

PS 8224.02 FPI PRICING PROCEDURES



Program Statement

OPI: FPI
NUMBER: 8224.02
DATE: 6/13/2001
SUBJECT: Pricing Procedures, FPI

1. **PURPOSE AND SCOPE.** To update pricing procedures for FPI products. The statutory language in 18 U.S.C. § 4121 et seq. requires that federal agencies must purchase those goods available from UNICOR as listed in the Federal Prison Industries, Inc. (FPI) Schedule of Products at not to exceed current market prices. FPI's pricing objective is to support its operations with adequate earnings, while providing good value to the Federal government customer.

Prices that are established too low deprive FPI of revenues needed to sustain its operations. At the same time, FPI must ensure that its prices are established within the current market price. Appropriate pricing will ensure self-sufficiency and fund the expansion required to keep pace with inmate population growth.

This pricing policy does not set an arbitrary profit percentage for FPI. Rather it recognizes that competitive pressures in the Federal market will determine market price naturally. FPI sometimes responds to these pressures with product or service pricing at less than full cost recovery, to ensure that it has enough work to keep a requisite number of inmates occupied.

2. **SUMMARY OF CHANGES.** This Program Statement clarifies the definition of product as it relates to pricing procedures and requirements.

3. **PROGRAM OBJECTIVE.** The expected result of this program is:

FPI prices will be established not to exceed the current market price, and absent a current market price, at a price that yields a reasonable rate of return.

4. **DIRECTIVES AFFECTED**

a. **Directive Rescinded**

PS 8224.01 Pricing Procedures, FPI (2/18/98)

b. **Directives Referenced**

Federal Acquisition Regulation (FAR), Subpart 8.6,
Acquisition from Federal Prison Industries
U.S. Department of Justice, Office of Legal Counsel Opinion
re: Application of the FAR to Federal Prison Industries
(9/13/93)
United States General Accounting Office Report GAO/GGD-98-
151 to Congressional Requesters: Federal Prison Industries
Information on Product Pricing (8/24/98)

5. **STANDARDS REFERENCED.** None

6. **DEFINITIONS**

a. **Current Market Price** generally refers to a competitive price range.

- The current market price for FPI products and services is the price which could be obtained from competitors for the same or equivalent products or services when a contract is awarded.
- To comply with the statute, FPI prices must fall within the competitive range of prices for like products, in like quantities and delivery schedules.

FPI does not consider distressed pricing in the private sector, or pricing otherwise designed to undercut normal market conditions, when determining current market price.

b. **Product Class** refers to a broad category of individual items similar in function, configuration, and raw material composition.

- Examples include ergonomic chairs, systems workstations, and stand-alone desks. Within each of these classes a specific item may have features or accessories distinguishing it from other similar items competing manufacturers sell.

- A comparable product from competitors is one whose features most closely resemble those of one produced by FPI within the product class.

7. **RESPONSIBILITIES/DELEGATIONS.** General Managers or their designees are responsible for establishing a product or service selling price. The General Manager will also define what product classes exist within his or her business group and ensure that price comparisons are made for at least one item within each class.

Factory Delegation. For some product families, such as some service industries where the customer deals directly with the factory, the General Manager may delegate pricing authority to field locations.

- The General Manager must approve prices determined locally.

8. **PRICE DETERMINATIONS**

a. **Establishing Prices.** Each General Manager will be responsible for his or her own business group's pricing strategy. This includes documentation of supporting information used to establish selling prices on products or services and compliance with current market price mandates.

Price determination strategies may include reference to past sales price history, documented current market price information, present or projected increases to costs to manufacture, etc.

b. **Arriving at a Current Market Price.** FPI uses four principal methods to establish a product or service selling price:

(1) **Catalog Items.** FPI (often using GSA Schedule prices) conducts a review of prices in a similar private sector product class and attempts to set prices within the price range.

- When private sector catalog prices exist for the same or similar FPI product class or service, FPI will establish its prices through a review of available published data on these groups.

(2) **Comparative Pricing (When an Acknowledged Private Sector Price, or Range of Prices Exists).** The customer advises FPI of the prevalent price range within the private sector to provide a portion of the contract requirements. If FPI cannot quote a price within the range, the business may be declined.

Current market price is determined by reviewing prices paid to private vendors for the same or equivalent product. The Department of Defense often has multiple sources of supply to ensure a "mobilization capacity." Prices can vary by supplier based on the volume and actual cost to produce.

If the contracting officer believes a price is too high, it may be negotiated with FPI. Thus, the process of arriving at current market prices is undertaken jointly with the customer.

When the same or comparable product has been previously purchased, the price paid at that time with an adjustment for inflation, may be used to establish a current market price.

(3) **Cost Plus (When Comparative Pricing is Not Possible).** When an item is unique in its characteristics or specifications and there is no ability to make a price comparison within a product class, pricing will be set on a cost plus basis.

- Cost plus is set by using FPI's cost (actual production costs and general and administrative costs) plus an allowance for a reasonable rate of return.

