



OST GLOBAL SOLUTIONS



Developing a Winning Cost Volume

Day 1

OST Bid & Proposal Academy
Course

www.ostglobalsolutions.com

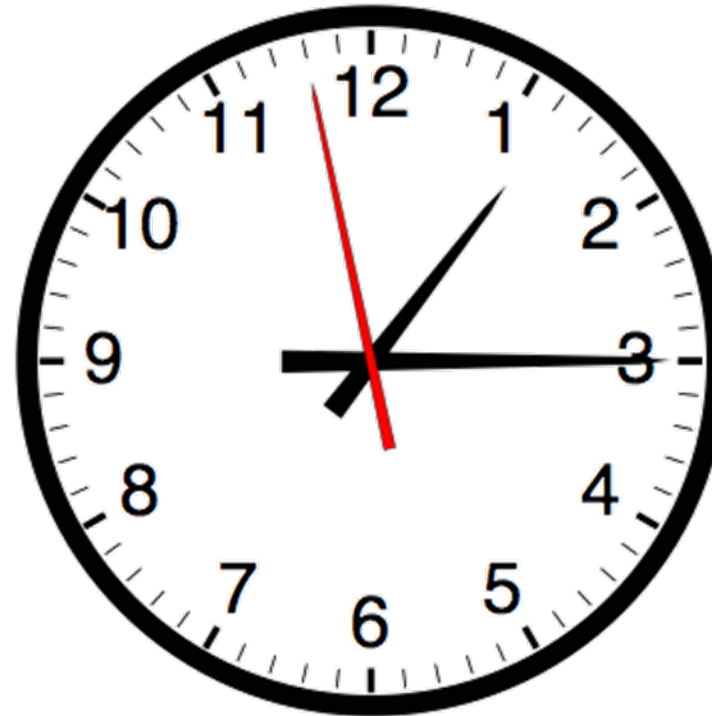
Agenda



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- 09:00 – 10:30 – Training
- 10:30 – 10:45 – Break
- 10:45 – 12:00 – Training
- 12:00 – 13:00 – Lunch
- 13:00 – 15:00 – Training
- 15:00 – 15:15 – Break
- 15:15 – 17:00 – Training



- *Please, give yourself the benefit of focus and limit the use of cellphones and emails to breaks*

How to Maximize the Learning Process



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- How adults learn:
 - Understand WHY things work a certain way
 - Participate in exercises
 - Ask questions
 - Relate the material to your own experience
 - Take notes
- Bring up topics of interest to your job
- Move around during exercises



Introductions – Who is Who



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- Your Name and Position
- An interesting fact about your life or career
- What are you looking to get out of this training?

It's a Given - Price is Important...



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Price proposals are often prepared at the last minute, without much review, customization, or polishing

But...

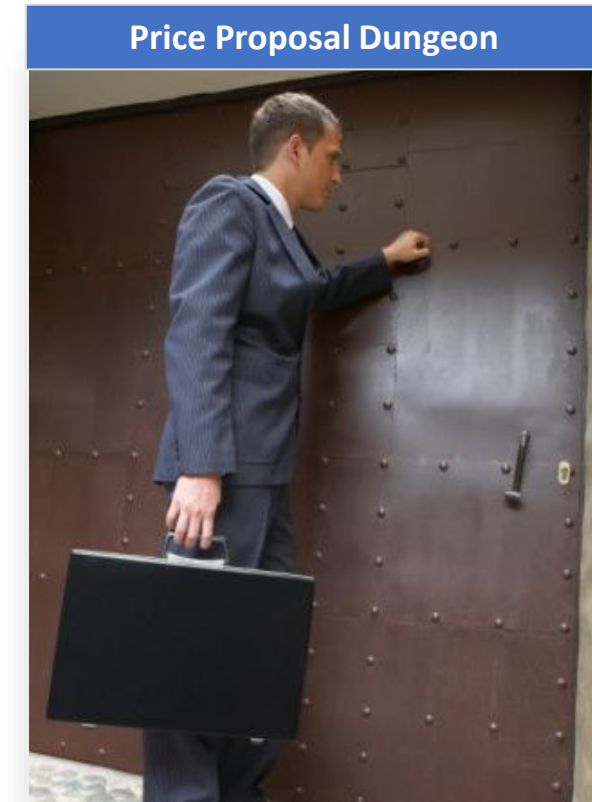
- What can we do as proposal managers?

Often the best of us resort to:

- Keep checking when will the cost proposal be done
- Assist with scheduling a cost volume review
- Pray...

Likely Result

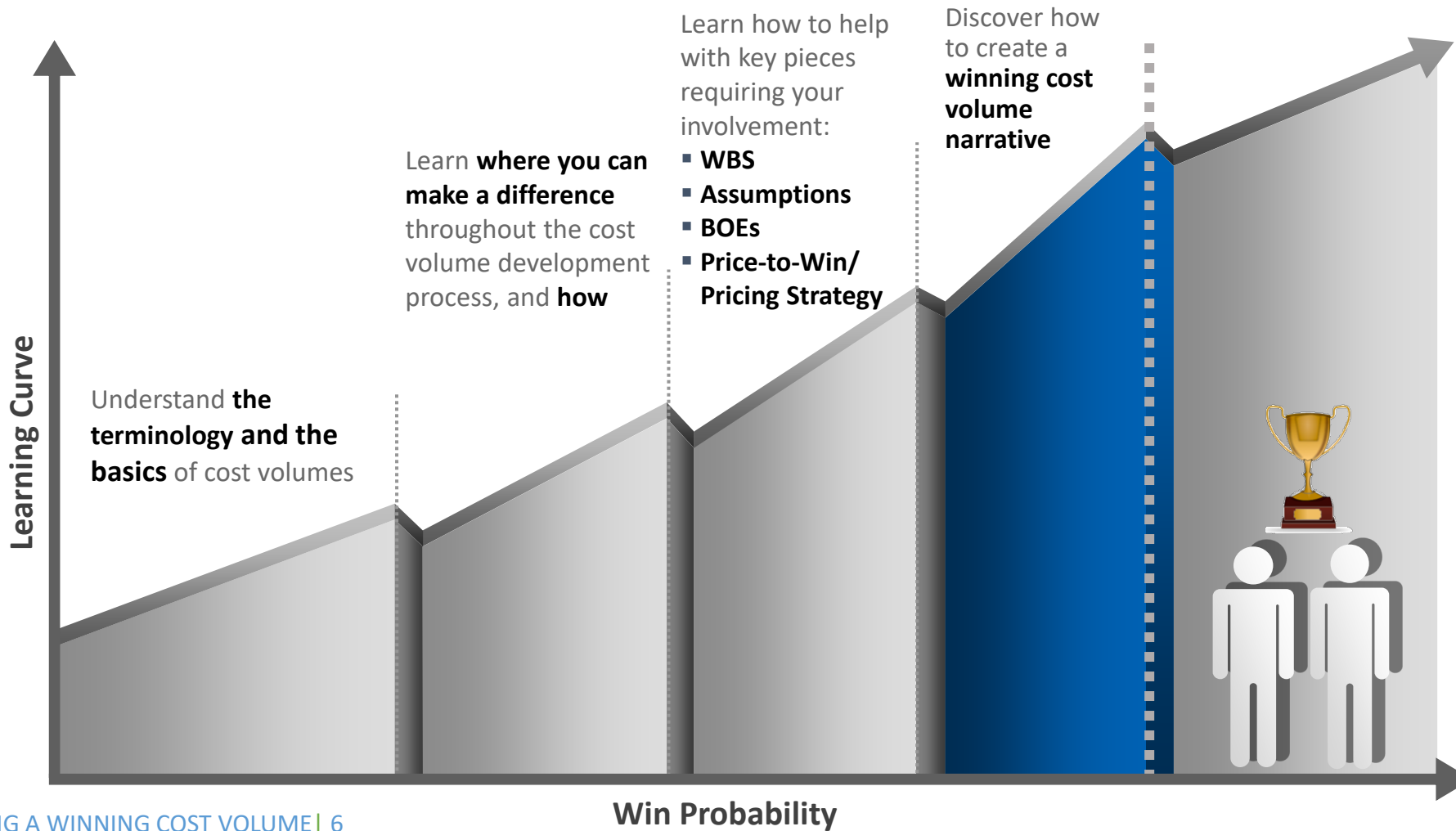
- Disconnect between price /cost and technical volumes
- Lower award probability



Roadmap to Winning in Cost Volumes



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Definitions



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It is important to understand the cost proposal terminology and use it correctly

- Cost is what it costs YOUR COMPANY to perform the task
- Cost varies with your technical and management approaches
- Price is what you will charge the customer (cost plus fee)
- Price strategies are ways to achieve the price to win
 - Strategies may affect the technical, management, staffing, and costing solutions
- Price-To-Win (PTW) is the price (range) at which the customer will most likely buy the solution, compared with the probable price of competitor solutions and their inherent value to the customer



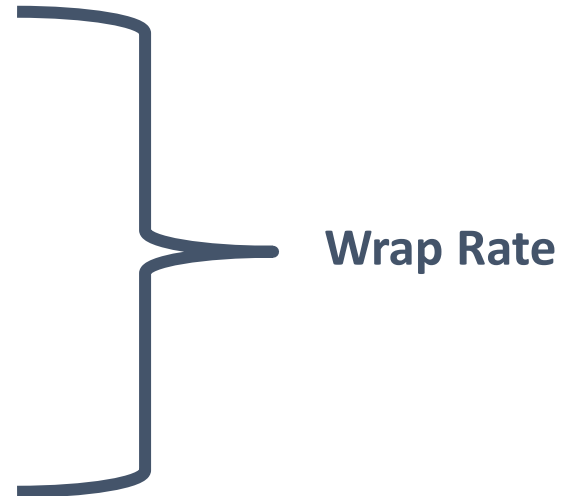
Cost and Price Components Basics



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- ODCs are costs other than labor inherent to the solution and/or the program
- Direct Labor is the cost for employee compensation
- Fringe is the cost of benefits provided to employees assigned to the program
- Overhead is indirect cost to run program/project/business unit – not otherwise included as ODC
- G&A is cost to run your company
- Fee is profit
- Escalation is a percentage increase in price each additional year



| Fringe: |
|-----------------------------------|
| Pension |
| Life Insurance |
| Workers Comp |
| Short and Long Term Disability |
| Medical Insurance |
| Medical - Administration Fees |
| Savings & Investment (401K Match) |
| Vacation Pay Provision |
| Holiday Pay Provision |
| Social Security Tax (FICA) |
| Unemployment Insurance |
| Health & Welfare |
| Medical – Waivers |
| Jury Duty/Military Leave/ Other |

