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ACQUISITION
TECHNOLOGY
AND LOGISTICS

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ARMY
(POLICY AND PROCUREMENT), ASA(ALT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(ACQUISITION MANAGEMENT), ASN(RDA)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
DIRECTOR OF DEFENSE LOGISTICS AGENCY

SUBJECT: Report on Price Trend Analysis of Exempt Commercial Items

Submission for the subject price trend analysis for Fiscal Year (FY) 2006 are due into DPAP, Attention: John McPherson, by February 26, 2007. Submissions must be in the same format as used in the 2005 report, which is attached.

Section 803(c) of the Strom Thurmond National Defense Authorization Act for Fiscal Year (FY) 1999 (Public Law 105-261), as amended by section 823 of the Bob Stump National Defense Authorization Act for Fiscal Year 2003 (Public Law 107-314), requires the Department of Defense (DoD) to perform price trend analysis on categories of certain commercial items in a single Federal Supply Group or Federal Supply Class, provided by a single contractor, or otherwise logically grouped for the purposes of analyzing information on price trends. In addition, section 803(c) provides that items selected for analysis should be those for which there is a potential for the price paid to be significantly higher (on a percentage basis) than prices previously paid in procurements of the same or similar items for DoD.

My point of contact for this memorandum is John McPherson and he can be reached at 703-602-0296 or via e-mail at john.mcpherson@osd.mil.

Shay D. Assad
Director, Defense Procurement and
Acquisition Policy

Attachment:
As stated



**REPORT ON
PRICE TREND ANALYSIS
OF EXEMPT COMMERCIAL ITEMS**



Prepared by OUSD(AT&L)

Fiscal Year 2005

**Furnished in Response to
Subsection 803(c), as Amended, of the
Strom Thurmond National Defense Authorization Act
For Fiscal Year 1999
(Public Law 105-261)**

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1. EXECUTIVE SUMMARY

Section 803(c) of the Strom Thurmond National Defense Authorization Act for Fiscal Year (FY) 1999 (Public Law 105-261), as amended by section 823 of the Bob Stump National Defense Authorization Act for Fiscal Year 2003 (Public Law 107-314), requires the Department of Defense (DoD) to perform price trend analysis on categories of certain commercial items in a single Federal Supply Group or Federal Supply Class, provided by a single contractor, or otherwise logically grouped for the purposes of analyzing information on price trends. In addition, section 803(c) provides that items selected for analysis should be those for which there is a potential for the price paid to be significantly higher (on a percentage basis) than prices previously paid in procurements of the same or similar items for DoD.

Most of DoD's price trend analysis is performed by the Defense Logistics Agency (DLA), which has procurement responsibility for most of the commercial consumable items bought by DoD. DLA experienced an average materiel cost growth rate of 1.69 percent, compounded per year, for approximately 362,000 stock numbered commercial items over a thirteen-year period (FY93-05). This average falls between comparable Producer Price Index and Consumer Price Index average growth rates of 1.31 percent and 2.32 percent, respectively.

DLA's price history database represents the core knowledge base for future DoD price trend analysis efforts. DLA has applied lessons learned from performing the price trend analyses directed by section 803(c) to initiate development of automated information technology tools to assist buyers in evaluating price reasonableness of offered prices. Moreover, the purchase history of items managed by the Military Departments (MILDEPS) is included in DLA's comprehensive procurement history to enhance the effectiveness of its analytical tools. For this report, the MILDEPS examined price histories of individual items to determine whether recent prices are consistent with prior prices paid. Information from previous reviews has been used to improve the training of their contracting professionals in the pricing of commercial items.

2. BACKGROUND

Section 803(c) of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261; 112 Stat. 2082; 10 U.S.C. 2306a note) required the Secretary of Defense to develop and implement procedures that provide for the collection and analysis of information on price trends for categories of sole-source commercial items. Per the statute, categories of items should be in a single Federal Supply Group (FSG) or Federal Supply Class (FSC), provided by a single contractor, or otherwise logically grouped for the purpose of analyzing information on price trends. Price trend analysis is to be performed where there is a potential that prices paid will be significantly higher (on a percentage basis) than the prices previously paid in procurements of the same or similar

items for DoD. The statute further directed that the head of a DoD agency or the Secretary of a Military Department take appropriate action to address any unreasonable escalation in prices being paid for items procured by that agency or Military Department, as identified by the price trend analysis. Finally, Section 803(c)(4) required the submittal of an annual report to Congress by April 1, 2000, with follow-up reports annually by April 1 of 2001 and 2002, respectively. The reports were to address the price trend analyses conducted during the preceding fiscal year and to describe actions taken by agency heads and the Secretaries of Military Departments to identify and address unreasonable price escalation revealed by the trend analyses.

The Director, Defense Procurement and Acquisition Policy (DPAP) established a working group to assemble price trend analysis input from DLA and the MILDEPS. The working group requested DLA and the MILDEPS to: (1) identify parts or categories of parts selected for study, including the criteria and methods used for selecting those parts; (2) review price trend analyses completed for parts or categories of parts selected for study; and (3) describe actions taken or policies issued by their organization to address unreasonable price escalation.

In FY 2003, the requirements of Section 803(c) were amended to extend the reporting requirement for an additional four years (Section 823 of the Bob Stump National Defense Authorization Act for Fiscal Year 2003 (P.L. 107-314)). This document consolidates the information submitted to the Director, DPAP by DLA and the MILDEPS for the purpose of inclusion in the seventh such annual report.