Cost plus is used most often with national stock number specification items, such as many of the cables and wire harnesses manufactured for the Department of Defense, for which FPI has been the only producer in recent years.

- Custom-made items in other business group areas are also priced in this manner.

Cost-based pricing for FPI products must include the recovery of risks associated with the nature of the specific product or service, i.e., purchase or lease of specialized equipment, probability of repeat business, etc.

(4) **Competitive Bids.** FPI service contracts, such as those for printing, may be secured through competitive bid with other vendors.

- The customer is not compelled to buy from FPI and will solicit other vendors if FPI's price is too high.

It is the General Manager's responsibility to ensure FPI's price is competitive, based on market information and customer feedback.

c. Documentation

(1) For catalog items or for those products where comparable products are otherwise available commercially, the basis for determining price, including current costs to manufacture, information on price negotiations with customers, examples of competitors' prices, and other relevant data, must be included routinely as part of the contract file.

(2) Each business group must establish pricing files for one item from each product class within a major business area, e.g., a workstation for systems furniture. Typically these sample files must include the information used to derive the prices, as specified above, and any supporting data.

- Business group staff (or factory location staff if so delegated) must maintain these files.
- At least one item from each product class must have a pricing file.

When information is not reasonably available to support a market price comparison fully, the General Manager must ensure that a supplementary pricing narrative is prepared to justify and document the basis for determining the product price.

(3) **General Manager Contract File Review.** Each General Manager will review his or her contract files at least twice a year. One or more of the primary pricing methods (schedule pricing, industry comparison, cost plus, or competitive bid) discussed previously must have been used as the basis to determine a current market price for the products or services in his or her business group.

9. SUPPORT FOR MARKET PRICING

a. **Price Reviews of Non-Contract/Catalog Items.** At least once every three years, business groups must review prices of their major product classes and compare them with comparable products

or services provided to federal customers by private sector manufacturers.

Through a combination of customer feedback (via Corporate marketing staff, business group managers, and periodic surveys) and comparison to documented published sources, FPI must determine the current market range where various FPI product class prices fall. This will enable FPI to conduct appropriate price comparisons.

b. **Market Research.** Business groups may enlist support from the Research, Activation, and Corporate Support (RACS) Branch to perform periodic price reviews on selected product classes to ensure FPI complies with its pricing guidelines.

- In performing price reviews, the RACS Branch should ensure those items reviewed represent the product classes established by the business group's General Manager.

c. **Program Reviews.** The Bureau's Program Review Division will review pricing file documentation during scheduled program reviews.

10. **ADDITIONAL CONSIDERATIONS**

a. **FOB Destination Pricing.** Product pricing policies must be flexible enough to include or exclude freight costs. This will ensure that FPI is competitive and that its freight pricing is comparable to private industry practices.

- FPI products may be priced at either Freight on Board (FOB) origin, or FOB destination, to suit the customer's needs.
- FOB destination pricing on certain product lines may require an average transportation cost to be factored into the catalog price.

b. **Periodic Price Adjustments.** Provisions should be made to adjust prices annually as necessary, on both contract and non-contract items, to:

- # reflect market changes,
- # raw material cost fluctuations, or
- # other costs that may impact the selling price.

c. **Discounts/Variiances from Established Price.** General Managers or their designees, may extend "first time offers" to new customers for new business that promises to be repetitive. Volume-price discounts for large-scale buys may also be offered.

When FPI offers a standard discount based on performance factors such as delivery, or on quantity ordered, the discount policy must be clearly stated in all catalogs and brochures.

d. **Marginal Pricing.** In some situations, prices may be set to cover the cost of direct material, without covering the full overhead burden. When the selling price, based on the current market price and cost to manufacture, does not allow for full cost recovery, the General Manager has the discretion to sell the product or service at a price covering only the cost of direct material.

A product or service may be sold at less than full cost recovery to maintain authorized inmate employment levels and occurs generally when excess factory capacity is available. FPI can also price to a competitive marketplace when its cost to manufacture is projected to decrease in the future.

e. **Business Group-Specific Pricing Strategies.** Each major business group will issue specific guidance as applicable, to describe pricing strategies for their respective product lines and to provide added direction for business units, marketing, and field staff (see Business Group Pricing Strategies (Attachment A)).

11. **WAIVERS**

a. **Granting Waivers for Price.** FPI strives to be competitive, and will grant a waiver to its customers if its price exceeds the current market price for comparable requirements.

- Normally, FPI will not grant a waiver requested solely on the basis of price if FPI's price is at or within the current market price.

In accord with the 1993 Department of Justice Office of Legal Counsel decision, it is within FPI's purview to establish a methodology for determining the current market price for its products or services. FPI will make a concerted effort to resolve any concerns by its customers about price.

Normally, FPI will not deny a customer's reasonable request for a waiver. When there is no genuine comparability between FPI's product and the product the purchaser needs, waiver requests may be granted even though FPI's price does not exceed the current market price.

Factors to be considered in determining whether products are comparable include:

- # quality and similarity of materials,
- # methods of construction,
- # product durability,
- # presence of ancillary features,
- # warranties, etc.