See the handout with examples of G&A, OH, and other costs

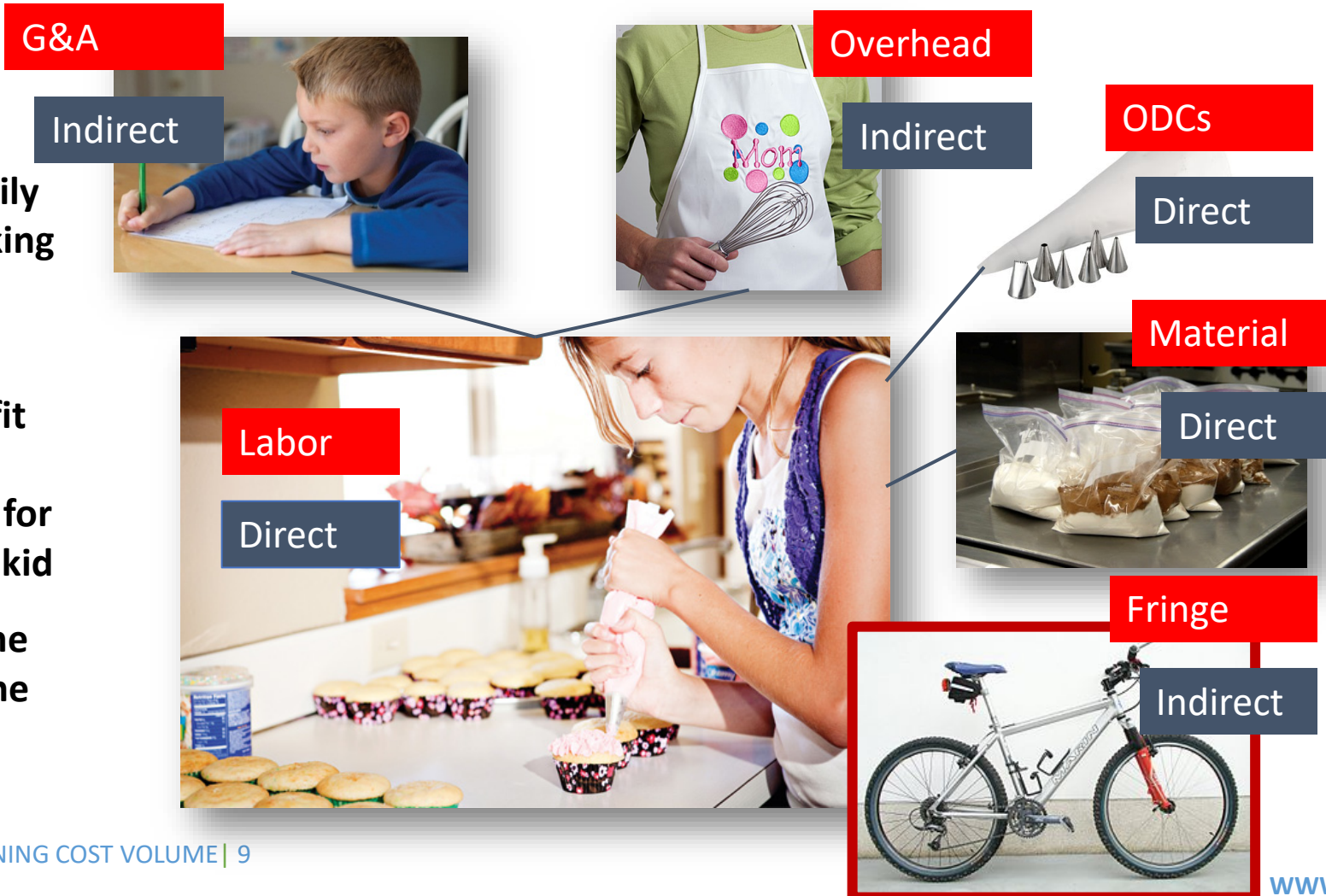
Making Costs Simple



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- Picture a family business making cup cakes...
- Bike is an earned benefit on top of an hourly wage, for being a good kid
- A glass of wine for mom in the evening is *unallowable*



Example of Pricing – Hourly Labor Buildup



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This is an example of a simple services contract with labor pricing only – notice the escalation in the Option Year 1, and what goes into creating a fully burdened hourly rate

| Base Year | | | | | | | |
|-------------------|-------------------|-------------|----------|---------|---------|---------|----------------------------|
| Labor Category | SCA or NON-EXEMPT | Direct Rate | Fringe | OH | G&A | Fee | Fully Burdened Hourly Rate |
| Program Manager | Exempt | \$ 55.77 | \$ 18.53 | \$ 3.10 | \$ 3.28 | \$ 4.84 | \$ 85.52 |
| Para V | Exempt | \$ 40.87 | \$ 13.58 | \$ 2.27 | \$ 2.40 | \$ 3.55 | \$ 62.67 |
| Para V | Exempt | \$ 33.65 | \$ 11.18 | \$ 1.87 | \$ 1.98 | \$ 2.92 | \$ 51.61 |
| Option 1 | | | | | | | |
| Labor Category | SCA or NON-EXEMPT | Direct Rate | Fringe | OH | G&A | Fee | Fully Burdened Hourly Rate |
| Program Manager | Exempt | \$ 56.88 | \$ 19.06 | \$ 3.23 | \$ 4.05 | \$ 4.99 | \$ 88.21 |
| Contracts Manager | Exempt | \$ 41.68 | \$ 13.97 | \$ 2.36 | \$ 2.97 | \$ 3.66 | \$ 64.64 |
| Quality Manager | Exempt | \$ 34.33 | \$ 11.50 | \$ 1.95 | \$ 2.45 | \$ 3.01 | \$ 53.24 |

Another Example of Pricing



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This price volume is for a project that requires a more complex estimating effort

| | Income Statement | Direct Labor | Other Direct Costs | Fringe Benefits | Overhead Costs | G&A Costs | Unallowable Costs |
|-------------------------------------|------------------|---------------------|--------------------|-------------------|-------------------|-------------------|-------------------|
| Direct Costs | | | | | | | |
| Total Direct Labor | \$ 1,380,655 | \$ 1,380,655 | | | | | \$ - |
| Other Direct Costs | | | | | | | |
| Subcontracts | - | | 0 | | | | - |
| Material | 652,375 | | 652,375 | | | | - |
| Travel | 97,625 | | 97,625 | | | | - |
| Other Direct Costs | - | | | | | | - |
| Fringe | | | | | | | |
| Fringe Benefits | 444,067 | | | 444,067 | | | - |
| Payroll expenses | 84,574 | | | 84,574 | | | - |
| Overhead | | | | | | | |
| Labor | 48,916 | | | | 48,916 | | - |
| Laboratory Fee** | - | | | | - | | - |
| Facilities Rent | 24,734 | | | | 24,734 | | - |
| Utilities | - | | | | - | | - |
| Facilities Insurance | 3,660 | | | | 3,660 | | - |
| Facility repair and Maint | 3,600 | | | | 3,600 | | - |
| Facility Security | 15,000 | | | | 15,000 | | - |
| Postage / Delivery | 1,170 | | | | 1,170 | | - |
| Telephone | 14,742 | | | | 14,742 | | - |
| Office Supplies | 1,855 | | | | 1,855 | | - |
| Marketing/travel | 2,025 | | | | 2,025 | | - |
| Vehicle Expense | 14,920 | | | | | | 14,920 |
| Materials Expense | 10,480 | | | | 10,480 | | - |
| Internet Services | 320 | | | | 320 | | - |
| Taxes | 1,970 | | | | 1,970 | | - |
| Meals | 453 | | | | 453 | | - |
| Misc*** | 5,999 | | | | 5,999 | | - |
| General & Administrative | | | | | | | |
| Labor | 106,718 | | | | - | 106,718 | - |
| Professional Fees | 4,518 | | | | - | 4,518 | - |
| Office Supplies | 5,157 | | | | | 5,157 | - |
| Bank Charges | 302 | | | | - | 302 | - |
| Licenses and Fees | 3,295 | | | | | 3,295 | - |
| Pro. Subscriptions | 260 | | | | | 260 | - |
| Totals | 2,929,390 | \$ 1,380,655 | \$ 750,000 | \$ 528,641 | \$ 134,924 | \$ 120,250 | \$ 14,920 |

Contract Cost Principles and Procedures



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Read FAR Part 31 on acquisition.gov to familiarize yourself with all the details

- **Direct:** One specific final cost objective; **Indirect:** Two or more final cost objectives
- **Reasonable:** If the cost doesn't exceed what would a prudent company would incur while conducting competitive business
- **Allocable:** The cost is assigned or charged to one or more cost objective (relative to the benefits to the customer):
 - Cost has to be incurred specifically for the contract
 - Benefits the contract; if it also benefits other work, it can be distributed in reasonable proportion to those benefits
 - Is necessary for the overall operation of the business
- **Allowable/unallowable** is a characteristic of a cost in accordance with the FAR Part 31.205, Selected Costs
 - For example, cost of alcohol is unallowable; so is the cost of IR&D not properly tied to the program because it is not allocable
- Cost has to be **reasonable, allocable, and allowable**

Cost Accounting Standards



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Always dedicate a cost proposal section to stating that your company complies with Cost Accounting Standards

- Ensure that contractors follow the same rules in estimating, accruing, and reporting costs for negotiated procurements (sealed bids rules are not as stringent)
- FAR Part 30 and the Code of Federal Regulations (CFR) guide these principles
 - Consistency in allocating costs incurred for the same purpose (as direct or indirect)
 - Variety of accounting rules
 - How you accumulate Bid & Proposal (B&P) costs and allocate them to cost objectives, etc.
- Contractors must:
 - File a Disclosure Statement with the Administrative Contracting Officer (ACO) detailing accounting practices
 - Follow the disclosed practices and comply with standards by award date
 - Agree to adjust contract price if they fail to comply with disclosed practices

Cost and Pricing Data



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See FAR 15.400 and agency supplements; 41 U.S. Code Chapter 35 - TRUTHFUL COST OR PRICING DATA (a.k.a. TINA) – it is changing per NDIA 2018; KO must get accurate, complete, and current data from offerors to establish a fair and reasonable price

