

KEY ELEMENTS OF AN AMNOW COST PROPOSAL



Introductions

**PRESENTER: MARINA WALTON
CONSULTANT, GCA-COACH
GCA-COACH.COM**



Almost everything you need to know!

- REVIEW THE AMNOW TEAM PROCUREMENT PROCESS IN GENERAL TERMS
- COMPARE AND CONTRAST COMPETITIVE PROCUREMENT VS NEGOTIATED PROCUREMENT
- INTRODUCE COMMON COST ELEMENTS OF A NEGOTIATED PROCUREMENT

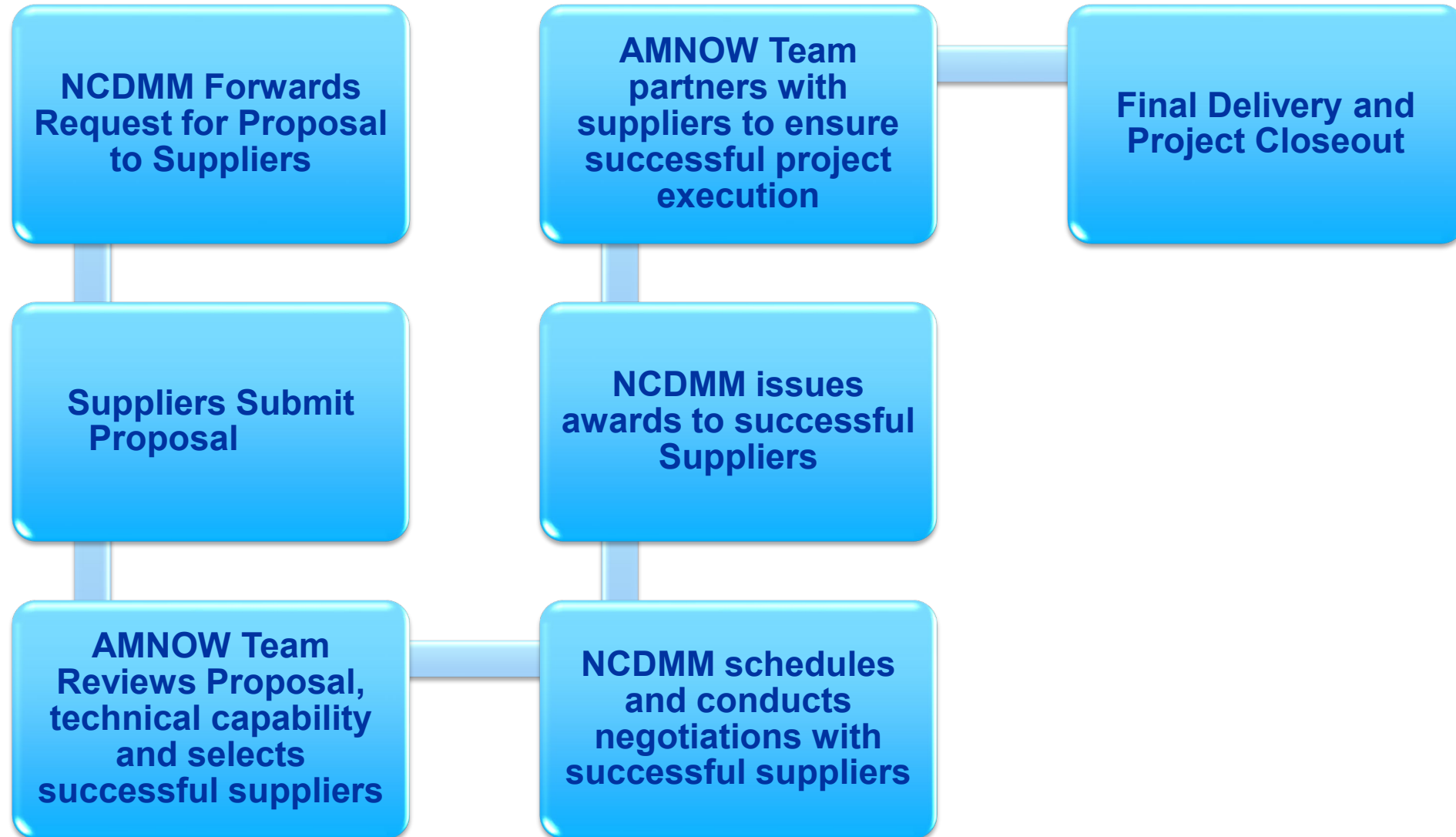
BACKGROUND

AMNOW OBJECTIVES

- DEVELOP A DIGITAL ADDITIVE MANUFACTURING SUPPLY CHAIN (DAMSC)
- INTRODUCE NEW SUPPLIERS TO GOVERNMENT CONTRACTING
- ENCOURAGE SMALL BUSINESS SUPPLIER GROWTH IN WESTERN PA AND EASTERN OH

