



OST GLOBAL SOLUTIONS



# Developing a Winning Cost Volume

Day 2  
OST Bid & Proposal Academy  
Course

[www.ostglobalsolutions.com](http://www.ostglobalsolutions.com)

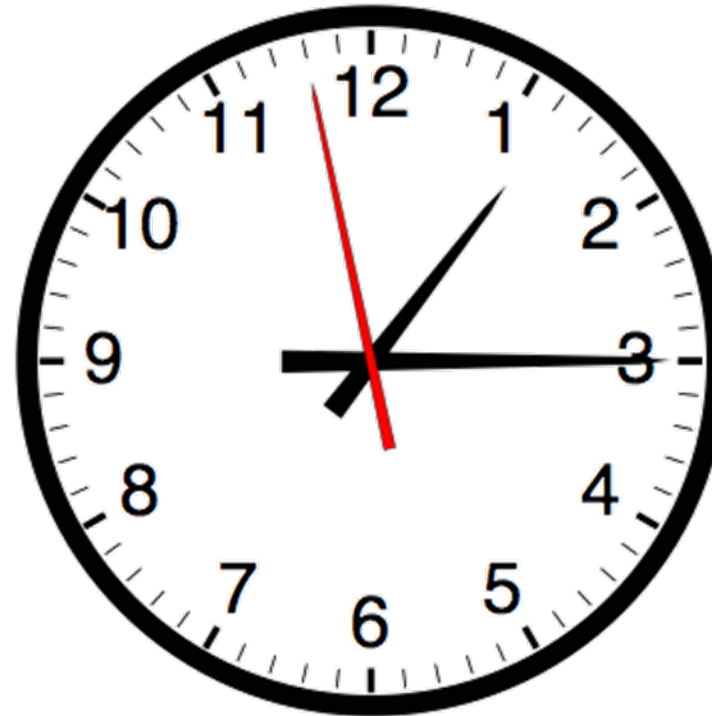
# Agenda



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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*

# Reject a Boilerplate Narrative

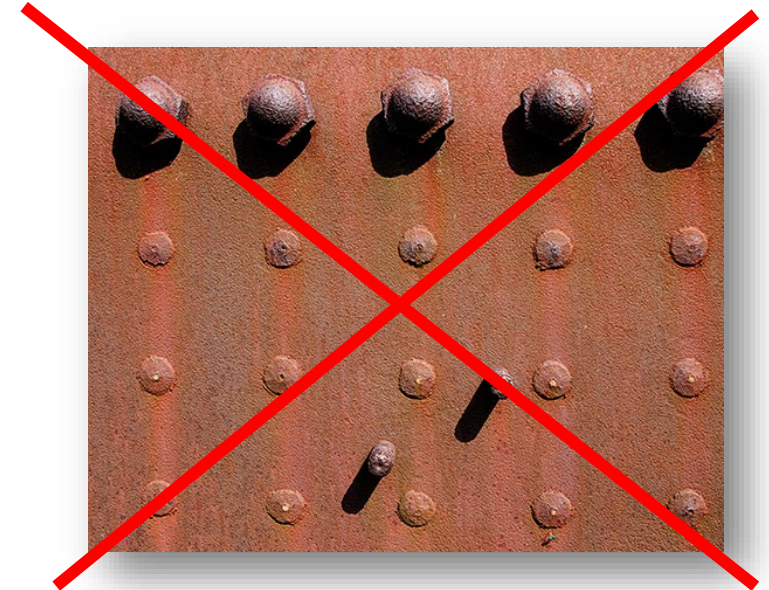


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*Boilerplate in the cost volume is just as offensive as it is in the technical volume*

- **Ensure the narrative agrees with requirements and your approach, and tells the same story**
- **Write an executive summary for the cost proposal**
  - Explain the cost implications of your solution
  - Showcase specific cost savings (value added)
- **Include incentives and other labor compensation and retention features:**
  - *Ex: We implemented a Program Management Incentive Bonus Plan that is funded through an ODC charge. It is an incentive bonus program for superior contract performance. This program rewards Technical Contract Managers and Project Leaders with added compensation based on performance and management of the contract. ... ..*
- **Don't accept "cookie cutter" text – a winning cost proposal cannot be a cut-and-paste exercise**
- **Include graphics demonstrating cost savings and efficiencies**



# What Goes in the Proposal Narrative



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*There are many variations in the cost proposal organization; if no instructions are provided, include the “typical” sections*

- Always follow the RFP: L, M, C, B, etc.
- Sections that are good to include:
  - Compensation Plan
  - Incentives to key personnel
- Use well thought-through graphics to depict your key pricing themes and discriminators
- Most price evaluators will gladly use the picture to make their evaluation easier

## Sections that are typically included:

- Compliance Matrix
- Executive summary
- Proposal basis
- DCAA and DCMA contacts and system approval status
- Schedule
- No exceptions to the RFP
- WBS and WBS Dictionary
- Cost estimating techniques used
- Fee/profit statement
- CLIN cost breakdowns and supporting data
- Excel spreadsheets with cost estimates
- BOEs
- Funding summary and schedules
- Contractual terms and conditions (acceptance/modifications/rejection)
- GFE/personnel/equipment/software
- Reps and certs (if not in the business volume)

# Cost Volume Executive Summary



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*Executive summary helps evaluators better understand your solution and persuades them to select you; don't just cut and paste from technical – rewrite!*

- Six part formula:
  - Hook
  - Win Theme
  - Introductions (team and work share)
  - Body
  - Roadmap
  - Call to action
- Don't forget:
  - Your excellent D&B status and credit line
  - Total price discussion
  - Emphasis on how your costs are fair and reasonable, and how you will accurately control and track costs via EVMS (if you have it)
  - Any cost-cutting measures and efficiencies in your approach
  - Proof that you have controlled costs well on other contracts
  - LPTA ghosting
  - Graphics