Consistent with the methodology followed in accomplishing reviews reported in the DoD annual reports for Fiscal Years (FYs) 2000 through 2005, DLA analyzed commercial item price trends by Inventory Control Point (ICP)/Commodity and by competitive and Consumable Item Transfer (CIT) status. DLA compared their price trends in these different categories to trends in price indices from the Bureau of Labor Statistics (BLS). These approaches were in accord with the statutory direction that prices be reviewed for categories of items logically grouped for the purpose of analyzing information on price trends. DLA's analyses pursuant to the Section 803(c) study requirement are part of DLA's overall effort to monitor price changes in order to prevent excessive increases in customer prices.

During the seventh study year, DLA updated summary data from the previous study years. It measured material cost movement on a population exceeding 362,000 stock-numbered commercial items (consumables, clothing & textile, and medical), broke out the expenditures, and computed the cost movement for the subset of noncompetitive commercial items. In contrast with DLA, the MILDEPS have pursued different strategies for identifying exempt commercial items they continue to buy that they believe could be at risk for unusual or unexplained price escalation. The Army reviewed the price history of 293 contract actions that were awarded in FY 2005 using Federal Acquisition Resolution (FAR) Part 12 procedures. These 293 procurements were considered to be at risk for unusual escalation because they were purchased on a sole-source or on a competitive, but only one bid received, basis. The Navy sampled its procurement database to identify FSCs

that figure prominently in its commercial spares procurements, while the Air Force developed the Contracting Business Intelligence System to analyze its price trend data.

To identify sole-source commercial items, the MILDEPS screened the DoD database of DD Form 350 Individual Contracting Action Reports (DD350). This database compiles procurement data on contract actions over \$25,000. The extent of that screening is described later in this report.

3. PRICE TREND ANALYSIS

A. Defense Logistics Agency

i. Methodology

Excluding Subsistence and Fuel items, DLA managed over 3.7 million stock-numbered items at the end of FY05, of which over 2.2 million were considered commercially available to the general public. All Medical items and Clothing and Textile (C&T) items were considered commercial for purposes of DLA's price trend study effort. The commerciality of Hardware items was determined through probability assessments from a neural network model known as COTSNet (Commercial Off The Shelf Net), which is an upgraded version of the former On-Demand Manufacturing (ODM) neural network model previously developed on behalf of DLA and used in developing the first three of DLA's 803(c) study efforts.

In its continuing review of price trends, DLA measured materiel cost movements involving over 362,000 commercial items. The population period for identifying the commercial items to be tracked in DLA's first year study (FY96 through FY98) was retained for all succeeding studies, to enable comparability of study results. More than 707,000 different stock-numbered items, both commercial and non-commercial, were purchased during this three-year time frame, but over 362,000 remained for cost measurement purposes, after exclusion of noncommercial items and due to the use of various filters and data processing procedures.

DLA has continued to calculate Materiel Cost Index (MCI) numbers to measure DLA materiel cost trends. The Fisher Ideal Index Formula was again used because it is not biased, is very accurate, and is currently used by BLS and the Bureau of Economic Analysis. The chained-base comparison approach was used to show cost movement over time because it was able to measure more items and be more representative of the current market place than any other approach investigated. Thus, the Fisher Ideal Index Formula, coupled with the chained-base comparison technique, was used to measure materiel cost growth for DLA commercial items.

The procurement data available for use in measuring DLA's materiel cost growth cannot be normalized to enable exact price trend measurement because many of the variables that influence price were not recorded. DLA's procurement data reflect the types

of goods it typically buys and the various methods it typically uses. These include emergency purchases; different contracting methods used to buy the same item; varying quantity purchases, sometimes extreme, for the same item; and different price breaks for the same item over time. Since the impact of such factors has not been quantified, normalization to eliminate the impact of these differences has not been accomplished. Accordingly, index calculations using DLA data depict changes in materiel cost, which include the impact of any changes in buying practices, quantities, and price breaks between time periods.

ii. Summary Results

Materiel cost movement was measured on the commercial population of 362,164 National Item Identification Numbers (NIINs) representing \$5,183.6 million from the population period. From FY93 to FY05, the maximum number of NIINs compared between adjacent FYs was 283,537 for FY98 and FY99 and the least number of evaluations was 104,527 for FY04 and FY05.

The following discussion of DLA's materiel cost movements proceeds from the highest to the lowest level of aggregation. First, the MCI trend and annual growth charts for all DLA commercial items are presented. Next, the MCI trends are examined at the competitive and noncompetitive levels. Finally, the noncompetitive items are further evaluated at the CIT and ICP/Commodity levels.