AWARD \$ FLOW: ARMY →ATI →NCDMM →YOU

AMNOW Procurement Process



COMPETITIVE VS NEGOTIATED

A competitive bid requires invited suppliers to provide their best possible price. Ultimately, the lowest responsive, responsible supplier is awarded the contract.

A negotiated proposal requires a technical evaluation of the cost/price elements once the proposal is deemed to be an adequate basis for negotiations. The parties enter into negotiations, discuss individual cost elements (direct material, direct labor, overheads etc.) and agree upon a final price.

HOW DOES AMNOW TEAM DETERMINE WHAT IS A FAIR AND REASONABLE PRICE

Easy decision to always pay the lowest price OR

Complex decision encompassing multiple price or cost factors that you must explain and support, based on your professional judgement

PRICE ANALYSIS VS COST ANALYSIS FOR FAIR AND REASONABLE DETERMINATION

- Price Analysis evaluates the proposed price **without** evaluating the individual cost elements
- Cost Analysis evaluates the proposed price by evaluating the individual cost elements
- Most negotiations employ a combination of price and cost analysis

**THE ULTIMATE GOAL IS A FAIR AND REASONABLE FINAL NEGOTIATED
AWARD**

COMMON COST ELEMENTS

Cost Objective: When calculating an indirect rate, a contract, production line or product is the cost objective. It allows for collecting cost data in the accounting system to accumulate and measure those costs. Suppliers can easily determine profitability, revise product pricing, track developmental costs of a new product or product line and so on.

Direct Cost: Is any cost that can be traced directly to one specific cost objective. Direct cost Includes direct material, direct labor and other direct costs **traceable** to that single cost objective.

- Direct Material – Bill of Material, Raw Material
- Direct Labor – Labor Category, Labor Hours, Labor Rate
- Other Direct Cost – Any direct cost not Direct Material or Direct Labor

Indirect Cost: Is a cost NOT directly identified with one specific cost objective but identified with two or more cost objectives (machine oil, personnel costs, electricity, building maintenance, etc).

- Material Handling and Labor overhead costs: support a specific part or function of the company but not the entire company.
- General and Administrative (G&A) costs: Broad type of expense incurred for general management and overall administration of the business as a whole.

INDIRECT COST: (continued)

Indirect Cost Rate is calculated as follows:

$$\frac{\text{Total indirect costs in cost pool}}{\text{Applicable cost allocation base}}$$

INDIRECT COSTS ARE EXPRESSED AS A RATE

INDIRECT COST: (continued)

Cost Pools: a collection of indirect costs that are similar to each other.

- Material Handling Cost pool includes cost of equipment to move materials, warehouse labor, warehouse storage, etc
- Labor Overhead Cost pool includes cost of indirect labor (example: managers) fringe benefits relating to that labor, supplies for the labor, etc
- General and Administrative (G&A) pool includes the day to day operational cost of running a business. It includes building rent, utilities, senior managers, HR office, IT, legal fees etc.

MATERIAL HANDLING COST POOL EXAMPLE

<u>Month</u>	<u>Actual</u>	<u>Forecast</u>
January	46	
February	45	
March	41	
April	44	
May	39	
June	43	
Aug	46	
Sep		49
Oct		49
Nov		49
Dec		49

Total \$500 as of Sep 3, 2020

INDIRECT COST: (continued)

Cost Allocation Base: Use one or more of the following factors as the base to determine the indirect cost rate:

Base

Direct Material Dollars

Direct Labor Dollars or
Direct Labor Hours

Total Cost Input (TCI)
(all costs except G&A)