- Cost and pricing data has to be verifiable
- Cost and pricing data is what has helped you develop an estimate
 - Vendor quotes
 - Costs that don't recur
 - Info on changes in production methods and in production or purchasing volume
 - Data supporting projections of business prospects and objectives and related operations costs
 - Unit-cost trends such as those associated with labor efficiency
 - Make or buy decisions
 - Estimated resources to reach business goals
 - Information on management decisions that significantly impact costs

NDIA 2018 Increased TINA threshold for the submission of cost or pricing data for prime contracts awarded **after June 30, 2018 from \$750,000 to \$2M**

- Increased threshold for modifications to the prime, their subcontracts, and modifications to those subcontracts, to \$2M
- New threshold will be subject to periodic updating to keep pace with inflation under 41 U.S.C. §1908
- ***Designed to reduce number of contracts, modifications, and subcontracts subject to TINA, reduce associated liability for alleged defective pricing***

KO can request cost and pricing data, even if the RFP does require it

Contract Types are Important to Pricing



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Contract types impact reporting rules, risk, and your pricing strategies

- **Fixed-Price Contracts (FFP):** Fixed-price contracts with economic price adjustment, Fixed-price incentive contracts, Fixed-price contracts with prospective price redetermination, Fixed-ceiling-price contracts with retroactive price redetermination, Firm-fixed-price, level-of-effort term contracts
- **Cost-Reimbursement Contracts (Cost-Plus):** Cost-type contracts, Cost-sharing contracts, Cost-plus-incentive-fee contracts, Cost-plus-award-fee contracts, Cost-plus-fixed-fee contracts
- **Incentive Contracts** (the ones that **mitigate the risk** of FFP and Cost-Plus and **focus on what's important** to the customer): Cost incentives, Performance incentives, Delivery incentives, Multiple-incentive contracts, Fixed-price incentive contracts, Fixed-price incentive (firm target) contracts, Fixed-price incentive (successive targets) contracts, Fixed-price contracts with award fees, Cost-reimbursement incentive contracts, Cost-plus-incentive-fee contracts, Cost-plus-award-fee contracts
- **Indefinite-Delivery Contracts** (Definite-quantity contracts, Indefinite-quantity contracts)
- **Time-and-Materials, Labor-Hour, and Letter Contracts**
- **Agreements** (Basic agreement, Blanket Purchase Agreement (BPA), Basic ordering agreement (BOA))

Cost Proposal Evaluation



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These are some of the basics helpful in understanding cost volume evaluation

- Best Value is the optimal cost/performance tradeoff – the best overall benefit in response to the government requirement
 - Evaluates “shades of gray”
 - Scoring system needs to convey more complex information
- Lowest Price Technically Acceptable
 - Pass/fail grade on the technical proposal
 - The government automatically awards to the lowest passing bidder
- **Even “best value” procurements are mostly awarded to the lowest bidder or, at best, to a slightly higher cost bidder with an outstanding solution**
- Cost Realism is the Customer’s belief that the costs in your proposal are:
 - Realistic for the work to be performed
 - Reflect a clear understanding of the requirements
 - Are consistent with the various elements of your technical proposal

Worst kind of LPTA: only read the lowest price proposal; if acceptable, discard all else

Tradeoffs



Proposal Evaluators



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- Full-time, professional Cost Analysts – evaluate the entire cost volume **and score it**
- Defense Contract Audit Agency (DCAA) accountants to check you followed government and company procedures (also conduct audits)
- Technical personnel who analyze your approach and the Basis of Estimates (BOE) to check accuracy and consistency
 - Check assumptions
 - Ensure cost approach is consistent with technical approach
 - Ensure your labor and material costs are consistent with previous costs per DCAA audit information
 - Determine reasonableness



Cost Evaluation



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It is important to understand the evaluation process when you prepare a proposal

- Cost or price is weighted but not rated
- Technical evaluators don't see cost (at least during the evaluation) **BUT...**
- **Cost evaluators are encouraged to discuss the details of technical proposals** with technical evaluators to evaluate labor categories, hours, materials, processes, and task descriptions
- Administrative Contracting Officer (ACO) combines the info from DCAA and Field Pricing Assistance and sends to Procuring Contracting Officer (PCO)
- Evaluators refer to DCAA Audit Reports and the ACO for Field Pricing Assistance
- Cost analysts analyze and evaluate the proposal, also referring to large databases compiled from actual contract data for products and services
- Info gets combined into Proposal Analysis Report presented to Source Selection Authority (SSA)
- SSA almost always approves the recommendations

Understand Evaluation Intricacies



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Section M evaluation criteria are most often based on cost realism (unless it's Firm Fixed Price), and cost reasonableness; FFP Lowest Price Technically Acceptable (LPTA)= little can be done other than lowball

- Reasonableness is the lowest realistic cost to the Government
- You have to be within range of the Independent Government Cost Estimate (IGCE) or Independent Cost Estimate (ICE)
- Standard for cost realism is indicated by the spread between the proposed cost and the **Government Estimate of the Most Probable Cost (GEMPC)** for the specific offeror
- Government **with play with your costs and adjust values** to derive GEMPC (to compare apples to apples) – **the price you submit is not what the award decision is based on**
 - Adjusted based on IGCE and risk based on technical and past performance, and inconsistencies between technical and cost volumes
 - Government may add dollars to your bid and you may lose on price
- You can argue cost realism through BOEs as the government will check:
 - Completeness, Accuracy, Defensibility, Reasonableness of the proposal

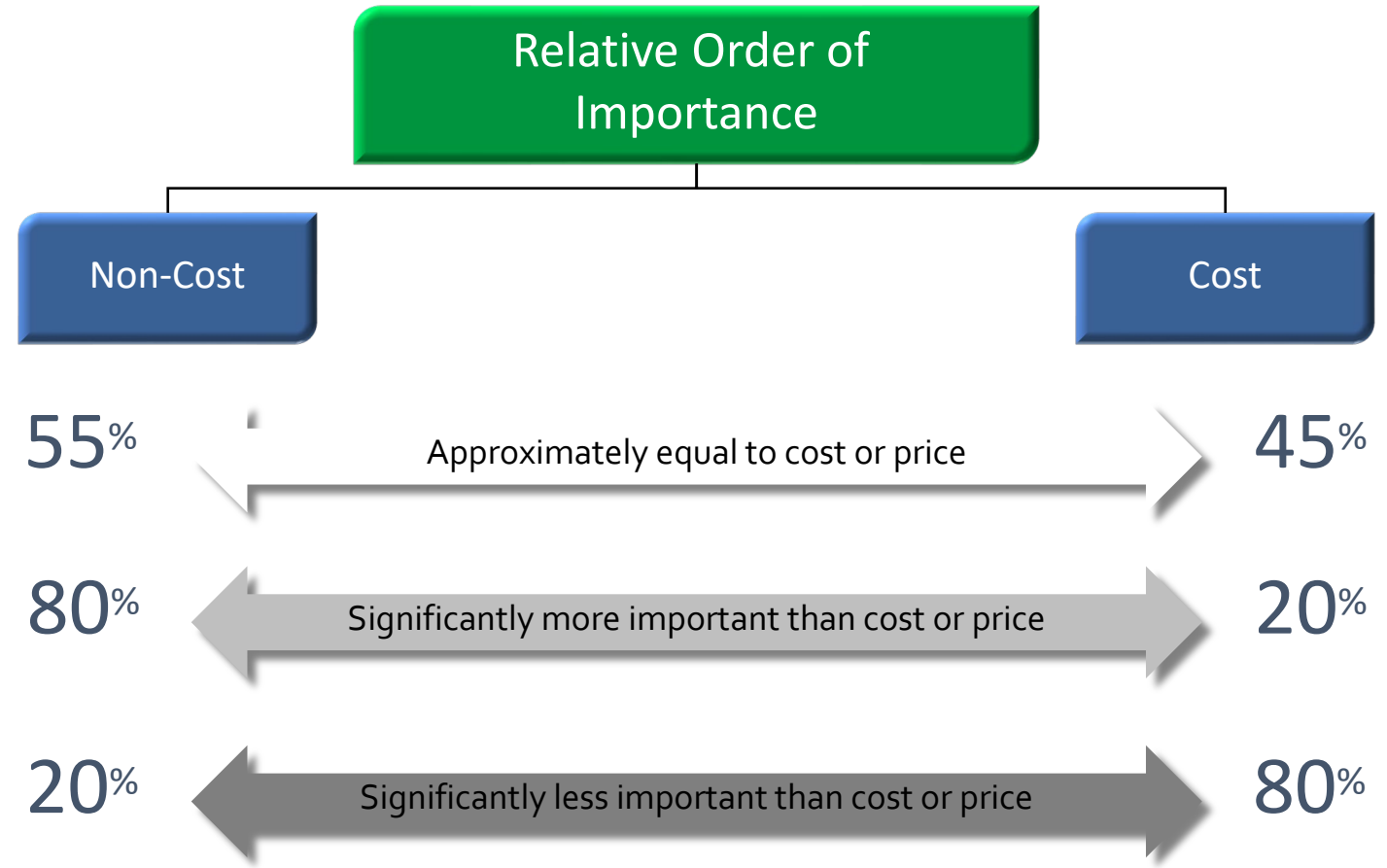
Evaluation Criteria Weighting Example



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Note that no matter what, the price is usually the deciding factor when everything else is found equal; and is the deciding factor in more than 85% of all procurements



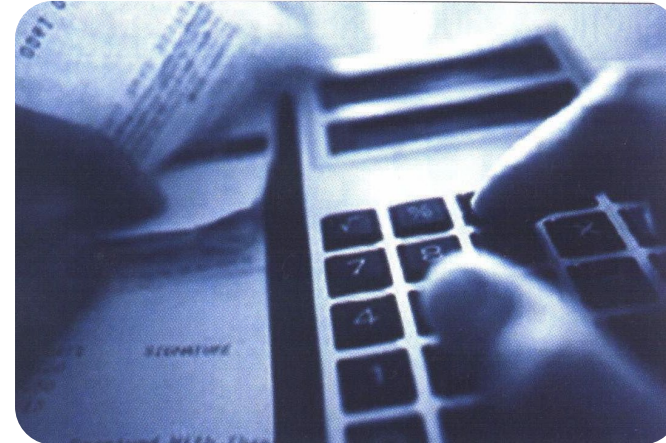
Cost Proposal Evaluation Process



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- 1. Separate technical and cost proposal and number/separate for evaluation
- 2. Create a cost evaluation panel
- 3. Perform compliance check
- 4. Request Field and Technical audits – send copy of cost volume to the auditors (or request a contractor does so at proposal submission)
- 5. Conduct Field Audits – DCAA for DOD and DCAA or Inspector General (IG) for non-DOD – to determine costs are supported, unsupported, and questionable



Cost Proposal Evaluation Process (Cont.)