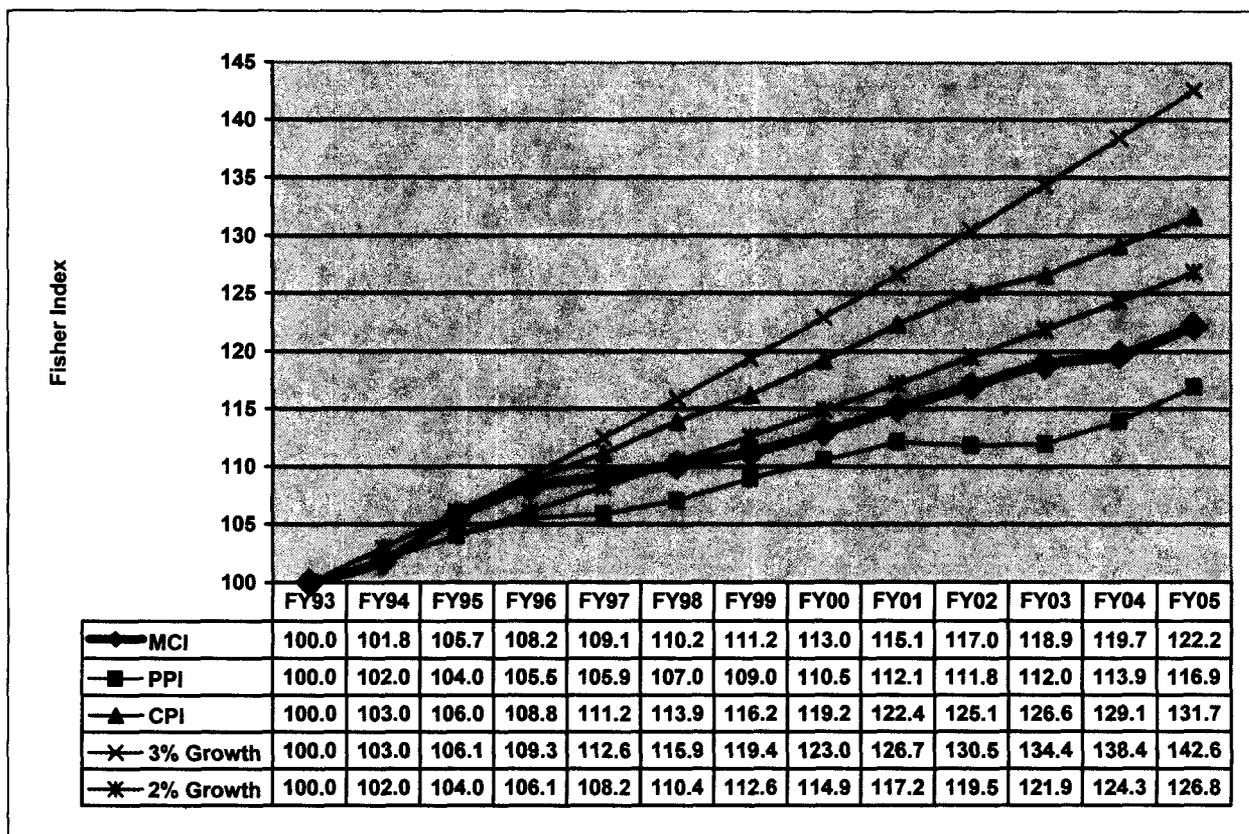
a. DLA Commercial Cost Trends.

Spanning the thirteen-year period from FY93 through FY05, Figure 1 (next page) compares the annual cost movement of DLA's 362,164 stock-numbered, commercial items as identified using the COTSNet neural network model, against four benchmarks--an overall Consumer Price Index (CPI), a similar, top-level Producer Price Index (PPI), and two constant growth lines of two and three percent.

The cost movement of DLA's commercial items continues to compare favorably with the standard benchmarks. DLA's MCI trend is 122.2 over the thirteen-year span, well below the two percent growth line. Of the four benchmarks, only the PPI showed lower price growth. DLA's overall growth of 22.2% equates to an average annual growth rate (compounded) of 1.69%. Comparatively, the PPI and CPI compounded growth averages over the same period were 1.31% and 2.32%, respectively.

Figure 1

DLA's Commercial Cost Movement versus Price Growth Benchmarks

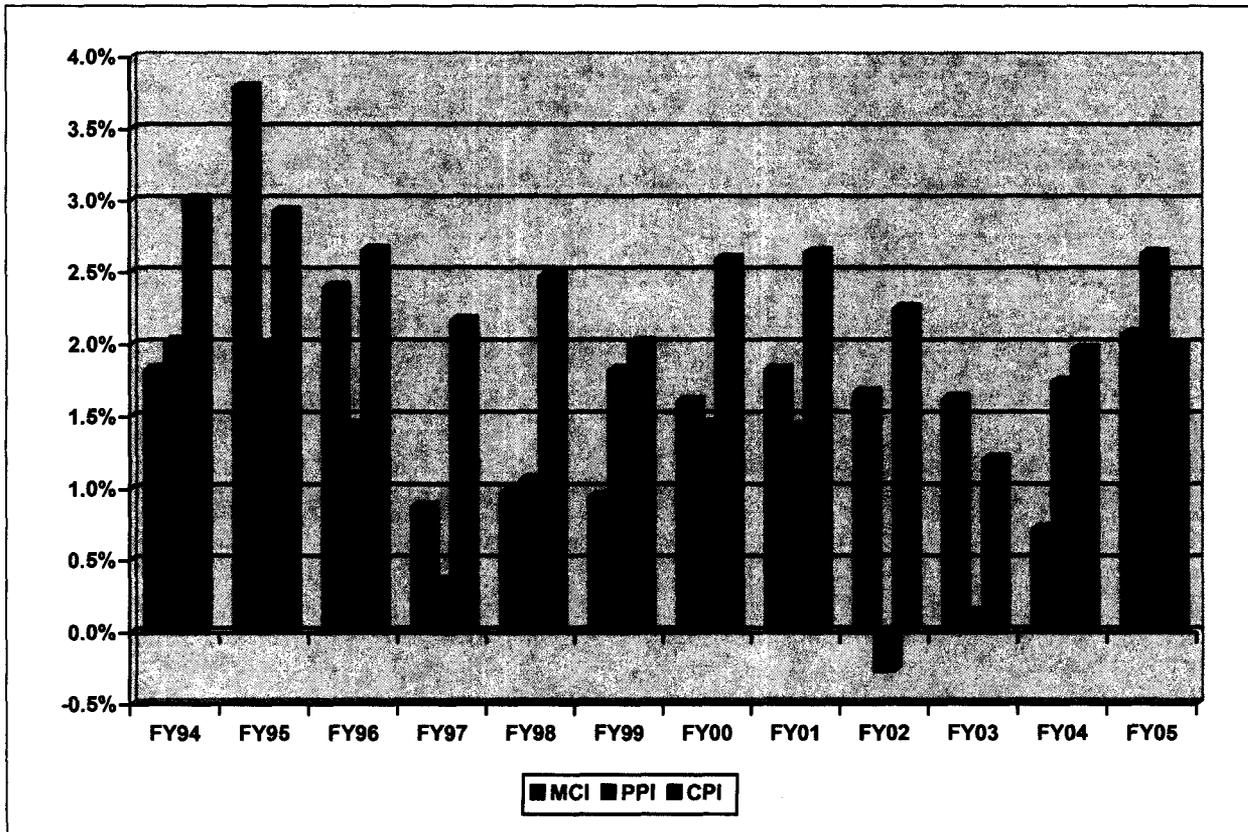


Note: Benchmarks include the CPI-U/Less Food and Energy (Unadjusted) - CUUR0000SA0L1E and the PPI Finished Goods/Less Food and Energy (Unadjusted) - WPUSOP3500.