# Additional Items to Discuss in the Cost Narrative



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*Your cost volume should sell through sound logic, thoughtful solution summaries that are consistent with technical approach, and cost win themes*

- Win themes and discriminators that pertain to efficiencies and cost reductions
- Overview of the approach from the cost perspective
- Cost/price implications of major strategies
- Emphasis on how costs are fair, reasonable, and realistic
- Your estimating approach
- How you will accurately track and control costs – and how well you have controlled and managed costs and subcontractors on other contracts
- Indicate your cost system has been audited and approved by DCAA and meets all the CASB Standards
- Include graphics/visuals at least on every other page

**Responsiveness**

**Compliance**

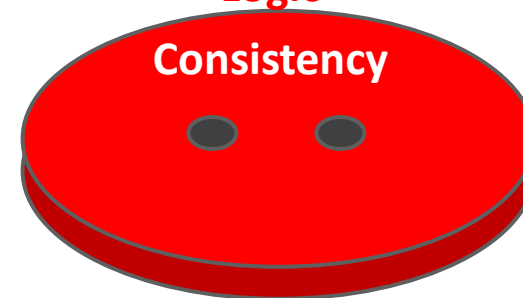
**Reasonableness**

**Realism**

**Low Risk**

**Logic**

**Consistency**



**Hot Buttons**

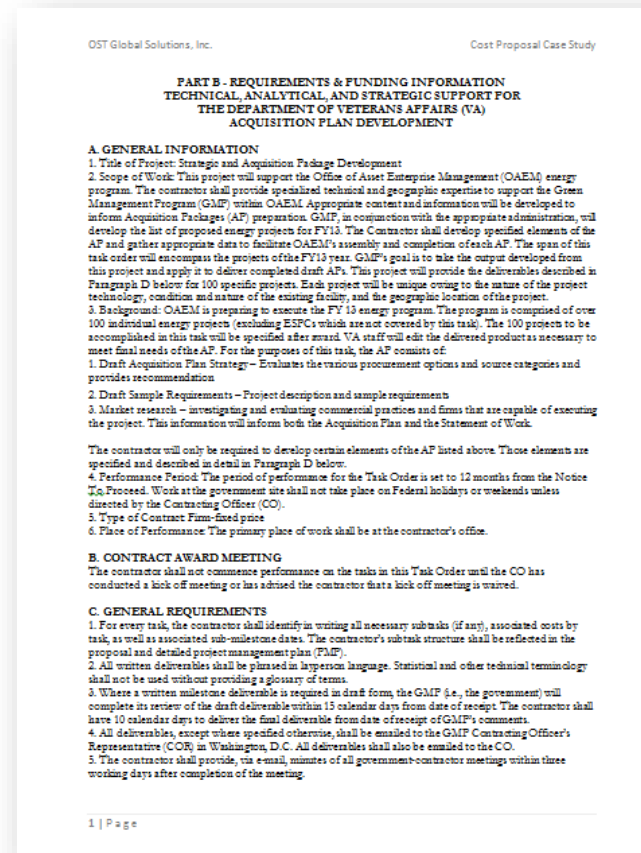
# Exercise



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- Read the cost volume requirement
- Outline the cost volume
- Include a table on how you would represent costs



# Help Ensure that Cost and Technical Volumes Agree



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*Lack of agreement between cost and technical volumes is one of the common problems among companies*

- **Review the cost volume continuously to resolve any cost and scope variances**
- **Insist on cost team member participation in technical and management color team reviews**
- **Practice in-process reviews**
- **Keep section-by-section status of the cost volume just like you would any other section**
- **Participate in the cost volume color reviews**





# Tweak the Solution



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*Work closely with your cost team to develop different scenarios*

- Select a different technical solution altogether (way too late at the proposal stage)
- Use less expensive subs for specific tasks
- Use a cheaper sub but have one of your people supervise the task, rather than using your people to do the task
- Increase managers' span of control to reduce headcount in the most expensive labor categories
- Reduce levels and layers of management
- Don't bid expensive keys and SMEs at 100%
- Use GFE not offered in the RFP



# And More Tweaking...



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- Propose the bare bones solution and add “bells and whistles” as a non-priced option
- Amortize use tools or processes that have already been created on your other contracts or through IR&D
  - Ensure there is explicit tie between IR&D and this proposal or the cost will be unallowable
- Develop a more aggressive schedule
- Adjust the placement of personnel in required service labor categories
  - When customer mandates labor categories and hourly rates, there may be a mid-point rate for each labor category
  - If you can do much of the work below mid-point, don't blindly propose those mid-points unless required by the customer



# And More...



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- Establish a new cost center (or a joint venture) for a new major bid to minimize overhead allocations not applicable to the bid (**Risky**)
- Relook at your overhead
  - Make sure that your physical assets have been tracked and fully depreciated, and are allocated correctly (has IRS implications as well)
  - Reduce costs that go into overhead by using new systems
- Ensure you use relevant cost standards for the type of work you are doing
- Review all the tasks and labor to ensure there is no duplication
- Add assumptions on time management and skills improvement over time
- Break up whole tasks into what higher cost personnel have to do and lower cost personnel could do to make work more efficient (Lawyer model)
- Reduce the number of CDRLs/reports to cut down on costs; use automatically generated reports plugged into templates instead of custom reports

# Assumptions



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*A technical team will make a myriad of assumptions while developing an approach, but then you may pull teeth trying to get any of them on paper*

- Assumptions are the proposal basis or ground rules
- Help determine if a specific task is part of work or not
- Help in future change proposals/modifications
- Must be identified upfront in writing
- Must be comprehensive
- Come mostly from the technical team



# Usual Assumptions



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*Your cost proposal team will usually pick up the regular assumptions from the RFP, but if you know additional information, provide to them so that they are on the same page (to ensure your cost volume assumptions are in line with the latest Q&A responses etc.)*

- Proposal Validity Date
- Proposed Start Date
- Costing Start Date
- Options Description/Exercise Dates
- Customer Funding Plan (usually fully funded)
- Customer Payment Plan
- Other....