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- 6. Conduct Technical analysis of cost proposal by one or more: Administrative Contracting Officer (ACO), System Program Office (SPO), for services – Air Force Procurement Regional Office (AFPRO), Navy Procurement Regional Office (NAVPRO), or Defense Contract Administration Service (DCAS)
 - Answer: can work be done as described – is it feasible for the cost? Is the approach acceptable, or are there other approaches?
 - Combines the field auditor's cost evaluations and the technical proposal evaluation; uses DCAA audits if available
 - ACO may prepare Field Pricing Assistance info that includes Technical cost proposal evaluation, DCAA report, and Cost/Pricing Analysis



Cost Proposal Evaluation Process (Cont.)



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- 7. Analyze Cost Volume
 - CO uses the results of the field audit and technical audit to develop an initial negotiating position
 - Cost analyst performs the actual work
 - Cost analyst examines the proposed costs and ***adjusts them to an equal basis***
 - Cost analyst develops a GEMPC – assigning realistic costs to the proposed cost based on an assessment of your company’s proposal and previous performance experience
 - Field Pricing Assistance info doesn’t recommend a fee percentage but provides the basis to enable the CO to determine reasonable profit
 - Profit numbers are going down to near zero as of late
- 8. Find Facts – have cost analyst, field auditors, and technical audits completed at contractor’s location to clarify proposal – send Clarification Requests (CR)
- 9. Optional – enter discussions: Evaluation Notices (EN) signify discussions; Final Proposal Revisions (FPR; a.k.a BAFO); negotiations before or after FPR

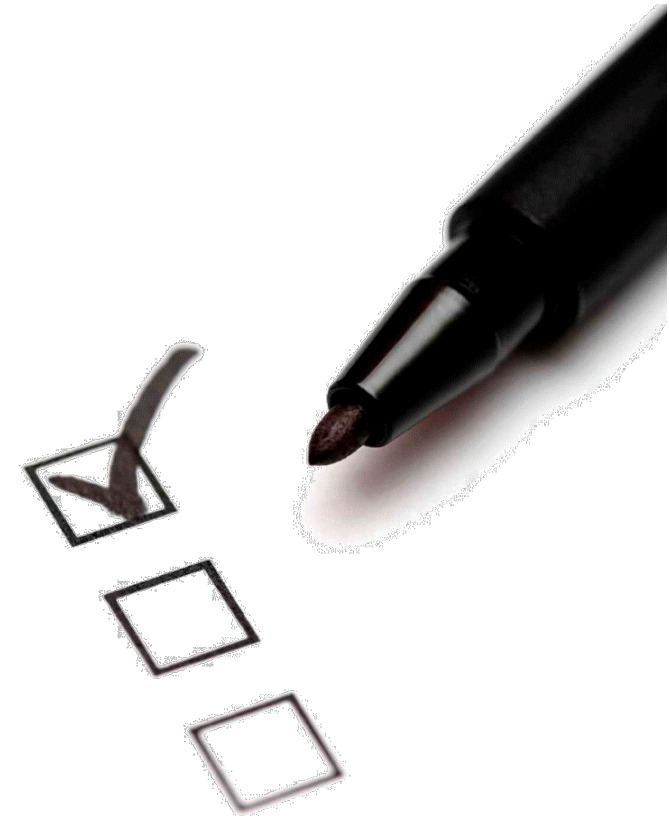
Summarizing Evaluation Observations



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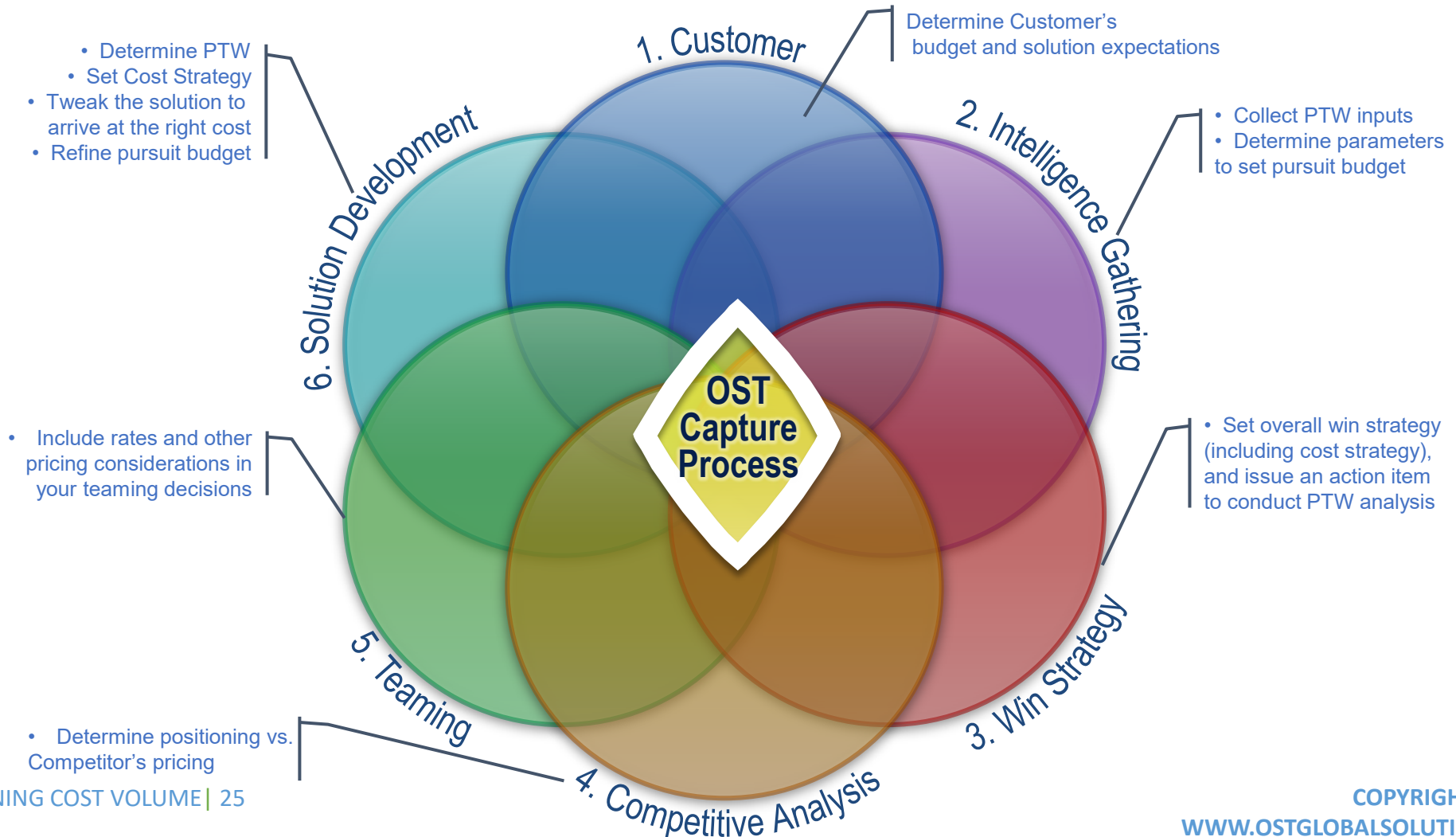
- Understand the process
- Make it easy to evaluate your proposal and find pieces
- Never deviate from the RFP instructions, create a compliance matrix
- Make compliance explicit
- Use simple, straightforward language
- Edit and format the cost volume like you would the rest of the proposal
- Make sure that cost agrees with the technical and management volumes
- Sell in the cost volume as well as in the technical



Cost Team's Involvement During the Capture Process



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Proposal Manager's Involvement Into Capture



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At the end of the capture, the capture manager and proposal managers work in concert to pass the baton; the success of this switch determines the proposal quality

- Proposal managers' role in capture increases significantly at the solution development stage
 - Proposal leadership gradually transitions away from capture to proposal manager
- At the Solution stage, proposal manager participates in the PTW analysis and helps tweak the solution to arrive at the PTW
- Upon RFP issuance (at the end of the pre-proposal capture process) Proposal manager develops the Proposal Plan with a refined pursuit budget



What a Capture Manager and PTW Analyst will Worry About in Capture Aspect #6



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Knowing the capture team's challenges helps you identify the areas where you can assist

- Figuring out what your competition will bid, to submit a price within 5-10% of the key competitors
- Researching and understanding specific pursuit-to-pursuit customer buying habits
- Since customer's budget is a major factor, setting the price within the customer's funding stream
- Agreeing on what fee is standard for this customer and for your company, and what flexibility you may have
- Determining different options for a solution
- Choosing teaming criterion for each sub and seeing if some tasks could be accomplished less expensively or at different terms
 - All subcontractors raise your price as a general rule
 - It is important to ensure they add enough value to increase Pwin as they increase your price
- Developing PTW to guide the solution:
 - Within the customer's budget - seems realistic to customer
 - Within the range of key competitors (not necessarily lower)
 - Executable and profitable for your company



Determine Your Price Competitiveness

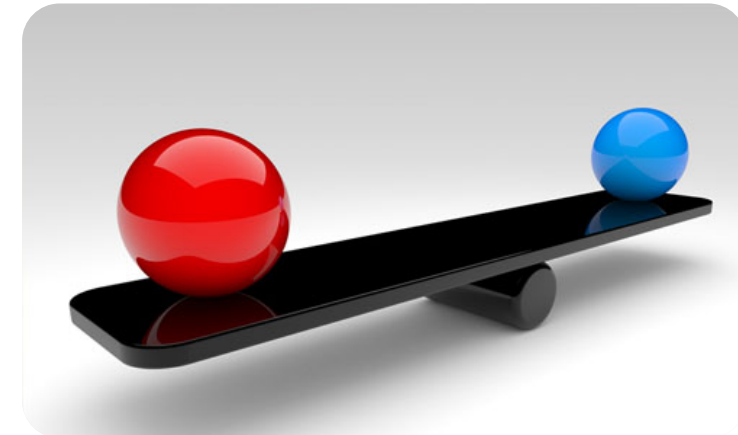


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Price Competitiveness is different from PTW: it determines if your pricing is competitive in general and what you need to do if you are not

- Price competitiveness analysis is necessary when your company:
 - Consistently loses on price
 - Tries to move into another market segment
 - Reorganizes
 - Transitions from a small business to a large business
- Take the time to analyze your cost pool structure and cost elements
- Perform assessment in light of the bidding practices related to these cost pools and disclosure statement details
- Determine if the cost pool structure and rates let you be competitive in a particular market



Exercise



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- Read the case study
- You will be assigned a company
- Perform your own price analysis
- Determine your total price for the courseware development and course delivery for the entire 5 years
- Be sure to include the cost reimbursable amounts
- When done, present your total price
- Jot down the competing teams' prices

OST Global Solutions, Inc.