Although lower than the PPI and comparable to the CPI, DLA experienced an increase in their MCI for FY05. Since FY96, DLA's average commercial cost movement had been below 2% annually. Figure 2 (next page) shows DLA's highest annual growth was 3.78% for FY95. DLA's yearly growth rate declined to 2.39% in FY96 and to lows between 0.87%, 0.97% and 0.94% over the next three FYs. Over the next four FYs (2000-2003), the average fell within a range of 1.60% and 1.82%. The rate decreased to a new low of 0.71% for FY04. But, for FY05, DLA's growth increased to 2.07%. However, for FY05, DLA's growth was below the PPI (2.63%) and close to the CPI (1.98%). And, since FY96, DLA's annual rates equate to an average annual growth rate of 1.36%. By comparison, the PPI and CPI have averaged an annual growth rate of 1.15% and 2.14%, respectively, over the same period.

Figure 2

Annual Growth Rate Comparisons between DLA's Commercial MCI, the PPI, and the CPI

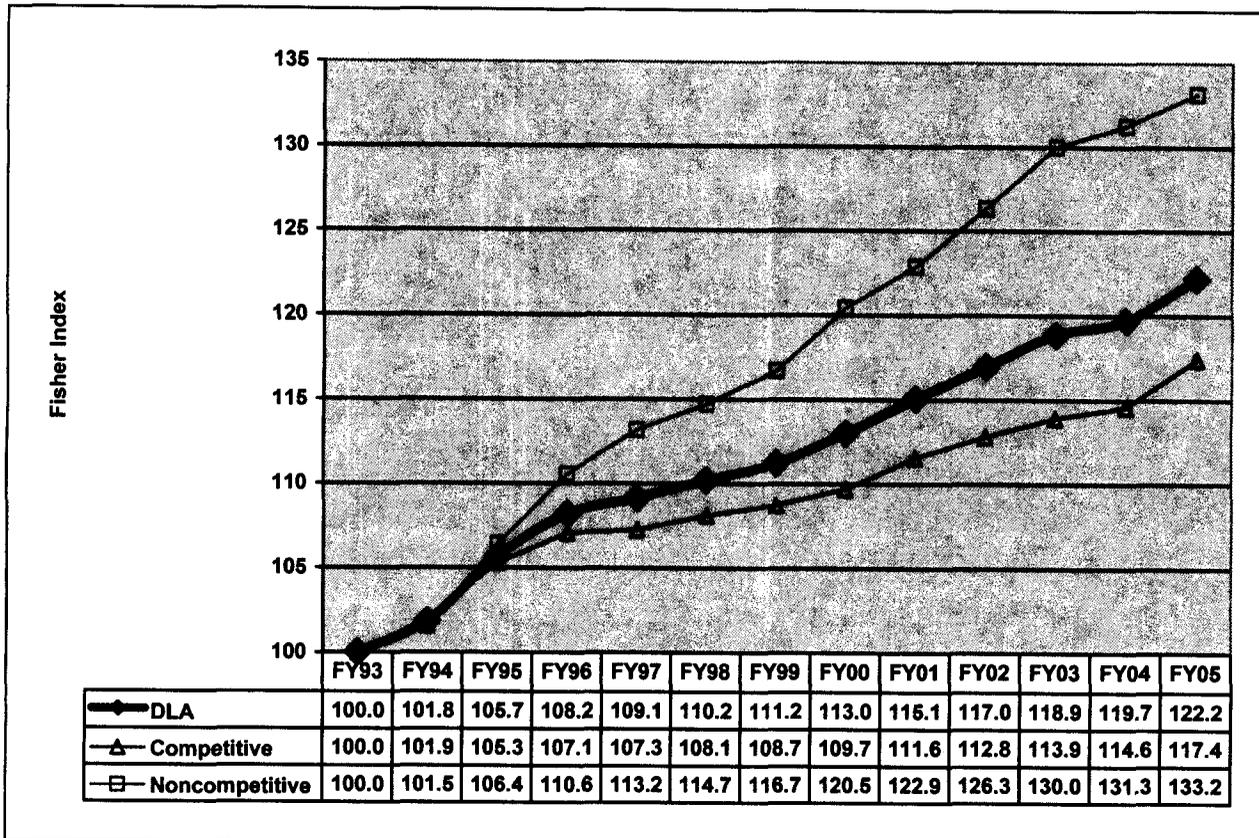


b. Competitive/Noncompetitive Subsets (Commercial Items).

DLA's commercial cost movement was further evaluated at lower levels of aggregation — competitive status, CIT status, and ICP/Commodity. At the competition level, the most recent acquisition method code (AMC) for each item was used to subdivide the stock-numbered items into competitive (AMCs 1 and 2) and noncompetitive (AMCs 3 through 5) subgroups. Figure 3 (next page) shows the cost movement results of these two subgroups.