# Help Collect Additional Assumptions that Help with Price Optics



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- **Assumption is a key instrument of optics and getting the price down**
- **Needed for BOEs or as a separate section**
- **Don't rely on Cost Volume Manager to gather all of them**



## Examples:

- **The utilities are in full working order and will not require repairs**
- **Storage facility will not require additional cost to upgrade and uses the same equipment listed in the TORP**

# Help Collect Information

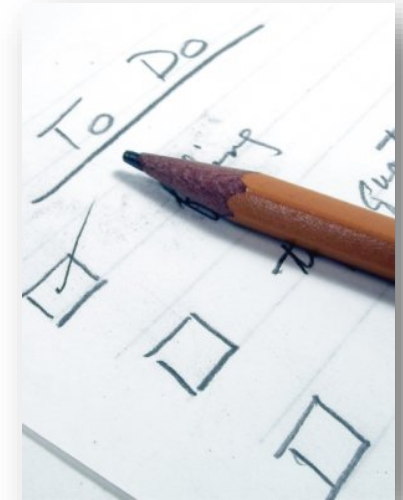


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*This is a checklist for the types of information that may be required from your subcontractors*

- **Equipment:**
  - Who procures what
  - Equipment/materials lead times
  - Certification process
  - Shipping to site locations – who, how, where – costs?
  - Will there be warehouses centrally, regionally, or locally?
    - Who will maintain? Cost?
- **BOEs:**
  - Request BOEs from all subcontractors and internal resources
  - Instruct what BOEs should identify
  - Ensure that the cost team checks whether incoming BOE totals equal the report/pricing run totals
- **Manpower:**
  - Help define an internal and external staffing profile and check if profile agrees with the program schedule
  - Manpower and office space allocation: who of our subs will work out of the joint office; who will interface with whom on each task, and how will it work in reality?
  - How many work places we need to have
  - Taxes:
    - Have local, state, in country, expat taxes been estimated, how, and by whom?



# ...And More Information



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## ■ Subcontracts:

- Ensure all agreements are in place and subs respond to all the data calls
- Check BOEs and input data to make sure they reflect the requirements requested
- Ensure the subs accept flow-down requirements
- Ensure subs' proposals are valid for the requested validity period

## ■ Material:

- Finalize a priced Bill of Material (BOM)
- Ensure the BOM is supported by historical information and valid vendor quotes
- Ensure a logistician evaluates availability of equipment, names of new vendors, discontinued items, new requirements, etc.
- Track development of draft consolidated BOM for the entire Program

## ■ Other Direct Costs (ODCs):

- Ensure pricing team has completed and priced list of ODCs, and there are supportable BOEs for all ODCs

## ■ Travel:

- Check whether travel includes TDY, Business, Relocation, R&R, etc. and how it is priced (method)
- Help develop BOEs for Travel





# Develop the Work Breakdown Structure (WBS)

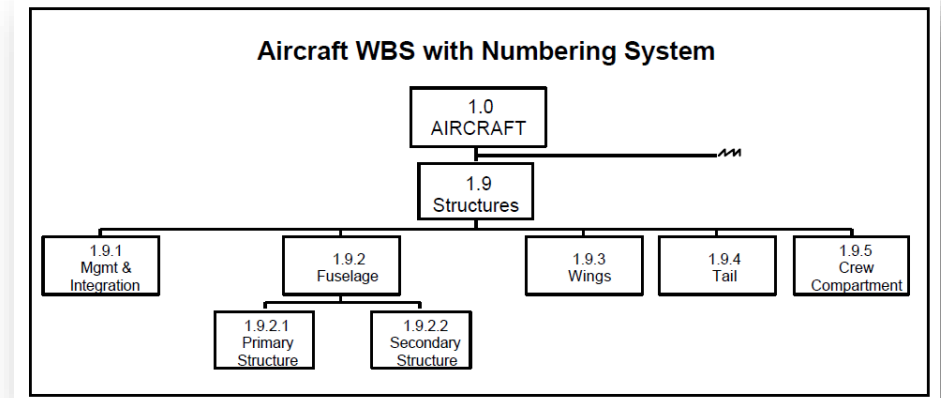


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*Without the right WBS, Customer won't understand your costs, while your proposal team misses key costs, duplicates costs, and makes life difficult for the project staff*

- Purpose: divide the project into manageable pieces of work to facilitate planning and control of cost, schedule and technical content
- Identifies the total work to be performed
- Divides the work into manageable elements, with increasing levels of detail
- Provides a solid basis for technical, schedule and cost plans and status
- Two types: Program/project WBS (PWBS), and contract WBS (CWBS)
- Number to show hierarchy