The "TIM" Project Case Study

Background

The US Department of Homeland Security (DHS) Federal Emergency Management Agency (FEMA) through their National Training and Education Division wants to develop training and education including course offerings from the National Fire Academy (NFA). These resources are primarily targeted towards the fire service and its allied professions.

The Requirement

Fire Prevention: Technical, Incident Management ("TIM") Training Course. The course will be priced on a Cost Reimbursable basis (CPFF) and include courseware development, classroom delivery, and live classroom exercises and materials. The course will be delivered 6 times per year over the 2013 to 2017 time frame. The classroom participants are limited to 25 for each class. The Contractor is expected to provide their solution to developing the courseware and their methods for delivering the material in the classroom.

This 6-day course is designed to provide Incident Commanders (IC's) with an understanding of the fire protection features that are installed in buildings. Knowing how these systems work and their proper use will assist IC's to achieve strategic and tactical success. The course will emphasize the value of collecting this information during pre-incident planning and how to relay this knowledge to other firefighters who must respond and function effectively using these systems under emergency conditions.

Topics addressed in this course include developing model pre-incident plans; the importance of collecting and sharing information with other emergency responders; and understanding the fundamental operations, strengths, and limitations of built-in fire protection systems including automatic sprinklers, standpipes, fire pumps, fire detection and alarm systems, smoke management systems, and special hazard fire protection equipment.

The Contractor will be required to travel to Emmitsburg, Maryland from their site to deliver the course - with a travel cost each year NTE \$9,000. The course classroom materials and workbooks shall be provided by the Contractor - with a cost each year NTE \$ 67,500. This is a best value procurement.

Customer Situation

The NFA budget this past year suffered an 8% cut across the board. Fire training is important to NFA and FEMA. NFA budget for this five year program has traditionally been in the \$400-500k range but this time the budget is \$350k. Clearly, there is budget pressure on NFA around this course. In the past, NFA has offered the program more often and given a second advanced program to the Commanders in addition to the one being bid. The customer's should cost for this project is around \$300k - they believe this would be a good deal. They have money for all five years and intend on awarding this contract to begin October 1, 2012.

The customer has had good experience with The Best Little Traininghouse in Town and likes them very much. They don't know Buy the Book Training Company at all and have not talked with them either. The Hook and Ladder Training Company is well known to NFA for decades and NFA loves them.

While you will be determining your own solution for the courseware development and course delivery, NFA expects that the course delivery will take 8 hours per day. Industry standard for courseware development is between 2 to 10 hours per hour of delivery.

Competitive Situation

The Best Little Traininghouse in Town has been heavily marketing the client. Based on their past history, they

*Case study compliments of Marsha Lindquist - Granite Leadership Strategies Inc.
1243 West Cooper Lane, Prescott, Arizona 86302
www.GraniteLeadershipStrategies.com (928) 541-7750*

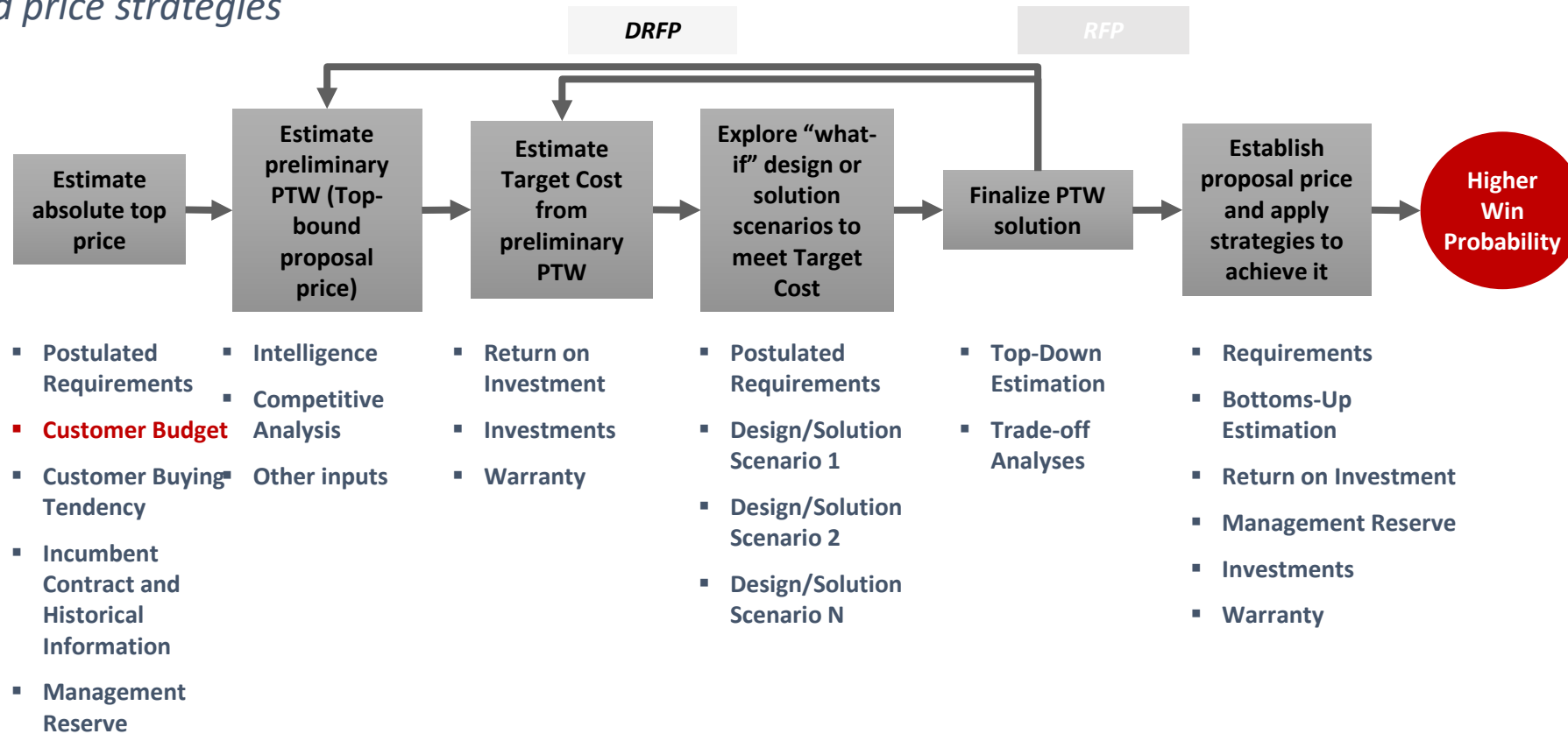
PTW Development Process



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Understand the PTW development process and its iterative relationship with your solution and price strategies



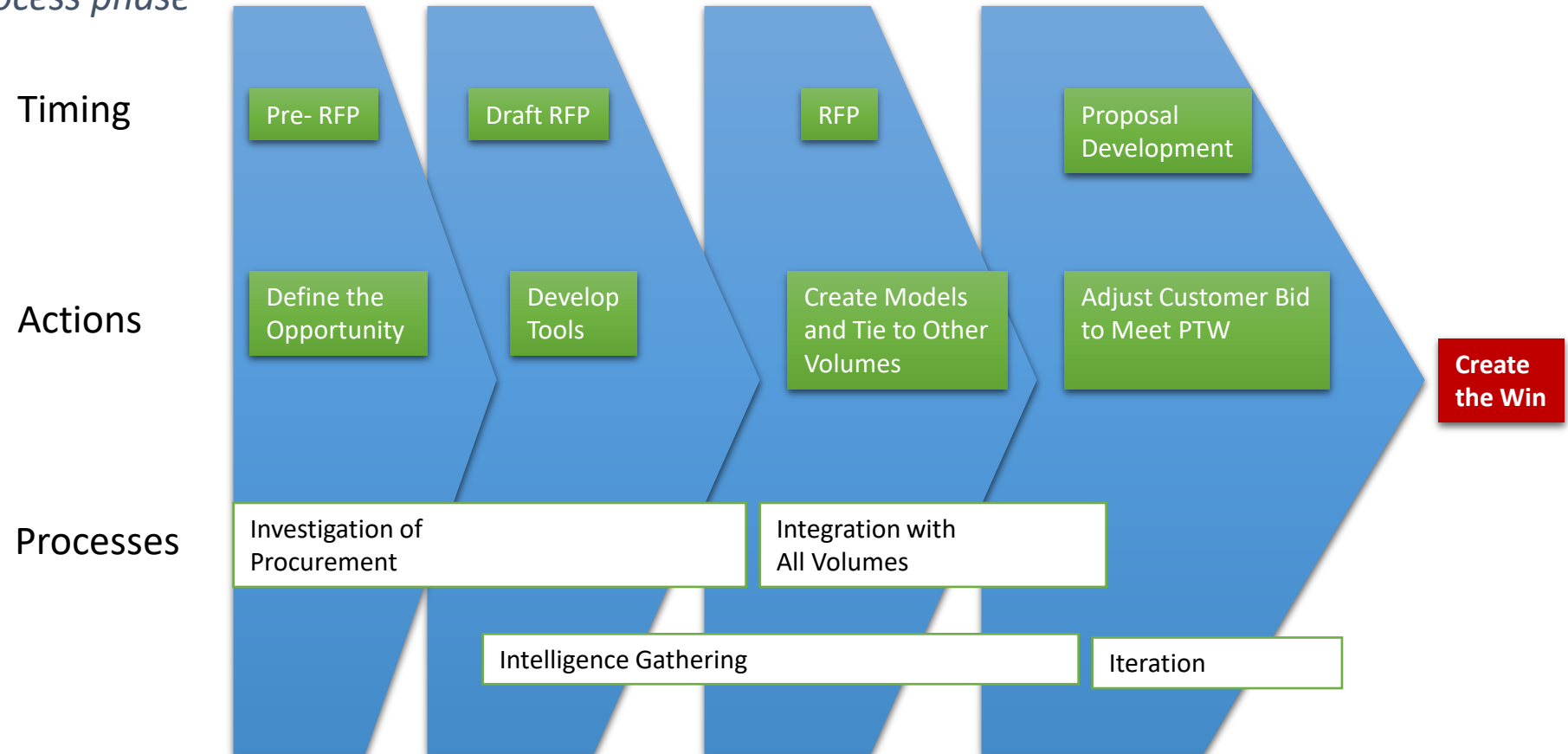
Top Level Flow to Create the Win



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This is the top-level workflow of the PTW process, where actions and processes depend on the acquisition process phase