To Determine

Material Handling Overhead

Labor Overhead

G&A Overhead

HOW TO CALCULATE INDIRECT RATES

		Pool divided by Base
Material Handling Cost Pool	\$ 500	
Direct Material Cost (base)	\$5,000	Material Handling O/H Rate: 10%
Labor Overhead Cost Pool	\$ 320	
Direct Labor Cost (base)	\$ 400	Direct Labor O/H Rate: 80%
Other Direct Costs	<u>\$1,600</u>	(Only receives G&A O/H)
Total Cost Input (base)	\$7,820	
G&A Expense Pool	\$1,680	
Total Cost Input (base)	\$7,820	G&A O/H rate: 21.48%

HOW TO COMPUTE PROPOSAL COST

	Dollars	Rate
Direct Material	\$25.00	
Direct Labor	\$60.00	
Other Direct Costs	\$10.00	
Total Direct Costs	\$95.00	
Overheads:		
Material Handling	\$2.50	10%
Labor Overhead	\$48.00	80%
Total Cost Input	\$145.50	
G&A Cost	\$31.25	21.48%
Total Cost (before Profit)	\$176.75	

AMNOW Price/Cost Proposal Form

Material Cost

DETAIL DESCRIPTION OF COST ELEMENTS			
1. DIRECT MATERIALS (Attach Itemized Listing for all Purchased Parts, Purchased Items or Services, Raw Materials, Standard Commercial Items, or Interdivisional Transfers at Other than Cost)	Estimated Cost	Total Estimated Price/Cost	Attachment Reference
Raw materials	25.00		BOM.pdf
TOTAL DIRECT MATERIALS		25.00	
2. MATERIAL OVERHEAD (Rate 10.00% x \$ 25.00 Base)		2.50	

AMNOW Price/Cost Proposal Form

Labor Cost

3. DIRECT LABOR (Specify) -- Additional Sheet May be Used	Estimated Hours	Hourly Rate	Estimated Costs		
Technician I	2.00	30.00	60.00		Labor.pdf
			0.00		
			0.00		
TOTAL DIRECT LABOR				60.00	
4. LABOR OVERHEAD & FRINGE BENEFITS (Specify Cost Center)	OH Rate	x Base	= Est. Cost		
Labor	80.00%	60.00	48.00		
	0.00%		0.00		
TOTAL LABOR OVERHEAD				48.00	

AMNOW Price/Cost Proposal Form

Total Cost (before profit)

5. EQUIPMENT TO BE PURCHASED OR FABRICATED FOR PROJECT (If a direct cost, include itemized list on separate sheet)		
6. TRAVEL (If a direct cost, include itemized list on separate sheet)		
7. LOWER-TIER SUBCONTRACTORS (Include a similar breakdown on attached sheet or form)		
8. CONSULTANTS (Identify on a separate sheet – purpose -- rate -- days -- expenses)		
9. OTHER DIRECT COSTS (Identify on a separate sheet)	10.00	ODC.pdf
10. TOTAL PRICE/COST AND OVERHEAD	145.50	
11. GENERAL AND ADMINISTRATIVE EXPENSE/INDIRECT EXPENSE (Specify Rate <u>21.48%</u> and Cost Element Nos. _____)	(Enter Amount) 31.25	
12. Royalties (Provide Required Supporting Documentation)		
13. TOTAL PRICE/COST	176.75	

SUPPORT DOCUMENTATION FOR DIRECT MATERIAL (DM) COSTS

- Bill of Material (BOM) (supplier quote or invoice)
- Explanation of DM quantity needed (XX lbs for every 3 parts)
- Narrative description of scrap/spoilage expected

SUPPORT DOCUMENTATION FOR DIRECT LABOR (D/L) COSTS

- Hours proposed by labor category
- Hourly rate (straight, blended, fully loaded)
- Narrative description of how the needed hours and labor mix and labor rates were determined and why they are needed to manufacture end item.

SUPPORT DOCUMENTATION FOR OTHER DIRECT COSTS (ODC)

- Any direct cost that is not labor or material
 - Shipping costs
 - Machine run hours
 - Vendor costs (out-sourced processes)

PROFIT

- Definition: that element of the total payment that the supplier receives for performance over and above allowable costs
- It does not necessarily represent net income to the supplier
- It is in everyone's interest that the supplier be profitable.

WRAP UP