# PWBS

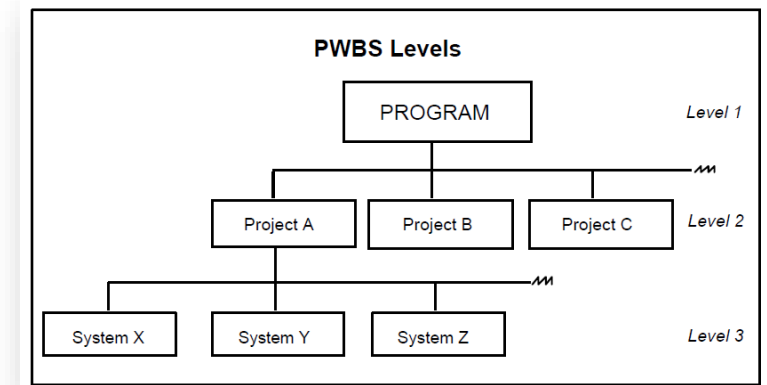


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*A properly structured PWBS will readily allow complete aggregation of cost, schedule and performance data from lower elements up to the program level*

- PWBS is the structure that encompasses the entire program or project
- Usually consists of three levels of products/elements with associated work definitions
- Three upper levels of the PWBS:
  - Level 1 is the entire program/project
  - Level 2 elements are the major product segments or subsections
  - Level 3 contains definable components, or subsets, of the level 2 elements
- Next levels: Subsystem, equipment, assembly, subassembly, component, and part
- Government controls only to the top three levels of the PWBS; contractors control lower levels – they develop their own CWBS



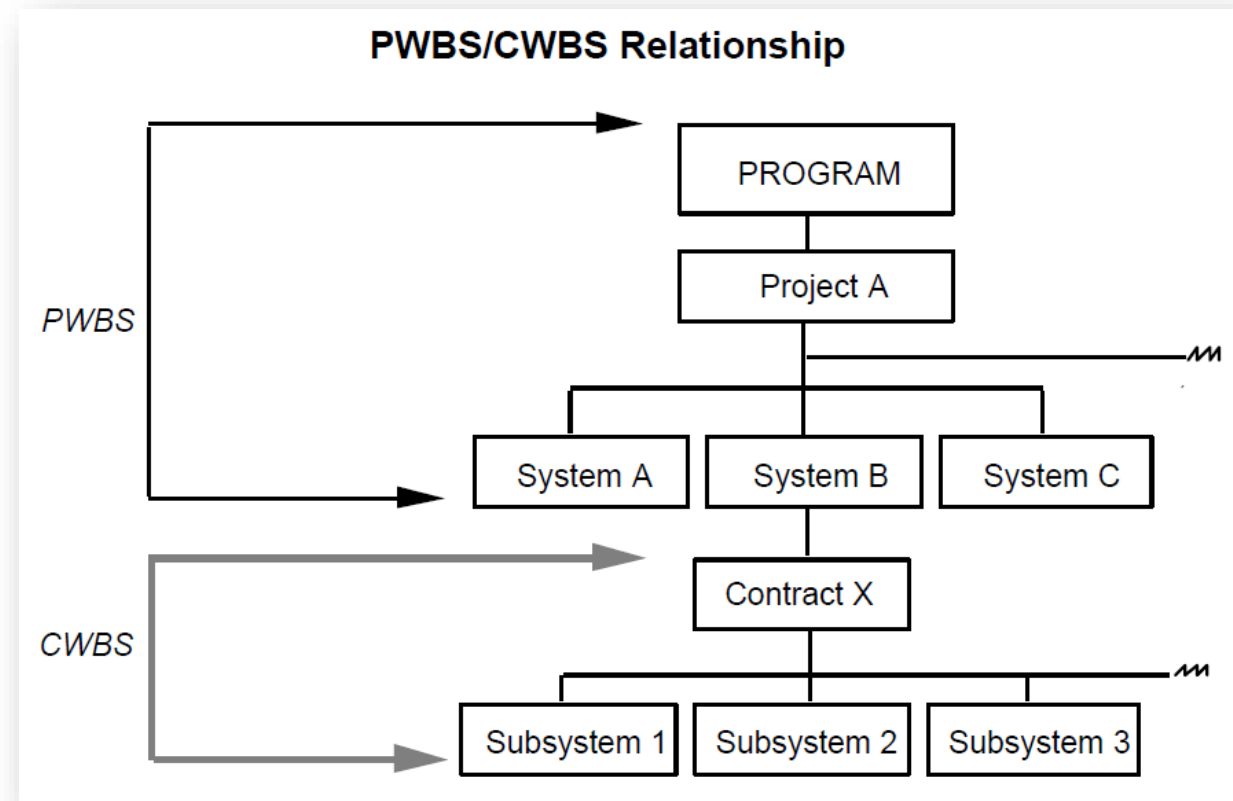
# CWBS



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*CWBS is the complete WBS for a specific contract, developed by the contractor in accordance with the contract SOW*



