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Overhead Rate Development and Verification

Projecting appropriate overhead rates for future contracts or for the out-years of current contracts can have a significant impact on a contractor's product pricing, competitive posture, current revenue recognition, and cost recovery. Also, controlling overhead expenses during periods of business expansion or contraction presents management with one of its most significant challenges.

Objective Develop a reliable procedure for projecting overhead rates in the context of the opportunities and limitations of the client's specific business environment.

Approach Review historical measures of business base and related overhead expenses.

Remove the obvious anomalies caused by changes in business environment.

Analyze the resulting data by overhead pool, using regression analysis that recognizes the nonlinear nature of overhead.

Project overhead rates for any specific business base, using the regression analysis model.

Compare the rates predicted by regression analysis with other estimates. Determine whether variances reflect reasoned corporate decisions or are "unexplained." Estimates that fall outside the regression analysis predictions may represent unrecognized support requirements or opportunities to control overhead growth.

Output Estimates of future overhead rates as a function of predicted business volume. Graphs and charts that relate overhead rates to business volume for individual overhead pool and sub-pools along with appropriate statistics and correlations.

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- Benefits**
- Determine and support forward pricing rates.
 - Improve strategic planning.
 - Identify excesses in planned overhead expenses.
 - Determine appropriate overhead rates for total program and long-term contract estimates-to-complete.
 - Analyze alternative proposals at various business volume levels.
 - Assist in preparing bids for multiyear procurements.
 - Evaluate supplier cost proposals.

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