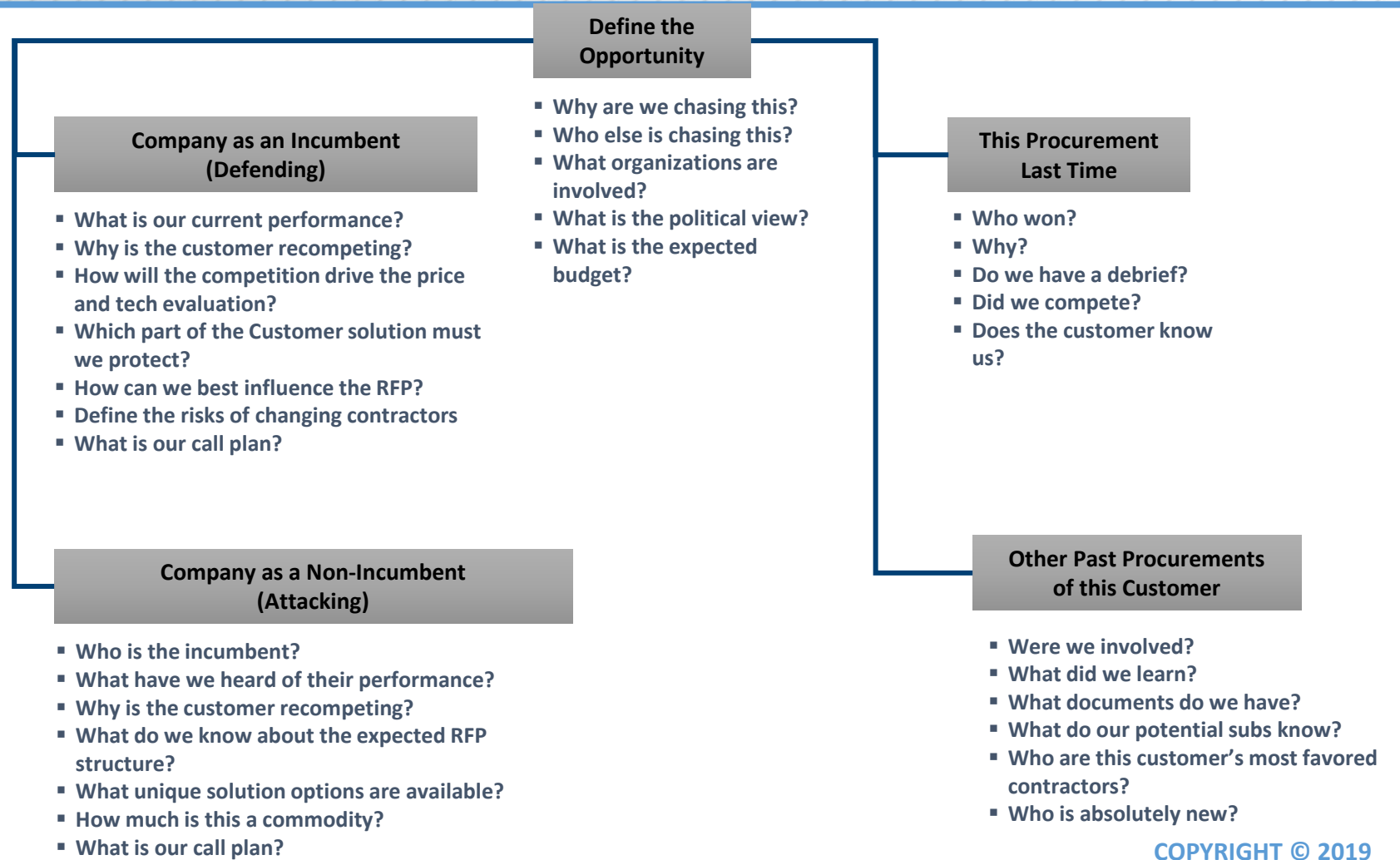
Questions You Can Help Answer for PTW Analysis



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Many of these questions are within the purview of capture, but proposal managers can offer additional insights



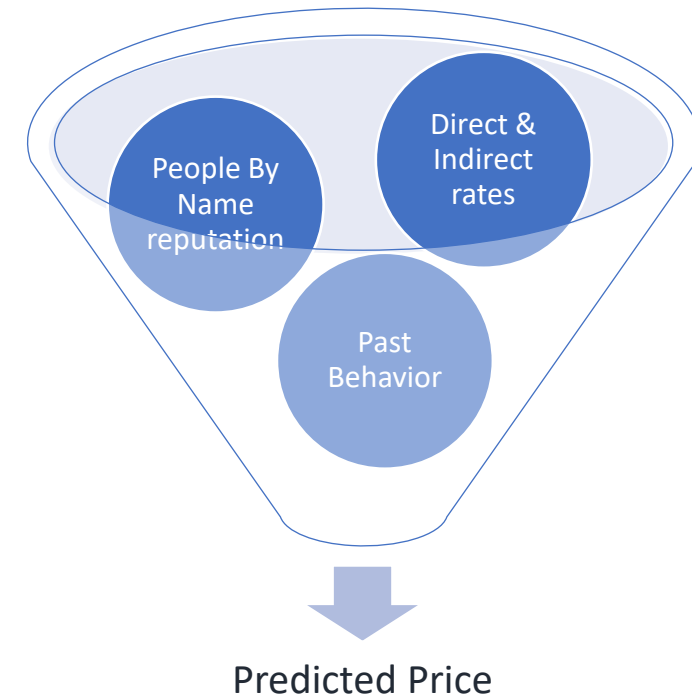
Intelligence Gathering



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- Complete Black Hat review – document “Rubik's Cube” results of predicted non price factors – feed data directly into PTW Workbook
- Gather indirect and direct rate data on anticipated competition – reverse engineer rate data from public information (legacy contracts)
- Acquire direct and/or indirect data from 3rd party providers
- Verify assumptions against other sources
- Ask other experts – find out people by name



PTW Input Sources



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PTW Inputs

Sources Of Data

Customer input, including unstated needs (not in the RFP)

Personal contact – customer aspect of capture

Customer budget and staffing – available funds for this program, by dollars per program year

Program Objective Memorandum (POM), OMB, and President’s Budget

Customer track record – how it awards and its buying tendency – for example, do they award on lowest cost or best value?

Personal contact and experience; intelligence gathering effort and examination of old RFPs and awards – what percent and weighting did they give to cost versus other evaluation factors? What is award history and buying patterns – do the same positions bid tend to win more often? Do they select low cost technical acceptable or high technical within 5% of lower technically scoring bidders? Do they exhibit anti- or pro- incumbent patterns?

Competitor’s name and bidding strategy, as well as data for wrap rate derivation; what are their expected labor rates for the program, what is their expected pricing strategy or technical strategy that will affect pricing

Competitive analysis/Black Hat results, personal experience, teammates, past contracts, bidders list, such sources as Ardak corporation for purchasing wrap rate information; FOIA, such resources as BGOV and GovWin IQ for historic pricing.

More PTW Input Sources



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| PTW Inputs | Sources Of Data |
|--|---|
| Incumbent Contract Information Contract type, period of performance | Contract value and staffing, as well as data for wrap rate derivation from GovWin IQ and other competitive analysis and intelligence gathering sources Past RFPs and contact with customer |
| Your relevant capabilities & experience | Company information and resources, personal experience, in house experience on past procurements for same or similar programs, and outside resources engaged to fill knowledge/history gaps |
| Execution information on the program | Past experience & RFPs, Exhibit 300 |
| Your initial solution: <ul style="list-style-type: none"> ▶ Customized WBS ▶ Labor Category and Salary, Population for Skill Mix Group ▶ Teaming approach ▶ Baseline Design | Brainstorming sessions to develop WBS, schedule, decide which approved labor rates to use (perhaps GSA rates should be considered – or a different cost center); what is the level of effort by WBS element for each program year; subcontractor pricing inputs |
| “What-If” scenarios | Brainstorming sessions – consider hiring outside PTW expert on Strategic Pursuits |

Help Mobilize Information Sources for Situational Assessment for PTW



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Integrate Competitive Analysis with a Pricing Model



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These tasks are primarily cost team's, but it is good for you to know what's going on anyway to ensure you track them to completion

- Create a pricing model that feeds key data directly to PTW pricing model
- Build a detailed pricing model for each potential competitor – update all models simultaneously as key data changes
- Directly link all data that is considered leveled – staffing, Wage Determination (WD) wages, WD fringes, etc.
- Set up all pricing elements being competed as variables for each bidder
- Use the intelligence to populate competitive pricing variables such as G&A, fee, exempt wages, expat wage packages, international employee content, overhead, etc.
- Create a “Lowest Conceivable” price point – depict competitor prices as % above lowest conceivable
- Calculate margins of error based on lowest conceivable – create high and low range for each bidder
- Separate pricing and PTW models run in parallel – variation thoroughly analyzed – use as error checking tool/process

Perform Labor Rate Analysis



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Reverse engineer available financial info from FOIA to determine burdened labor rates, direct labor rates, average rate per hour and total contract value