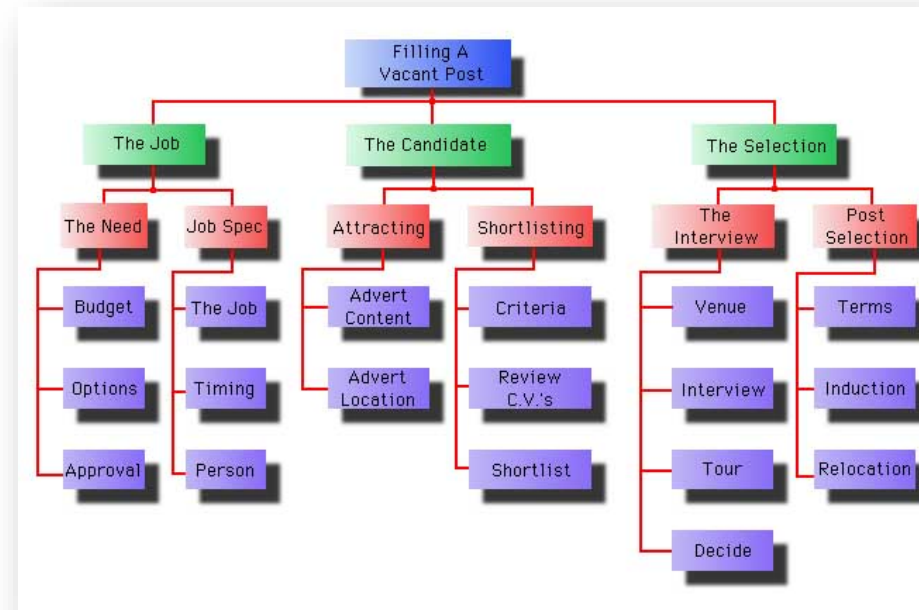
# Considerations in CWBS Development



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- May be MIL-STD 881C or customer-directed (customer requirements for detailed cost by item in Section B (CLINs))
- Has to tie with Integrated Master Plan (IMP)/Integrated Master Schedule (IMS)
- Must provide adequate financial information for the proposal
- Has to be manageable and make sense (don't go down too many levels)
- Has to have planned outcomes, not actions
- Cost reporting and Earned Value Management System (EVMS) requirements during program execution

