

3-303.5 Economic evaluation phase (steps 38-56).

(a) Economic evaluation concerns identification and estimation of breakout savings and direct cost offsets to breakout. The economic evaluation phase is composed of the three segments detailed in paragraphs (b) through (d) of this subsection.

(b) *Development of savings data (steps 38-40).*

(1) *Step 38.* Estimate remaining program life cycle buy value.

(2) *Step 39.* Apply either a savings factor of 25 percent or one determined under local conditions and experience.

(3) *Step 40.* Multiply the remaining program life cycle buy value by the savings factor to obtain the expected future savings, if the part is coded for breakout.

(c) *Computation of breakout costs (steps 41-47).* Several groups of costs must be collected, summarized and compared to estimated savings to properly determine the economics of breakout. These costs include—

(1) Direct costs (steps 41-45). Direct costs of breakout normally include all expenditures that are direct and wholly identifiable to a specific, successful breakout action, and that are not reflected in the part unit price. Examples of direct costs include Government tooling or special test equipment, qualification testing, quality control expenses, and industry participation costs (such as completion of the Contractor Technical Information Data Record) if borne by the Government.

(i) *Step 41.* Estimate the cost to the Government for tooling or special equipment.

(ii) *Step 42.* Estimate the cost, if any, to the Government for qualifying the new source.

(iii) *Step 43.* Estimate the cost, if any, to the Government for assuring quality control, or the cost of contracting for quality control.

(iv) *Step 44.* Estimate the cost to the Government for purchasing rights to data.

(v) *Step 45.* Add estimated total direct costs to the Government to breakout the item.

(2) Performance specification costs (steps 46-47).

(i) *Step 46.* Is the breakout candidate constructed to a performance specification?

(ii) *Step 47.* If the answer is yes in step 46, add performance specification breakout cost estimate elements to the result of step 45. The addition of an unknown number of nonstocked parts that must be stocked by the supply system for repairs is a significant element of cost associated with the decision to compete a performance specification assembly. (The same situation does not arise with respect to a design specification assembly, since virtually all spare parts used to repair such an assembly are essentially identical to parts already in the assembly.) The cost of introducing these nonstocked parts into the system includes—

(A) Additional catalog costs. The number of nonstocked parts forecasted to be in the competed assembly, multiplied by the variable cost of cataloging per line item.

(B) Additional bin opening costs. The number of nonstocked parts forecasted to be in the competed assembly, multiplied by the variable cost of a bin opening at each of the locations where the part is to be stocked.

(C) Additional management costs. The number of nonstocked parts forecasted to be in the competed assembly, multiplied by the variable cost of management per line item.

(D) Additional technical data costs. The cost of a new set of technical data for the competed assembly, including the variable expenses of its production, reproduction, and distribution.

(E) Additional repair tools and test equipment costs. The costs of additional special tools and test equipment not otherwise required by the existing assembly.

(F) Additional logistics support costs. The costs associated with the new item such as spare and repair parts, technical manuals, and training.

(d) *Comparison of savings and costs (steps 48-56)*. Compare estimated breakout costs to forecasted breakout savings. If costs exceed estimated savings, it will be uneconomical to compete the part. Performance specification parts should be analyzed to ensure that pertinent breakout costs have been considered and, if it is not economical to breakout the part, whether an appropriate detailed design data package reduces costs sufficiently to make breakout economical.

(1) *Step 48*. Compare total costs of breakout (step 47) to estimated savings (step 40).

(2) *Step 49*. Are costs of breakout greater or less than estimated savings? If greater, proceed to step 50; if yes, proceed to step 51.

(3) *Step 50*. Is the breakout candidate constructed to a performance specification? If no, proceed to step 54; if yes, proceed to step 57.

(4) *Step 51*. Is it appropriate to obtain a detailed design data package? If yes, proceed to step 52; if no, proceed to step 54. The decision to change a performance specification part to a detailed design part obviously requires a critical engineering examination of the part itself, as well as a review of the impact such a change might have on the operational effectiveness of the system in which the equipment is to be employed. Acquisition of a performance specification part by a subsequently acquired design specification subjects the Government to the additional hazard of losing the money paid for the development of the design specification, should the design be altered during the contracting leadtime period. Accordingly, the engineering evaluation should closely review design stability over the anticipated contracting leadtime in order to avoid acquiring an obsolete or nonstandard part if the decision is made to compete it.

(5) *Step 52*. Add the estimated cost of obtaining a detailed design data package to the results of step 45.

(6) *Step 53*. If the results of step 52 are less than the estimated savings, initiate action to obtain a detailed design data package. Proceed to step 54 to code the part for a period until it can be rescreened using the design specification package. The code determined in this screening shall be assigned a suspense date commensurate with the leadtime required to obtain the detailed design data package (see 2-203(b)).

(7) *Step 54*. Is the part manufactured by the prime contractor? If yes, code the part AMC 3; if no, proceed to step 55.

(8) *Step 55*. Can the part be acquired directly from the actual manufacturer? If no, proceed to step 56; if yes, code the part AMC 3 or 4, as applicable.

(9) *Step 56*. Specify the reasons for inability to obtain the part from the actual manufacturer. Code the part AMC 5.

Parent topic: [3-303 Full screening procedures.](#)