Mastering Proposal Price Reasonableness in Government Procurement

Why Price Reasonableness Matters More Than Ever

If you have worked in federal contracting for more than a few months, you already know that "fair and reasonable price" is not just a nice idea. It is a legal requirement under the Federal Acquisition Regulation, and it shapes every competitive and sole-source procurement decision. But what does that phrase really mean when you are sitting across from a vendor who has submitted a quote that feels either too good to be true or suspiciously padded? That is where the concept of proposal price reasonableness steps in. It gives both the contracting officer and the vendor a shared framework for evaluating whether the offered price reflects the actual cost of performance, plus a fair profit margin, without leaving taxpayer dollars on the table.

Over the years I have watched procurement teams wrestle with this. They bring spreadsheets, historical data, even gut feelings to the table. And while intuition has its place, the government needs a method that can stand up to audit and protest. That is why understanding proposal price reasonableness is not optional. It is the foundation of a defensible award.

What Proposal Price Reasonableness Actually Means

At its core, proposal price reasonableness asks a simple question: is the price too high? But the answer rarely comes from a single number. It comes from comparing the proposed price against something objective. That could be an independent government cost estimate, a competing offer from another qualified vendor, or even the vendor's own cost breakdown. The key is that the price must be justifiable based on the work required, not on market hype or guesswork.

I once worked with a small business that had never submitted a cost proposal before. They were terrified of pricing themselves out of the competition. Their instinct was to slash every line item until the bottom line looked like a bargain. But that approach can backfire. A price that is too low may raise questions about the vendor's ability to perform. It can also trigger a responsibility review or even a pre-award audit. Proposal price reasonableness is not just about protecting the government from overpayment. It also protects vendors from underbidding themselves into a loss.

Common Methods for Evaluating Price Reasonableness

The FAR outlines several acceptable techniques for evaluating price reasonableness. Knowing which one to use depends on the type of procurement, the market conditions, and the data

available. Here are the approaches I see most often in practice:

- **Comparison with competitive offers.** This is the gold standard. When you have multiple responsive offers, the market itself sets the reasonable range. The award goes to the lowest priced technically acceptable offer, or the best value based on trade-offs, and the price is presumed reasonable.
- **Comparison with prior proposals.** For recurring requirements, historical pricing can be powerful. If the same vendor offered a similar product or service last year at a lower price, you are entitled to ask why the price increased.
- **Independent government cost estimate (IGCE).** When competition is limited or absent, the government must build its own estimate. This is common in sole-source or emergency procurements. The IGCE becomes the benchmark against which the proposed price is measured.
- **Price analysis using market data.** For commercial items, you can use published price lists, catalogs, or even online marketplaces. The key is that the data must be current and relevant to the same item or service in comparable quantities.
- **Cost analysis.** This goes deeper. Instead of comparing the total price, you break down the elements of cost: direct labor, materials, overhead, profit. You verify each piece against the vendor's records or industry standards. This is more resource-intensive but necessary for complex or high-value contracts.

Each method has trade-offs. Competitive comparisons are fast and objective but require a healthy market. Cost analysis gives you a deeper view but demands significant time and expertise. The best evaluators know how to mix and match these techniques depending on the risk and complexity of the procurement.

Common Pitfalls and How to Avoid Them

Even experienced contracting officers can fall into traps when evaluating proposal price reasonableness. One of the most common is relying too heavily on a single data point. I have seen teams accept a sole-source price simply because it was lower than the IGCE, without questioning whether the IGCE itself was accurate. Another trap is treating all offers as comparable when they are not. A vendor offering a higher price might be including additional services or a longer warranty. You have to adjust for those differences before declaring a price unreasonable.

Another issue is timing. Prices that were reasonable six months ago may no longer reflect the market, especially in volatile sectors like construction, IT hardware, or pharmaceuticals. I recommend always checking the date on your comparison data. If the market has shifted, you may need to request updated pricing or adjust your estimate.

Finally, do not overlook the vendor's own explanation. Many vendors include a price narrative or a cost breakdown with their proposal. That narrative can reveal whether the vendor understands the requirement, or whether they are simply guessing. A vendor who can explain their pricing in detail usually has a better handle on the work. That alone can support a finding of reasonableness, even if the price is on the higher end of the range.

Documenting Your Decision

The documentation of your price reasonableness determination is just as important as the analysis itself. A well-written price negotiation memorandum or price reasonableness memorandum should describe the method used, the data considered, and the rationale for the conclusion. It should also address any discrepancies or questions that arose during the evaluation. I always tell my teams: write the memo as if you know the award will be protested. If your file can answer every question a GAO auditor would ask, you are in good shape.

One practical tip is to include a summary table showing the proposed price, the comparison price or estimate, and the percentage difference. That gives reviewers a quick snapshot. Then follow it with a narrative that explains why the difference is or is not acceptable. For example, if the proposed price is 10 percent above the IGCE, you might note that the vendor included a more aggressive quality assurance plan that the IGCE did not account for.

Practical Advice for Contracting Officers

Over the years I have learned a few lessons that do not always make it into the training manuals. First, never skip the market research step. Even if you are using a competitive process, understanding the market helps you interpret the offers. Second, do not be afraid to ask vendors for clarifications. A simple question like "Can you explain the basis for your labor rate?" can uncover assumptions that affect price reasonableness. Third, use your technical team. They often know the work better than anyone and can spot when a price does not match the effort required.

Finally, remember that proposal price reasonableness is not a single fixed number. It is a range. Two different vendors could offer two different prices, and both could be reasonable based on their cost structures and profit objectives. Your job is to determine whether the price you are paying is fair to the government and the taxpayer, not whether it is the absolute lowest possible price.

When Price Reasonableness Gets Complicated

Not every procurement is straightforward. In a recent negotiation for a large IT modernization effort, the vendor submitted a price that was 30 percent above the competitive range. The

contracting officer was ready to reject it outright. But when we sat down with the vendor, they showed us that their solution included a proprietary cybersecurity tool that no other offeror had. That tool added real value. After a cost analysis and a trade-off discussion, we determined that the higher price was reasonable given the additional capability. The award went through without a protest, and the customer was satisfied.

That example illustrates a broader truth: proposal price reasonableness is not about picking the cheapest option. It is about making a defensible judgment based on evidence. The more you treat it as a structured evaluation rather than a simple check-box, the better your outcomes will be.

Final Thoughts

Price reasonableness is one of those areas where the rules give you plenty of room to exercise professional judgment. Use that room wisely. Build your skills in cost analysis, stay current with market trends, and never stop asking questions. The vendors will respect you for it, and your awards will stand up to scrutiny. In the end, that is what procurement integrity is all about.