Figure 3

Competitive vs. Noncompetitive Components of DLA's Commercial Item Price Trends



For DLA's commercial items, the cost movement of the competitive portion is roughly less than half that of the noncompetitive segment. Figure 3 shows the competitive and noncompetitive subsets of DLA's commercial MCI trend, which is also included as a reference line. DLA's competitive subset experienced 17.4% growth from FY93 through FY05, while the cost movement for DLA's noncompetitive group grew by 33.2% (almost twice as much).

The cost movements for DLA's competitive and noncompetitive commercial items are similar to the PPI and CPI trends, respectively. The PPI increased by 16.9% between FY93 and FY05 (reference Figure 1), while the cost growth of DLA's competitive items rose commensurately, though slightly higher, at 17.4% over the same period. These almost identical trends equate to average annual growth rates of between 1.31% and 1.35%. Similarly, from FY93 to FY05, DLA's noncompetitive items grew 33.2%, which is an average annual growth rate of 2.42%. At the same time, the CPI rose by 31.65% (reference Figure 1), equating to an average annual growth rate of 2.32%.

c. Examination at the CIT Level.

The MILDEPS transferred over 900,000 items to DLA management from FY91 through FY99. In addition, they sent historical procurement data to support the transferred items. Although not as complete as DLA's procurement data, the MILDEPS' procurement data were used to help add CITs to the analysis. However, since the MILDEP data came from systems outside DLA control, inclusion of this data may have adversely influenced the cost movement of some items. Thus, to check for any possible influence, the CITs were removed from the data, and the competitive and noncompetitive commercial subgroups were reevaluated.

CITs were found to influence DLA's commercial cost movement, but their effect was relatively small and limited to DLA's noncompetitive items. Table 1 (below) shows the CITs' influence on both the noncompetitive and competitive commercial items. Removing the CITs lowered the overall trend for the noncompetitive items by 3.5 percentage points. From FY93 through FY05, the noncompetitive items showed a 33.2% cost movement with the CITs included, but a 29.7% cost movement with the CITs removed. In comparison, the competitive trend actually increased, but only slightly, by 0.2 percentage points. Thus, for DLA's commercial items, the CITs influence the noncompetitive group more than the competitive group. However, this influence is small because the cost movement for the noncompetitive items is still nearly twice as much as the competitive items when the CITs are removed.

Table 1

CIT's Influence

Commercial Group	CITs	NIINs	FY96 – FY98 Obligations (Millions)	FY93 – FY05 Trend	Average Annual Growth Rate
Noncompetitive	Included	217,254	\$1,608.9	133.2	2.42%
	Excluded	202,041	\$1,468.0	129.7	2.19%
Competitive	Included	144,564	\$3,574.4	117.4	1.35%
	Excluded	133,992	\$3,439.9	117.7	1.37%

d. Subgroup Examination at the ICP/Commodity Level.

Table 2 (below) displays selected statistics for the noncompetitive items by ICP/Commodity. Along with the number of NIINs and population obligations, the overall trends and the average annual growth rates are shown for each ICP/Commodity. In addition, for comparative purposes, the last row shows the statistics for the entire noncompetitive commercial subgroup.

Table 2

Noncompetitive Commercial Statistics by ICP/Commodity

ICP-Commodity		NIINs	FY96 – FY98 Obligations (Millions)	FY93 – FY05 Trend	Average Annual Growth Rate
DSCC	C	63,294	\$322.6	142.2	2.98%
	E	30,657	\$141.5	134.4	2.51%
DSCR		31,129	\$179.7	141.4	2.94%
DSCP	G&I	73,572	\$378.1	130.2	2.23%
	M	18,062	\$255.8	145.5	3.23%
	C&T	540	\$331.2	123.8	1.81%
All		217,254	\$1,608.9	133.2	2.42%

Table 2 shows trend disparities between Commodities for the noncompetitive items. The Clothing and Textile (C&T) items at the Defense Supply Center Philadelphia (DSCP) show the lowest growth, while the Medical (M) items, also at DSCP, show the highest growth.

The trend disparities between Commodities differ for the competitive commercial subgroup. Table 3 (below) is similar to Table 2, except that the statistics are for the competitive commercial items. Except for Medical items at DSCP, whose value is suspect, the Commodities reflect lower cost movements for their competitive versus their noncompetitive items.

Table 3

Competitive Commercial Statistics by ICP/Commodity

ICP-Commodity		NIINs	FY96 – FY98 Obligations (Millions)	FY93 – FY05 Trend	Average Annual Growth Rate
DSCC	C	19,201	\$192.6	122.1	1.69%
	E	24,086	\$266.8	131.9	2.35%
DSCR		19,696	\$305.0	110.7	0.85%
DSCP	G&I	70,071	\$582.3	105.8	0.47%
	M	2,781	\$163.5	170.9	4.61%
	C&T	8,729	\$2,064.2	116.3	1.27%
All		144,564	\$3,574.4	117.4	1.35%

DLA's overall commercial trend is influenced more by the competitive items. Tables 2 and 3 show the dollars obligated during the population period for the competitive and noncompetitive items by ICP/Commodity. DLA obligated over twice as much on competitive items as compared to noncompetitive items. At \$3.57 billion, almost 69% of the commercial obligations were spent on competitive items. Consequently, the competitive items influenced DLA's overall commercial trend more than the noncompetitive items. As a result, DLA's overall commercial trend of 122.2 (reference Figure 3) lies closer to the competitive trend of 117.4 (Table 3) than to the noncompetitive trend of 133.2 (Table 2).

iii. Conclusions.