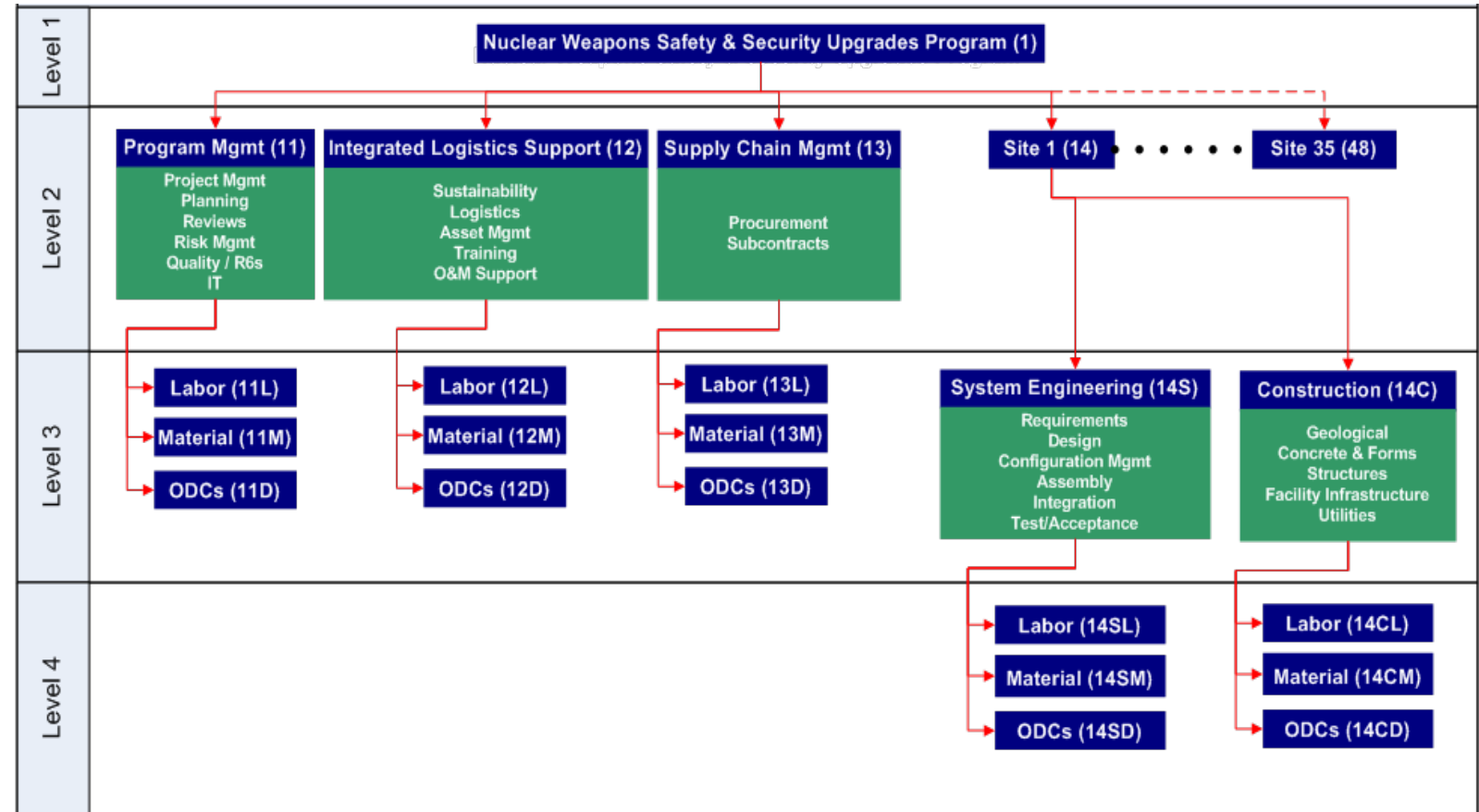


# Scrub the WBS



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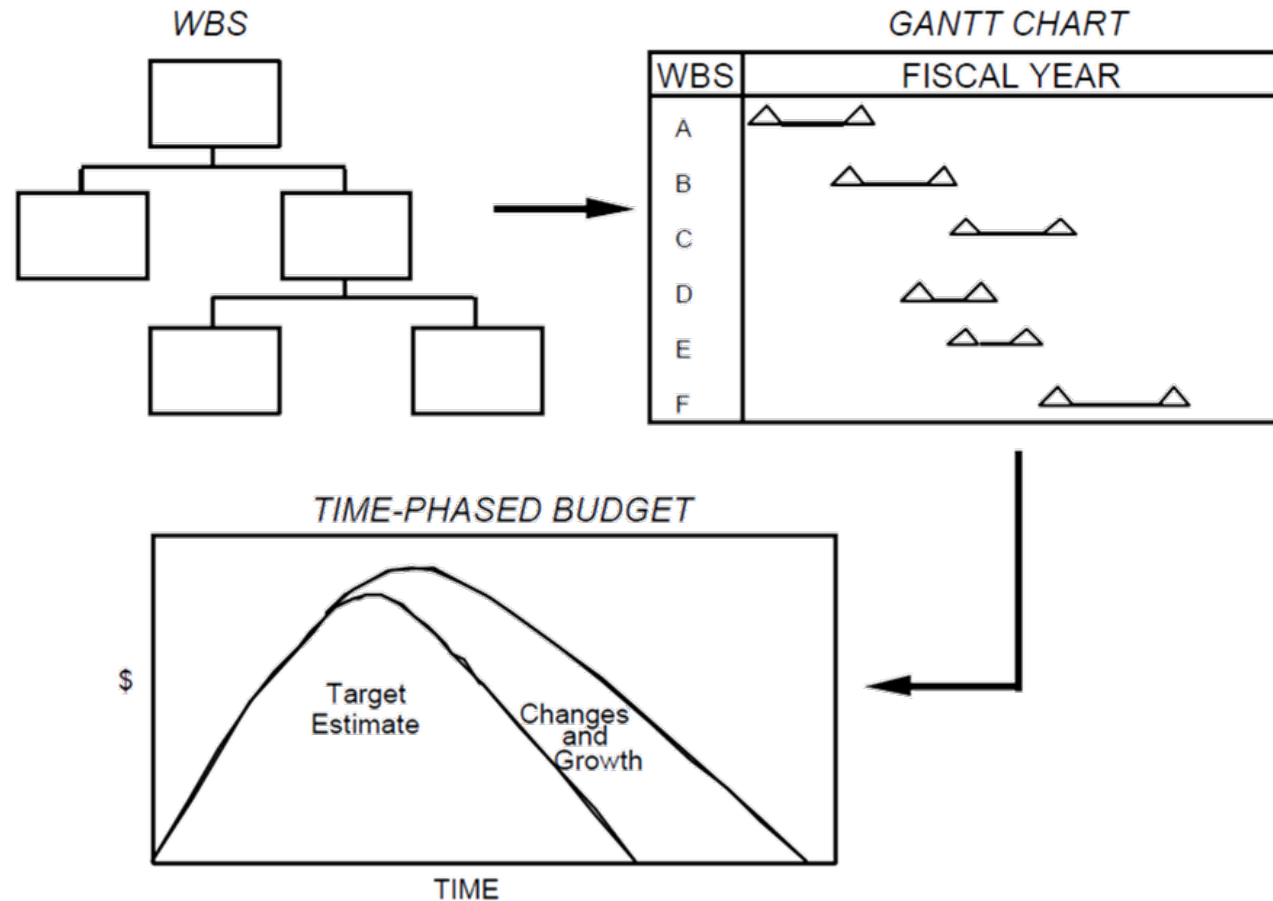
*WBS is a tool used to define and group a project's discrete work elements in a way that helps organize, define, and price the total work scope of the project*



# CWBS is a Project Management Tool



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# Cost Accounts



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*The cost account brings together all aspects of the management control systems; WBS is essentially a chart of accounts for the project*

- As you go down to smaller subproducts at lower and lower WBS levels, the work effort required by each element can be identified to functional organization units at a lower and lower organization level
- At some level on each WBS branch, you will assign management responsibility for technical, schedule, and cost performance
- At this crossing of WBS element and organization unit, you can establish cost accounts, and plan, measure, record, and control performance
  - Specify the technical requirements for the work and work product
  - Schedule the work (this is the relationship to the schedule)
  - Develop the budget the work scheduled (this is the relationship to the budget and resources); assign the work; measure progress, manage risk
- Cost accounts consist of one or more work packages - the unit of work required to complete a specific job such as a report, a design, a drawing, a piece of hardware, or a service; it is usually the lowest element shown in a WBS

# Develop a WBS Dictionary



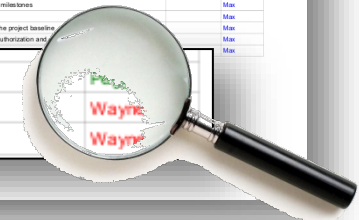
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*A great WBS dictionary prevents many problems, including misalignment between the cost volume and the overall program execution plan reflected in your technical proposal; and double-costing of tasks*

- A WBS Dictionary contains a short paragraph for each WBS element which identifies what that element contains and what it does not contain
- Acts as a statement of scope for the WBS element cost estimator/author
- Helps identify disconnects and to uncover duplications or omissions early
- Helps the customer understand the proposed costs
- Must be directly tied to IMP/IMS