- Consideration in your bid-no-bid decision on a recompete or similar contract
- Determines what the competition, including the incumbent, might bid
- Research GSA and other rate schedule, labor category and burdened labor rates for your specific service areas and target agencies
- Map labor categories to various salary surveys and calculate the burden for each labor category
- Identify and discard “gamed” or unused labor rates and then average remaining rates into competitive wrap rates
- This analysis will result in insight into the wrap rates and bidding strategies of competitors
- Although work can be overwhelming, it pays huge dividends



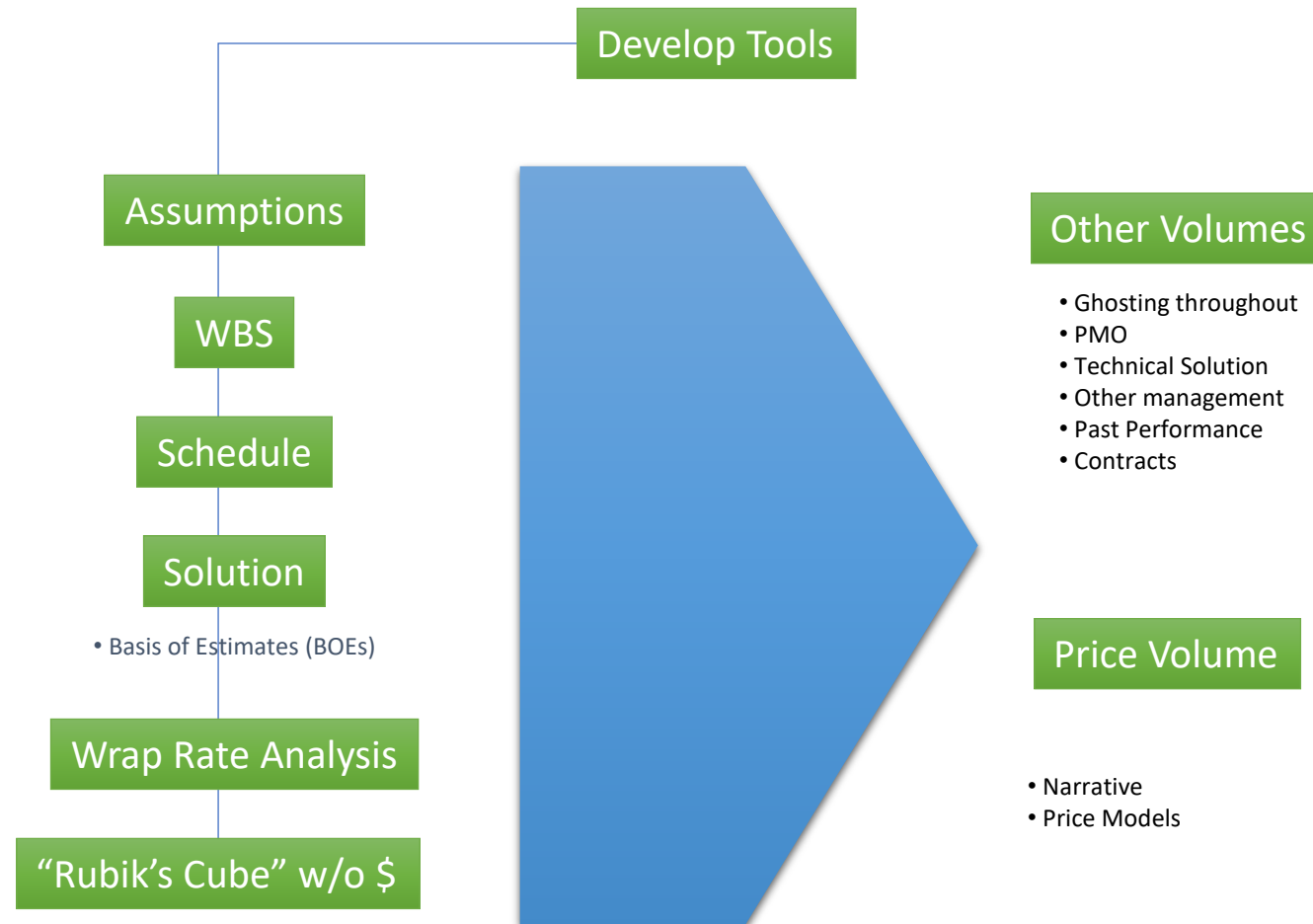
Develop Tools



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All these tasks require your active involvement



Iterate

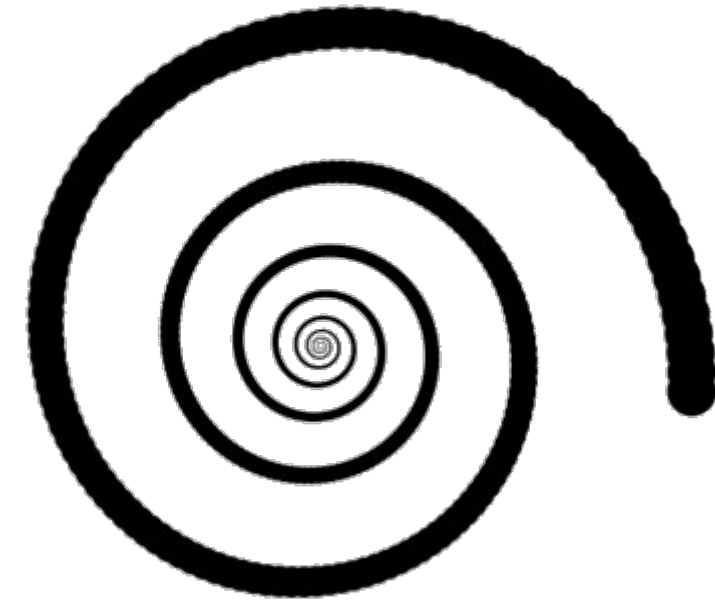


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Continuously update PTW model and predicted competitor behavior as each new discovery occurs

- Proposals are a process of discovery – things change as the procurement proceeds – amendments, answers to questions, pursuit team revelations
- Challenge other qualified, yet uninvolved experts within the organization or outside SMEs to create alternate PTW views of competitor behavior by employing the same baseline model
- Never stop “what if” drills – consider Pwin and Margin of error implications of key management decisions prior to final proposal delivery such as fee position, investment and relative financial risk of overall offering



Create the Win



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Frontloading strategy raises your win probability

- As competitor models become complete – model ways that you can position to win
- Ghost competitor behavior that is of concern
 - If you expect lower than market wages – write in the price and management narratives why that is bad and what bad things it may cause for you
- Make a list of 10 things, however extreme, for leadership to consider that would put you in a position to win:
 - Change makeup of team – swap prime/sub
 - Create a Joint Venture (JV) – grow work share of least expensive teammate
 - Change your disclosure statement, and bid a stand alone cost center
 - Offer indirect rate ceilings, bid other than Forward Pricing Rate Proposal (FPRP)
 - Create unique fee structure – lower fee
 - Take risk on exempt wages
 - Offer cheaper fringe benefit plan

Exercise



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- Review all teams' total price amounts for the case study that were presented to the group
- Working in your same groups, identify the cost drivers that brought you to your price
- What would you be willing to do to make your price the price that wins?



Resource Planning for the Proposal

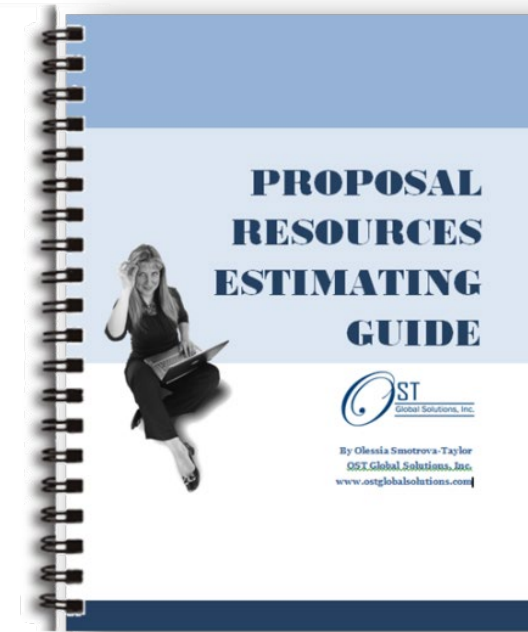


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Determine the required manpower and hours to calculate how much a proposal should cost

- Develop a proposal plan
- Calculate proposal budgets and determine resource needs
- Make better use of your limited resources by deciding to bid (or not) on different proposals
- Reduce stress through more realistic planning where it comes to resources and schedule
- Eliminate waste of resources through more careful budget tracking
- And, most importantly, resource your proposals to win



Inputs into a Bid-No-Bid Session

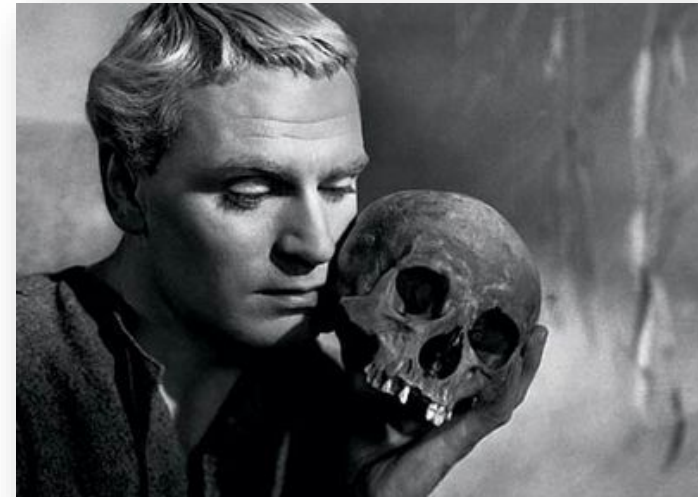


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There are lots of cost inputs that go into a decision to proceed – but they often get ignored and contribute to the overall broken state of the bid-no-bid decision process

