structured approach to profit analysis is required.

[71 FR 69494, Dec. 1, 2006]


(a) The weighted guidelines method focuses on four profit factors—

(1) Performance risk;
(2) Contract type risk;
(3) Facilities capital employed; and
(4) Cost efficiency.

(b) The contracting officer assigns values to each profit factor; the value multiplied by the base results in the profit objective for that factor. Except for the cost efficiency special factor, each profit factor has a normal value and a designated range of values. The normal value is representative of average conditions on the prospective contract when compared to all goods and services acquired by DoD. The designated range provides values based on above normal or below normal conditions. In the price negotiation documentation, the contracting officer need not explain assignment of the normal value, but should address conditions that justify assignment of other than the normal value. The cost efficiency special factor has no normal value. The contracting officer shall exercise sound business judgment in selecting a value when this special factor is used (see 215.404–71–5).

[67 FR 20689, Apr. 26, 2002]


(a) Description. This profit factor addresses the contractor’s degree of risk in fulfilling the contract requirements. The factor consists of two parts:

(1) Technical—the technical uncertainties of performance.
(2) Management/cost control—the degree of management effort necessary—

(i) To ensure that contract requirements are met; and
(ii) To reduce and control costs.

(b) Determination. The following extract from the DD Form 1547 is annotated to describe the process.

<table>
<thead>
<tr>
<th>Item</th>
<th>Contractor risk factors</th>
<th>Assigned weighting</th>
<th>Assigned value</th>
<th>Base (item 20)</th>
<th>Profit objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>Technical</td>
<td>(1)</td>
<td>(2)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>22</td>
<td>Management/Cost Control</td>
<td>(1)</td>
<td>(2)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>23</td>
<td>Performance Risk (Composite)</td>
<td>N/A</td>
<td>(3)</td>
<td>(4)</td>
<td>N/A</td>
</tr>
</tbody>
</table>

(1) Assign a weight (percentage) to each element according to its input to the total performance risk. The total of the two weights equals 100 percent.
(2) Select a value for each element from the list in paragraph (c) of this subsection using the evaluation criteria in paragraphs (d) and (e) of this subsection.
(3) Compute the composite as shown in the following example:

<table>
<thead>
<tr>
<th></th>
<th>Assigned weighting (percent)</th>
<th>Assigned value (percent)</th>
<th>Weighted value (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical</td>
<td>60</td>
<td>5.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Management/Cost Control</td>
<td>40</td>
<td>4.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Composite Value</td>
<td>100</td>
<td></td>
<td>4.6</td>
</tr>
</tbody>
</table>

(4) Insert the amount from Block 20 of the DD Form 1547. Block 20 is total contract costs, excluding facilities capital cost of money.
(5) Multiply (3) by (4).

(c) Values: Normal and designated ranges.

(1) Standard. The standard designated range should apply to most contracts.