WBS Element	Scope Description	Estimator	Owner
<b>1 - System Configuration</b>			
1.1 Initial Setup	System Configuration		Wayne
1.1.1 Backward Config	Initial system configurations to enable program launch		Wayne
1.1.2 CRM Service Product / Line Item Config	Configuration of reusable Service Products in Product backend		Wayne
1.1.3 CRM Entitlement Template	Configuration of CRM Entitlement Template		Wayne
1.1.4 Case Routing Config	Configuration for proper routing according to Delivery Model (1.6)		Wayne
1.2 Implementation & Launch	Processes and work necessary to provide extended support to existing SA		Wayne
1.2.1 Script Updates for existing entitlements	Script-based update by IT to provide extended support entitlement to all existing Maintenance Support Agreements		Wayne
1.2.2 Entitlement Template Linkage to Line Items	Launch date linkage of new entitlement templates to Line Items to enable new setup		Wayne
1.3 Manual Setup Process	Defined process for setting up extended support manually		Wayne
1.3.1 New / Renewal Setup Process	Process to set up Academic support for extended support for new or renewed Agreements, including process for manually adding entitlement if script fails		Wayne
1.3.2 Manual / Correction Setup Process	Process to set up extended support for Maintenance Support Agreements if script fails, and how to setup up one-off Product entitlements		Wayne
1.3.3 Troubleshooting Process	Troubleshooting process to identify root cause of failures to access extended support		Wayne
1.4 Entitlement Models	Specific support models for each customer type		Wayne
1.4.1 Model for Maintenance Customers	Model for how Maintenance Customers access extended support		Wayne
1.4.2 Model for Academic Customers	Model for how Academic customers access extended support		Wayne
1.4.3 Model for Personalized Support Customers	Model for how Personalized Support Customers access extended support		Wayne
1.4.4 Model for Partners	Model for how Partners access extended support		Wayne
1.4.5 Model for Franchisees	Model for how Franchisees access extended support		Wayne
1.4.6 Model for Alliances	Model for how Alliances access extended support		Wayne
1.4.7 Model for Internal Users	Model for how Internal Users access extended support		Wayne
1.5 Config Testing	Testing of final configuration before launch date		Wayne
1.6 Post-launch validation	Validation of successful script conversions and ability of customers to access extended support		Wayne
1.7 Stakeholder Review	Peggy's review of model prior to implementation to be sure that model meets program requirements		Max
1.8 Support Delivery Model	Support delivery model for routing, support volume, and handoff from Support Center		Peggy
<b>2 - Documentation</b>			
2.1 Documentation System Config	Program, system, and process documentation		Max
2.2 Program Documentation	Documentation System configuration for extended support documentation		Peggy
2.2.1 FAQ	FAQ document for internal consumption		Peggy
2.2.2 Basic program definition and parameters	Definition of program parameters and intent		Peggy
2.3 System Documentation	System Documentation		Wayne
2.3.1 List of Service Product / Line Item Names	List of Line Item names in CRM for use in documentation and training		Wayne
2.3.2 List of Entitlement Names	List of Entitlement names in CRM for use in documentation and training		Wayne
2.3.3 List of Products used on Entitlements	List of Products used on Entitlements for use in documentation and training		Wayne
2.4 Process Documentation	Process Documentation		Max
2.5 Entitlement Model Documentation	Documentation of how each customer type accesses extended support		Max
2.6 Delivery Model Documentation	Documentation of how routing works for extended support		Max
<b>3 - Communication</b>			
3.1 Announcements	Public and Internal announcements about the program		Peggy
3.1.1 Public	Public Announcements about the program		Peggy
3.1.2 Support Managers	Email announcement to support managers		Peggy
3.2 Training	Training for personnel to be able to represent and set up the program		Peggy
3.2.1 Customer Service Rep Training	Training to recognize entitlements and correct faulty agreements		Max
3.2.2 Support Team Training	Training to troubleshoot faulty agreements and set up all related agreements		Max
3.2.3 Service Account Manager Training	Training to recognize entitlements and understand program parameters		Peggy
3.2.4 Sales Training	Training to understand program and its parameters, where to go for help		Peggy
3.2.5 Support Program Training	Training to understand program, requirements, entitlements, and products to choose on cases		Peggy
3.2.6 Program Management Training	Training to understand system configuration to fulfill on the program requirements		Max
<b>4 - Project Management</b>			
4.1 Narrative Planning	Project Management		Max
4.1.1 WBS	Scope around the creation and maintenance of planning artifacts		Max
4.1.2 Schedule	Schedule including tasks, dependencies, and project milestones		Max
4.1.3 Project Plan	Documentation of how the project will be managed		Max
4.2 Monitoring & Control	Monitoring and Control for the project in relation to the project baseline		Max
4.2.1 Config Mgt	Configuration Management ensures proper change authorization and		Max

2.2.2 Basic program definition and parameters	Definition of program parameters and intent
2.3 System Documentation	System Documentation
2.3.1 List of Service Product / Line Item Names	List of Line Item names in CRM for use in documentation and training