DLA's overall commercial MCI reflects a modest growth rate (1.69 percent compounded per year from FY93 through FY05), which continues to lie between the overall PPI and CPI trends (1.31% and 2.32% compounded, respectively). This equates to overall growths from FY93 through FY05 of 22.2 percent for DLA's commercial MCI, vice 16.9 percent for the PPI and 31.7 percent for the CPI. And, although DLA experienced a growth of 2.07 percent for FY05, DLA's annual growth rates from FY00 through FY04 have been well below 2 percent with FY04's rate less than 1 percent. These numbers compare favorably to DLA's highs of 3.78 percent and 2.39 percent experienced in FY95 and FY96, respectively.

DLA's commercial materiel cost performance is highly dependent upon its competitive status. The competitive portion of DLA's commercial items experienced materiel cost growth of only 17.4 percent over the thirteen-year period, comparable to the PPI, while the growth for the noncompetitive portion was almost double over the same period (33.2 percent).

The annual price trend review for DLA expenditures, accomplished by DLA's office of Operations Research and Resource Analysis(DORRA), identified one anomaly in DLA's price trends -- an increase to 4.61 percent in the average annual growth rate for Medical's competitive commercial items (Table 3) (up from the 3.85 percent average cited in last year's report). DORRA identified several competitive commercial Medical items that largely contributed to this increase. Essentially, it resulted from (i) a mid-FY 2004 price increase for the continuing high demand for an antidote treatment kit and for a diazepam injection, and (ii) a five-fold increase in requirements for a vaccine. The review did not identify any systemic weaknesses in DLA procurements of commercial consumables.

B. Military Departments

i. ARMY

a. Methodology

In FY05, the U.S. Army Materiel Command (AMC) reviewed 293 contract actions totaling \$1B including options. The bulk of these contract actions are in support of Operation Iraqi Freedom. For price comparison purposes, AMC adjusted for quantity differences, escalation factors, for inflation using the applicable Producer Price Index for the item in question, and for exchange rate fluctuations. These adjustments are judgmental, i.e., they are not designed to support a determination of price reasonableness, but instead have been applied to provide a basis for identifying any general price trends that AMC is experiencing in the pricing of the items in question, as well as any obvious inconsistencies with prior prices paid.

b. Price Analysis

Of the 293 contracts reviewed, 95 were either first time buys or had no price history available to determine any price trend; or items were subject to exchange rate fluctuations. Some examples of these items are:

Table 4

First Time Buys

Item	Unit Price
Hoist Upgrade Kits	\$37,744.00
Unit Hub Spare for Hub Satcom Truck	\$375,581.50
Heavy Tactical Navigation System	\$9,633.00
9 Panel Van, 1 Ton	\$42,772.75
Pile Driver, All Terrain	\$138,866.68
Mobile Cold Storage Truck	\$102,750.00
Engine Mod Kit	\$16,501.00
Upgrade Sniper Weapon FfXM107 to M107	\$1,020,000.00

The contract prices for the remaining 198 contracts were explainable and in line with price changes in the associated commercial sectors, increased steel prices, start-up of production lines, translation costs for manuals, increased shipping, and insurance costs. Some examples:

Table 5

Contracts with Unit Price Increases and Explanations

ITEM	UNIT PRICE	PRIOR U/P	U/P% Diff	Reason
Case & Starter	\$26,552.35	\$13,296.50	99.400	New production line
Engine Hood	\$1,142.65	\$684.72	66.88	Higher steel prices
Diesel Engine	\$31,829.00	\$24,309.02	30.93	Increased shipping
Engine w/Container	\$8,489.30	\$3,113.00	172.75	New production line

Of the 198 contracts with price history, 80 had less than 10 percent unit price differential (U/P percent Diff). The remaining 118 contracts had unit price reductions or no unit price changes. Some examples:

Table 6

Contract with Unit Price Reductions

ITEM	UNIT PRICE	PRIOR U/P	U/P % DIFF
Catalytic Converter	\$566.08	\$783.82	-27.78
Caliper Parts Kit	\$477.27	\$594.17	-19.67
EI Installation Kit	\$319.94	\$342.54	-6.60
Pneumatic Tire	\$445.00	\$471.00	-5.52
Vehicular Window	\$1,520.00	\$1,760.00	-13.64

To determine if adequate cost/price analyses were performed, AMC reviewed published price lists, procurement history from government and private sector sales, Defense Contract Management Agency and Defense Contract Audit Agency reviews, negotiation documentation, cost analysis of data other than cost and pricing data, and market research analyses that included comparing price increases for the associated commercial sectors.

AMC's analysis revealed that commercial acquisitions conducted under FAR Part 12 were justifiable and in line with price changes in all associated commercial sectors. AMC will continue to ensure that attention is given to the pricing of commercial items. AMC will continue to re-emphasize the need to perform a quality price analysis for every contract action and will ask AMC Acquisitions Centers to assess progress in the performance of cost/price analysis during their Contract Management Reviews.

ii. NAVY

a. Methodology

The Navy using the Procurement Management Reporting System (PMRS) data base, pulled a list of all contractual actions for commercial items during FY 2005 over \$25,000. There were 7289 commercial actions during FY 2005 with an expenditure of \$5,665,711,095. Of those, 3910 (53.64%) actions were competitively awarded, 1528 (20.96%) actions were awarded off the GSA Federal Supply Schedule leaving 1943 (25.39%) actions being awarded sole source (see figures 1 and 2). This indicates that approximately 75% of all commercial actions were competitive in nature. Of the 3910 competitively awarded actions, 1547 (39.56%) (\$1,473,182,402) were procurement actions under the Navy Marine Corps Intranet contract.

