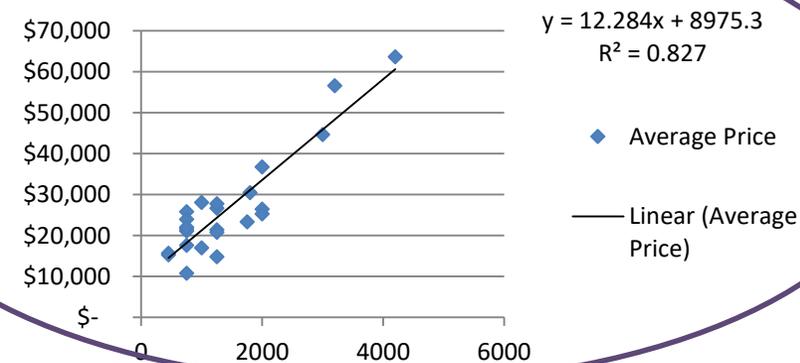
### Diameter



### PSI



### Temperature



# Commercial Part Example

- Using the model that Temperature is a cost driver
  - $12.284(2000) + 8975.3 = \underline{\$33,543}$

Is \$50k reasonable?

- RFI to contractor. You haven't given us supporting data for a \$50k price
- Government Requires additional testing, that we don't do commercially

Wait, is this still a commercial value?

- RFI to contractor. Need more information regarding the testing
- Tests are all offered/performed commercially, frequency was different
- CIG bottoms up estimated the value of the tests, \$2,500; total \$36,043

Is \$50k reasonable? – No, not based off the information provided, plus market research. CIG recommends \$36k

The DCMA Commercial Item Group is available to:

- Provide expert assistance to DoD buying commands
- Support DCMA offices in performance of CPSRs
- Provide training
- Work with contractors to streamline the buying process

[Commercial@dcma.mil](mailto:Commercial@dcma.mil)

[www.dcma.mil/commercial-item-group](http://www.dcma.mil/commercial-item-group)



# BACKUP SLIDES

These MOAs are agreements between DCMA and prime contractors on how to work together to streamline government reviews of commercial item pricing. Key features:

- Scope usually not limited to a single program or sale
- Does not limit or usurp authority of Contracting Officer to make commercial item determinations
- Can be cancelled unilaterally by either party at any time

Helps to build the “Common Framework”