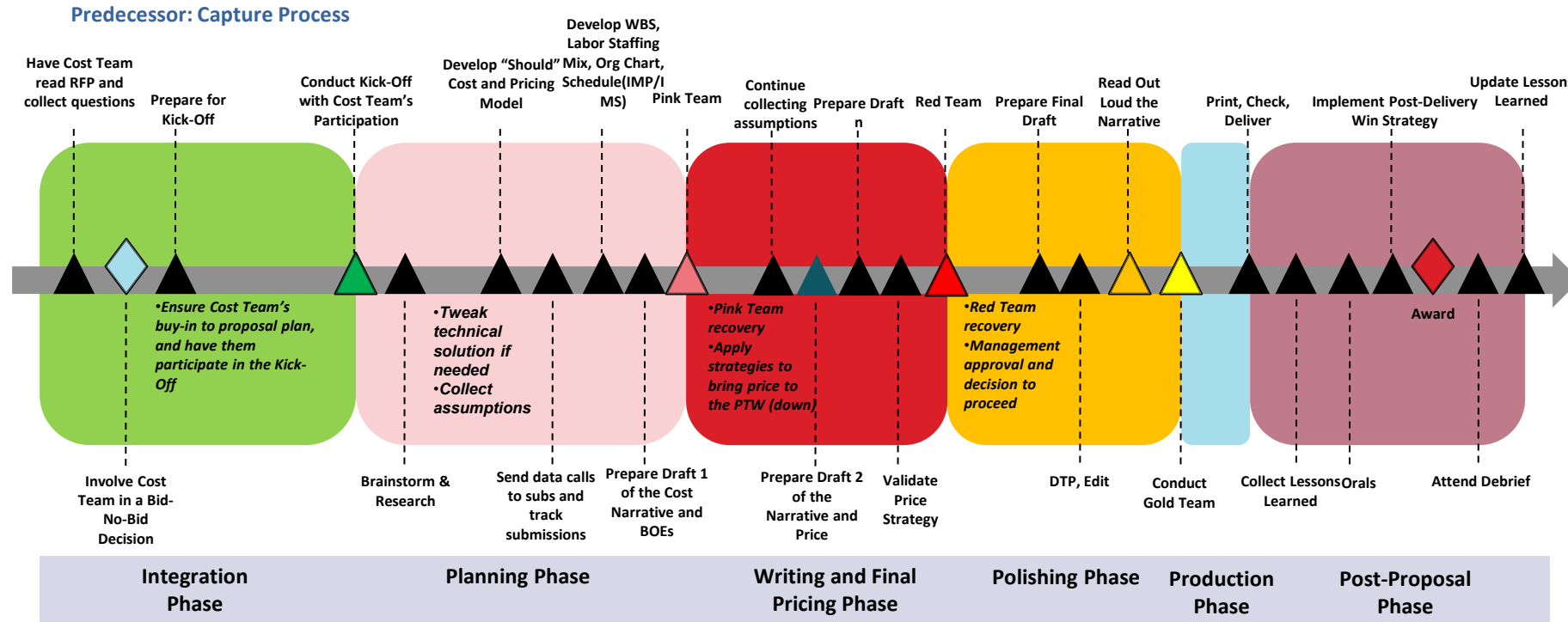
- **Determine the overall dollar value of the proposed effort and ensure it is realistic and reasonable (and review different options for pricing)**
- **Determine whether we have the right facilities and equipment, and can make the right investments (and how it will affect rates and burdens across the board)**
- **Execution and internal risks perceived by the management (that are often money-related)**
- **Return on investment given proposal resources estimate**
- **Conduct an initial PTW exercise to gauge your ability to price compete and the related Pwin implications**



Facilitate the Process



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Successor: Project Delivery Process that Includes Capture of Additional Scope and Projects

Work Closely with the Cost Team



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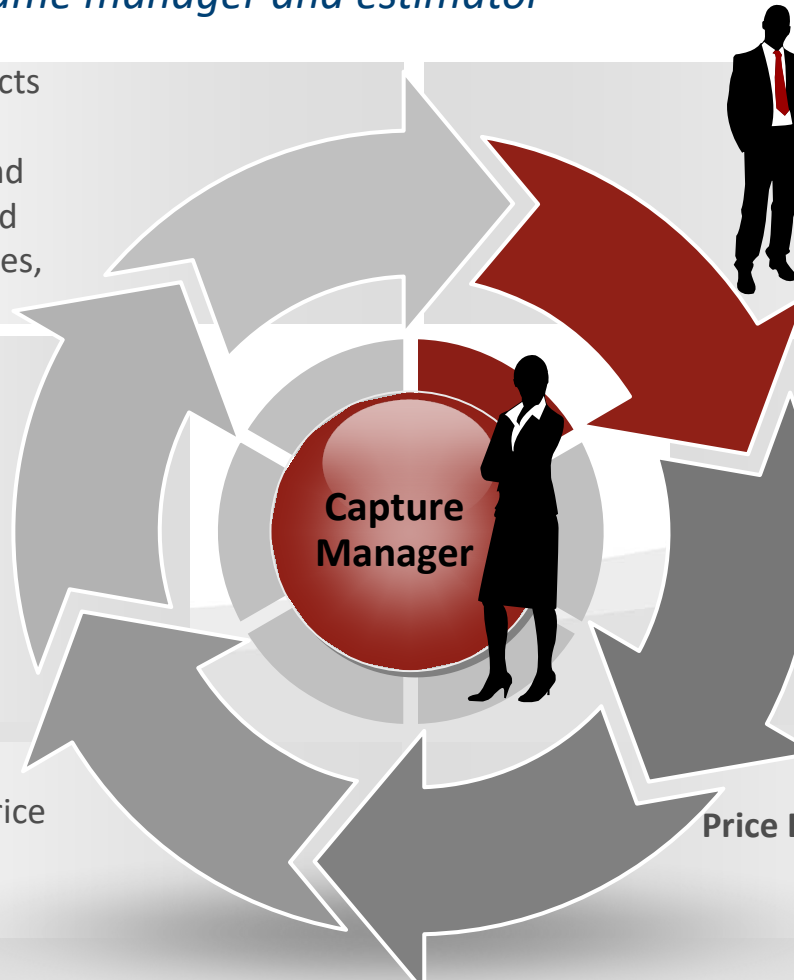


Cost Team is more than the cost volume manager and estimator

Other key players: Contracts to check compliance; Management to review and agree on price build up and total; HR to deliver key hires, etc.

Subcontracts Manager. Sends target prices and other data calls to teammates and vendors; helps in negotiations.

Price Analyst. Develops price proposal, including final pricing.



Proposal Manager. Takes keen interest and participates in price volume development. Steps in to help and resolve issues. Link to the technical team.

Cost Volume Lead. Leads volume on behalf of Proposal Manager. Responsible for both narrative and price portions. Link to the technical team.

Price Estimator. Develops should costs, pricing model; makes pricing assumptions and decisions.

Cost Volume Manager's Role



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If the roles and responsibilities are not clearly understood, the performance will suffer

- Can be a Project Management Office (PMO) Lead, a Program Manager, external professional Cost Volume Lead or someone from the Finance Department
- May not be dedicated to your pursuit alone – may be juggling a few
- Establish an integrated cost volume schedule – with cross-team requirements, assignments, and deadlines established and updated throughout the proposal process
- Must be thoroughly familiar with the Capture and Proposal processes, the estimating system used in your business unit, and the pricing software (if you are using something other than Excel)
- Should not be the Proposal Manager



Immediate Tasks to Oversee from Your Cost Team



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There is a number of activities that get missed right at the start of the proposal, which leads to cost volume delays

- Analyze the RFP – derive major pricing drivers that are competitive and those that are “leveled” – focus on competitive line items early and often
- Buy into your proposal schedule and provide key milestone inputs
- Designate responsible personnel
- Determine flow-down requirements to team members, subs, and any inter-organizational transfers (for large companies)
- Ensure that their cost info will be consistent across the board
- Identify questions and clarifications required in response to the RFP
- Start finalizing Contract Line Item Number (CLIN)/WBS development per RFP
 - Done with Proposal Manager’s participation, and the Program Manager/project personnel
 - May not be completed until Pink Team
- Prepare slides for the Kickoff to insert into your presentation

Ask the Cost Team to Participate in the Kickoff



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Just like with the technical proposal, the kickoff presentation from cost team will result in a better run, less stressful cost proposal

- Provide an overview of the cost proposal requirements
- Discuss method, process, and schedule for subcontractor pricing
- Discuss key milestones, including pricing and technical input due dates
- Schedule more than one round of subcontractor pricing to allow for work share and price optimization across the team
- Provide Just-In-Time training on current estimating policy and procedures and business estimating system description
- Provide input templates, ensure their buy-in, and train the subs in using them
- Provide BOE formats and training – including BOE sources



Cost Team Kickoff Tasks (Continued)



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It is very useful if the templates are done by the kickoff just like your technical outline and templates

- Provide flow-downs to subs and inter-organizational transfers (cost volume manager together with the subcontracts manager)
- Provide dates for data calls issuance and due dates
- Designate process for submission and review of cost inputs
- Identify the pricing system to be used
- Address the required documentation and format
- Develop team member pricing templates to control the process across the team and to ensure complete compliance and team pricing integration

3) Labor Rates and Factors
For each of the labor categories, Salary, SCA-Georgia and SCA-North Carolina, please fill in the factors below. If you don't have a fringe rate, additional templates for developing the fringe rate are provided.

| Base Rates | Base Period | Option 1 | Option 2 | Option 3 | Option 4 |
|----------------------------|-------------|----------|----------|----------|----------|
| SCA Fringe - GA | 0.00% | 35.00% | 35.00% | 35.00% | 35.00% |
| SCA Fringe - NC | 0.00% | 35.00% | 35.00% | 35.00% | 35.00% |
| Overhead (Contractor Site) | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Overhead (Government Site) | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| G&A | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Fee | 6.00% | 10.00% | 6.00% | 10.00% | 10.00% |

4) Notes-Assumptions - please populate as appropriate

6) Save a copy of this template for your records. Save another copy as Co_Name_Submit.xls
In this copy, highlight all the data on the sheet Sanitized_IDIQ-Contractor Site (you can do this by clicking in the cell to the left of column A at the top of the spreadsheet)
Next, go to Edit, then Copy. Keeping the data highlighted, go to Edit, then Paste Special and click the circle next to Values
Repeat this on the Tab Sanitized_IDIQ-Government Site. Check each sheet to make sure there are no formulas, only numbers
Once you are sure that you only have values, delete all other sheets and return this file only (the one with just the 2 tabs) to me, keep the other for your records

Recap



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Let's go over today's material

- In what stage of capture is the proposal manager the most involved?
- What are the steps of the cost proposal evaluation process?
- Does the government always get to evaluate the price you propose?
- How can a proposal manager help with capture in the cost arena?
- Please, name at least three members of the cost team
- What action items from today's class you are going to implement right away?



Thank You for Attending!



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