Figure 4

Department of Navy Commercial Actions FY2005

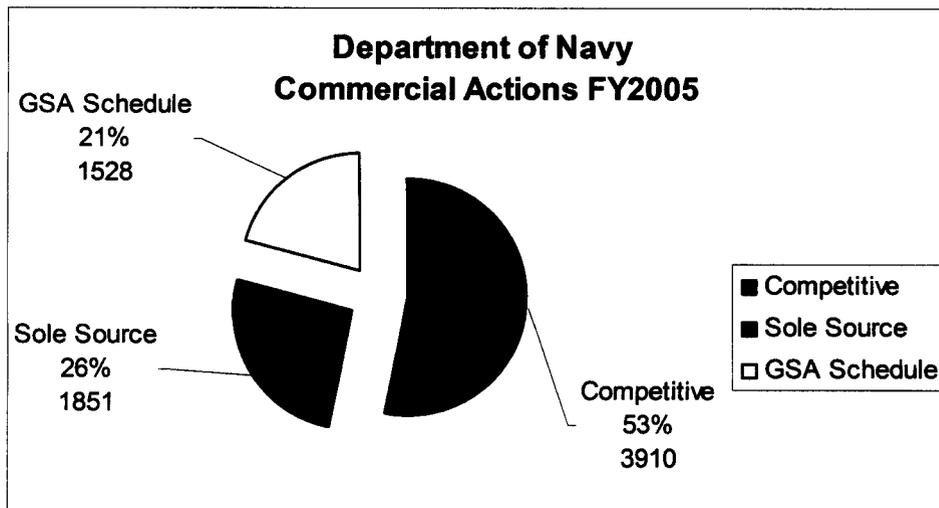
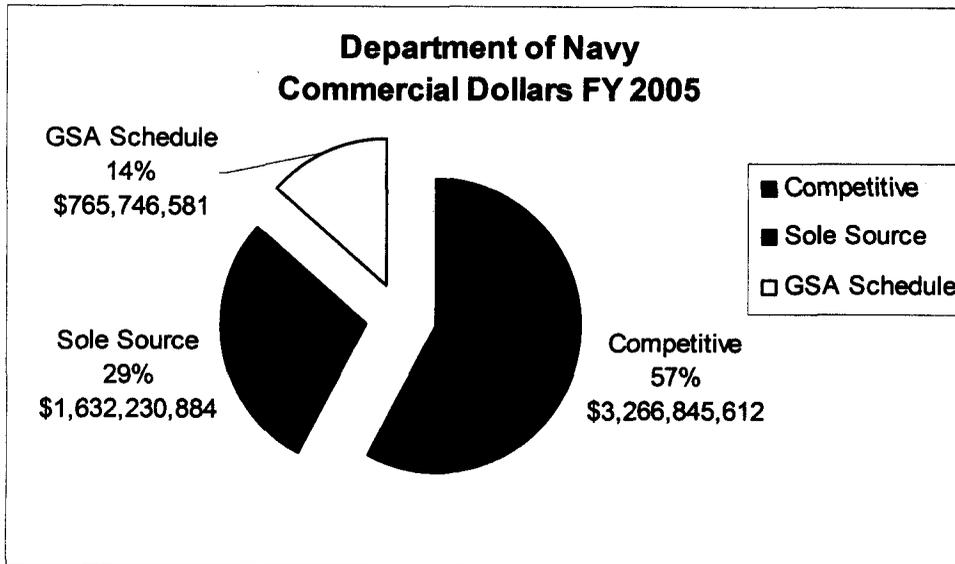


Figure 5

Department of Navy Commercial Dollars FY2005



The 7289 actions were spread across 337 Federal Supply Categories (FSC) and 295 Service Codes (SC). Multiple commands used 271 of the 632 categories/codes codes. The following FSCs have the most actions:

Table 7

Navy FSCs with Highest Action Counts

FSC	DESCRIPTION	ACTIONS	CONTRACTORS	EXPENDITURE
D399	Other ADP & Telecommunications	1713	77	1,682,237,935
7050	ADP Components	199	64	59,877,545
D306	ADP Systems Analysis	170	43	112,303,410
U099	Education & Training Svcs	164	32	67,640,754
7030	ADP Software	154	93	124,248,085

Of the 7289 commercial actions executed, a random sample of 743 commercial actions was selected for additional review by the activities. Of the 743 actions, 174 actions were made off of the Federal Supply Schedule, 340 actions were off of competitively awarded contracts. A tasker was sent out to each of the major DoN procurement activities

which had executed the sample actions. Activities were queried on the price increases experienced on each procurement action. The following are the results of that review:

Table 8

Review Results of Navy Commercial Action Sample

DESCRIPTION	NUMBER OF ACTIONS	PERCENTAGE
Miscoded Action	119	16.02%
No change in price	347	46.70%
Price Increase less than 10%	118	15.88%
Prices decreased	30	4.04%
Price increase over 10%	10	1.35%
No previous buys	96	12.92%
Option Exercise or Funding Actions	23	3.10%
Total Sample Reviewed	743	100.00%

In Summary:

The review looked at 743 FY 2005 contracts actions. A majority of the contracts coded as commercial were for services (4331/7289 and 513/743). Services are very difficult to trend and compare because of so many external factors and statement of work peculiarities, which contribute to differences in the service being provided.

For hardware/supply type items, the absence of stock numbers makes it almost impossible to compare like items from different contracting offices. With the implementation of several IDIQ contracts and the Navy Marine Corps Intranet contract, prices for network support are consistent through the Department of the Navy. The majority of the actions were placed under multiple year contracts where prices were established on a competitive basis. In actions where prices increased, prices were affected by new Department of Labor Wage Determinations, increased cost of steel and other metals and procurement of transportation services and quarters for warfighters overseas. Those actions with over 10% price increase are being further investigated to determine if anything can be done to reduce prices on future procurements.

iii. AIR FORCE

Headquarters, Air Force Materiel Command (HQ AFMC) extracted price trend analysis data on 265 different commercial spare parts contracts from the Contracting Business Intelligence System (CBIS) and validated the information with price analysts at the various Air Logistics Centers. Of those 265 contracts, 197 were for the same national stock numbers (NSNs) as were ordered in FY 2004. These 197 contracts have been used to determine the overall commercial price trend from FY04 to FY05.

a. Commercial Unit Price-Level Tracking

The overall change in commercial unit prices from FY04 to FY05 showed a weighted average decrease of 20%. Moreover, when the effect of economic escalation is taken into account, the average price of the parts decreased even more. That is, if we did not have actual prices for FY05, the expected FY05 price would be forecasted as being 3% higher than the FY04 price. So the difference between the expected price in FY05 and the actual price in FY05 results in a decrease of 22.3%. See example below.