After considering these factors, the General Manager, or designated marketing staff acting on his or her behalf, is authorized to issue a waiver, allowing the prospective customer to purchase the item from a commercial source.

- When the customer appeals a decision rendered by business group or marketing staff, the FPI Ombudsman makes the final agency decision on waivers.

b. **Data Tracking.** Each General Manager, or the contract Sales Group (when responsibility for granting waivers has been delegated to the contract sales staff) will maintain data on waivers requested, including waivers requested because of price.

The frequency of such waiver requests is an indicator of FPI's comparability with industry prices. Data will include the number of waivers requested or issued, by item, customer, and dollar volume, as well as FPI's estimate of providing the product requested. Corporate Management will review information on waivers annually at the conclusion of each fiscal year.

12. **EVALUATION AND MEASUREMENT CRITERIA**

a. General Managers, or their designees, must conduct price reviews on all contracts at the contract renewal date to ensure that FPI's price reflects current market price for the same or equivalent products or services.

b. Business groups must also perform price reviews on a sampling of non-contract items at least once every two years, using support from the RACS branch as necessary, to ensure compliance with this PS. Within each product class, a sampling of competitor offerings must be reviewed to document that FPI's price is within current market price.

c. The Bureau's Program Review Division must review business group pricing documentation as part of their normal review cycle to ensure that FPI selling prices are documented reliably.

d. Data on waivers requested or granted based on price will be used as an indicator for competitiveness of FPI pricing. Waiver data will be maintained by the Customer Service Center.

/s/

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Director

FEDERAL PRISON INDUSTRIES - BUSINESS GROUP PRICING STRATEGIES

The main goal of FPI pricing strategies is to achieve the optimum price and value combination available. This will ensure repeat business of customers and sustain inmate employment.

As a general rule, FPI uses "cost-recovery" methodology with comparison to current market prices. FPI's operations are priced to ensure a return commensurate with the competitive market because FPI experiences comparable costs, risks, and efforts to those of its competitors.

When determining the prices for its various goods and services, FPI will follow a set of specific pricing strategies. Many of the following pricing strategies take into consideration the definition of current market price as a range of market prices.

OFFICE FURNITURE PRICING

FPI office furniture pricing strategy is as follows:

- o FPI will give consideration to the wide range of quality and price levels available in the Federal marketplace. FPI products will be aimed toward quality and price levels normally expected by government buyers and end-users.
- o Where feasible, lower-priced products with fewer features will be offered to customers who are especially price-conscious. At the same time, added value services (quick ship, installation) will be offered (for slight premiums) to customers looking for higher levels of service.
- o Design and proposed pricing of products for specific market niches will continue, working with organizations such as the Design Advisory Council (DAC).

ELECTRONICS PRICING

The FPI electronics pricing strategy is as follows:

- o Any competitive bids and history of recent buys will be used to determine the market price for the product in question. In instances where there is no comparable current market price, such as for custom products with no historical competitive bids, the cost plus methodology will be used.

- o The resulting price offer is aimed at ensuring repeat business. Though the price may not always cover factory costs and Corporate overhead, FPI depends on its ability to cut costs and improve efficiencies in order to make the product a good value for the Corporation and its customers.
- o FPI electronics pricing will continue to develop national stock number-specific product costing and pricing for every job.

CLOTHING AND TEXTILES PRICING

The FPI clothing and textiles pricing strategy is summarized as follows:

- o Contract prices are negotiated with the customer. The history of recent buys is used to determine the market price. These negotiations ensure that the contract price is fair for both FPI and the customer. In cases where the customer relies on multiple sources for items procured from FPI, this process, in effect, builds on the comparison of competitive bids from multiple vendors, resulting in an equitable method to set contract prices.
- o Catalog pricing is based on existing contract prices, and is established after thorough analysis with the customer.

INDUSTRIAL PRODUCTS PRICING

The FPI industrial products pricing strategy is summarized as follows:

- o FPI strives to be a low-cost vendor; however, quality and price points are optimized to ensure best value for our customers.
- o Emphasis should be on reducing future prices whenever possible. Using this approach, there is always the motivation to cut costs, save money, innovate and become more efficient.
- o Different items generate different margins of profit. The industrial products strategy must account for varying earnings levels of each item in the product line.

GRAPHICS AND SERVICES PRICING

The FPI graphics/services pricing strategy is summarized as follows:

- o Since FPI is not a mandatory source for printing services, its prices are, by default, within the current market range offered. FPI may not be the low cost provider for printing services due to FPI's efforts to maximize the labor-intensive aspects of its printing operations. To promote repeat business, FPI ensures that its printing customers receive a high level of service typically provided by FPI factories and business group managers.
- o Quotes used for FPI custom sign products are the equivalent of customer contract negotiations since each job is a custom bid.
- o Mandatory source does not apply to any FPI service operation. Thus, in pricing its services, FPI must show a direct budget benefit to the customer.
- o Data service jobs are usually negotiated contracts. FPI uses "cost-recovery" methodology with comparison to current market prices.