FY04 Actual Price: \$81,176

FY05 Forecast Price: \$83,611

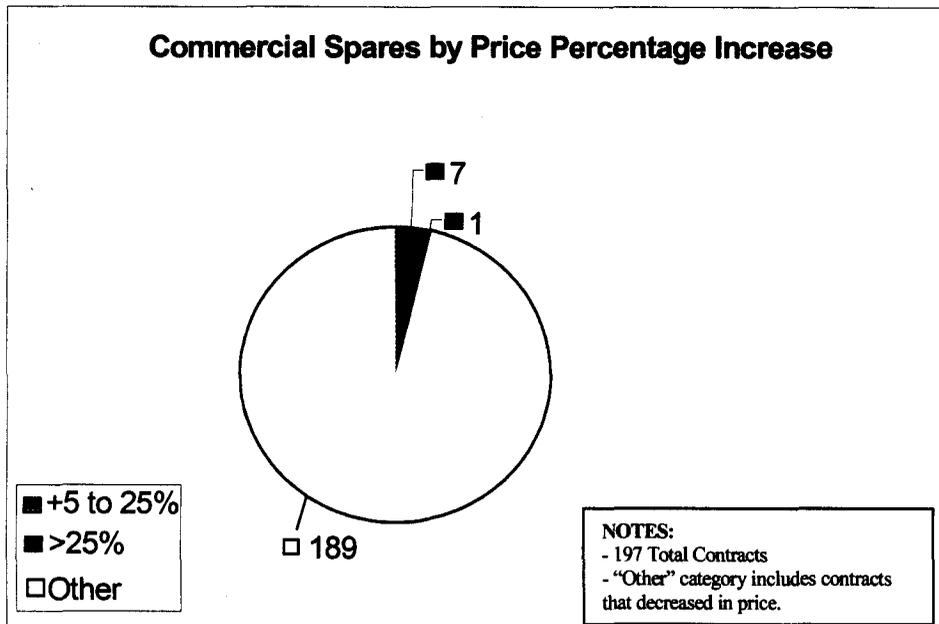
FY05 Actual Price: \$64,938(22.3% lower than forecast)

The last three reporting periods has seen a steady downward trend in the pricing of commercial spares. The Congressional requirement for this report is for contracts that increased in price by 25% or more. In year's past, the Air Force has added to this requirement by also tracking price increases in two other categories: 1. 5% to 25%; and 2. Less than 5%. This year's report has eliminated the less than 5% category.

The comparative analysis of the 197 commercial contracts for the same NSN revealed only eight instances where the price increased more than 5%. Of those eight contracts, only one was greater than 25%. The chart below is a graphical illustration of that evaluation.

Figure 6

Air Force Commercial Spares by Price Percentage Increase



The Air Logistics Center field pricing organizations identified the causes for the price increases. The cost growth for these eight contracts (from FY04 to FY05) can be attributed to explainable factors and were documented in the contract files. First, the CBIS output does not factor in the unit cost differences that would be expected for varying lot quantities. Next, increases can also be attributed to data integrity. For the one contract that reflected a more than 25% increase in price over the previous year, the FY 2004 buy was priced on a unit price basis and the FY 2005 buy was priced on a system price basis. The unit price in FY04 was \$21,930. The system price in FY05 was \$47,463. That system price includes ancillary equipment charges of \$10,149 and installation service charges of \$17,290.

The Air Force continues to monitor field organizations and commercial price trend indicators. The CBIS system is still being implemented in the field. Now that CBIS is more accessible to the field, they can watch trends and large price increases as they occur instead of at the end of a year.

The Air Force also continues to make price analysis training available to the contracting workforce. The following summarizes the latest initiatives and actions for the past fiscal year. These initiatives or accomplishments demonstrate proactive measures to provide effective support to field organizations to assist in pricing commercial products:

- Developed on-line pricing community of practice that enables price analysts, contracting officer and buyers throughout the Air Force to collaborate on pricing issues.
- Currently implementing commercial acquisition training for sole source procurements at the Air Logistics Centers.
- Continuing management endorsement for contracting workforce to complete specified amount of pricing training toward their annual continuous learning hour goals.
- Held Air Force Pricing Conference to address various pricing issues

b. Conclusions

The Air Force will continue to drive towards 0% cost growth where possible. As the workforce gets older and new hires get trained, management will encourage institutionalization across the organizations to further monitor and reduce the rate of price increases where appropriate by accomplishing the following:

- Continue training initiatives with refresher or specialized training for the entire 1102 workforce.
- Improve pricing of spare parts by making the Air Force a more important customer. Corporate contracts, where a large number of related items are purchased under one contract, continue to be utilized.
- Work with the field on accessing the CBIS database so that local offices can query and use the unit price data to determine trends for their organization. It is still too early to determine the success of this initiative. In particular, each center is responsible for finding and determining any large price increases as they occur.

The data does not indicate that spare parts pricing of the exempted commercial items should continue to be an item requiring special attention. The data indicates a downward trend in the number of spare parts that are bought in this manner, and also indicates a reduction in overall average unit prices.