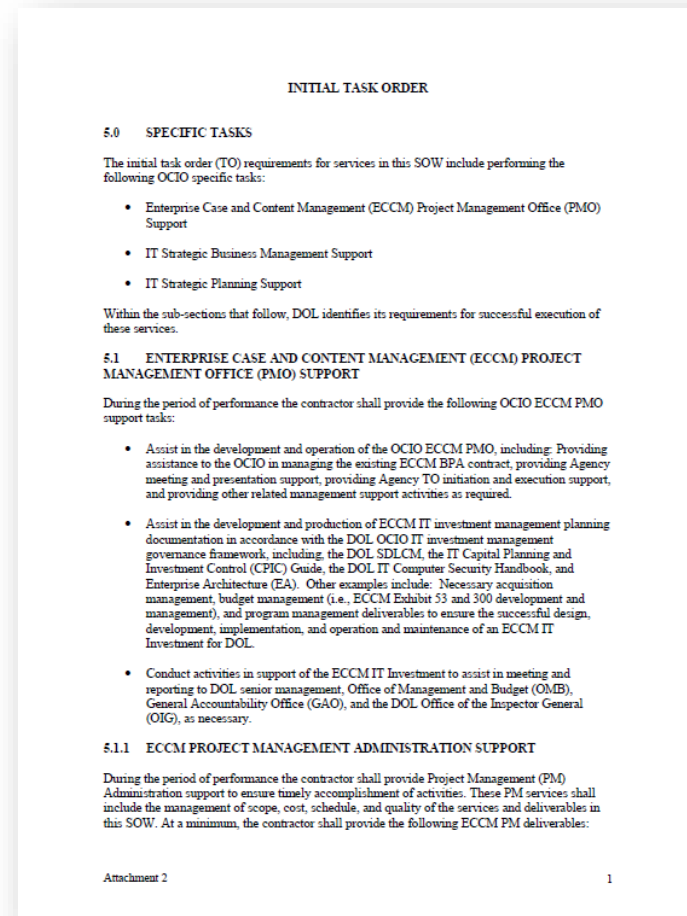
# Exercise



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- Construct a WBS for the contract
- Use a Tree format
- Include WBS numbers and SOW numbers and descriptions



# The Dreaded BOEs



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*Pricing team defines the requirement and the format/content, whereas the technical team must derive the BOEs*

- Must be led by technical SMEs who know the program – not the pricing team
- Luckily aren't always required, and you may or may not choose to provide them of your own accord
- Perfect for ghosting low-ballers
- Great to justify costs that need additional proposal rationale
- Labor-intensive and tricky because of having to be consistent across all the elements



# Important Points in BOE Development



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*BOEs are a labor-intensive task*

- **BOEs provide cost estimating rationale and resulting cost estimate *for each cost element***
- **Most companies fail to have much or any “B” in the BOEs**
- **Solid basis is essential:**
  - “3 full time engineers are required for 18 months Based on F16 program of comparable size and scope”  
**versus**
  - “3 full time engineers are estimated as required to complete WBS items 2.1, 2.2, and 2.3” (no “B”)
- **BOEs must be accurate, and reflect the best available estimating process and data**
- **Depend on subcontractors’ submissions (critical step!)**
- **May require a separate review**

# Estimating Methods



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*Great BOEs help avoid customer conclusion that there is risk in your cost estimate*

- **Analogy (or comparison)**
- **Parametric**
  - Similar-to costs with some adjustment factors
  - Top-down
  - Requires a database of historical costs with technical characteristics
- **Extrapolation from actuals: Material reports – historical purchases, option agreements, and quotes**
- **Subcontractor bids and bids from other departments from your company**
- **Detailed engineering/Bottom-up estimate (not very credible by themselves)**



# Analogy Method and Crosschecks

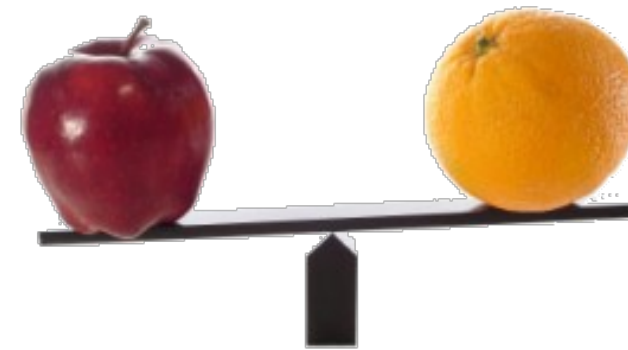


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*Analogy is the most commonly used estimating method to include in your BOE; don't have to use only one analogous system/program to compare*

- Identify analogous programs and sources of information (historic costs)
- Explain why the data is based on a similar effort (current or previous) – what is similar and different regarding this program
- Program either found closely comparable or gets adjusted for differences in size, scope, complexity, duration, and other specific parameters
- Develop factors to adjust for differences
- Quick to prepare; can use separate analogies for different cost elements
- Crosschecks are all the rage:
  - Engineering estimate based on experience, at a minute detail level, justified with an analogy



**Example:** You can estimate cost of radar system by finding a separate analog for the transmitter, exciter, antenna, etc.

# Parametric Method



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*Parametric method requires an extensive database of historical costs that contain system characteristics; is used by companies that sell products or systems*

- Uses database of historical costs for like elements of like technology or systems
- Generates an estimate based on a selected system performance or design characteristics
- Assumes a relationship between some performance parameter such as speed or weight (independent variable), and actual system cost (dependent variable)
- Can lead to erroneous estimates if database doesn't account for technology improvements

**Pros:** Fast, and doesn't reflect detailed inputs; can take care of most of the estimate using one method and model

**Cons:** May not estimate some things separately; Also – may be inaccurate:

Example: Cannot estimate computer costs using parametric pricing as technology pace exceeds old database records)

# Detailed Engineering Bottom-Up Method



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*This strategy/approach results in a detailed estimate*

- Involves the examination and definition of separate work elements at the lowest work breakdown structure detail level
- Integrates non-estimated elements such as QA/QC, system engineering, etc.
- Estimator starts at the lowest level of identifiable tasks, tools, production operations, and materials
- Individual items get added to form a bottom-up estimate
- Can use analogy, parametric estimate, etc.
- Labor-intensive, may cause duplication, doesn't account for integration, and may cause errors in adding up elements



# BOE Template



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*BOEs have to clearly substantiate the tasks, labor, and materials to support those tasks, as well as the labor mix*

Do not forget the assumptions

Show the math – the build-up of the cost

State who will perform the work, what tasks they will perform, where (at what facility), and when (schedule-wise)

Remember to provide not only the estimate but also its basis

PROGRAM TITLE:		HOURS:	DOLLARS:
		11,496	
CLIN:	TASK TITLE:		
0001			
WBS:	PERIOD OF PERFORMANCE: FROM _____ THROUGH _____		
1.1.1			
FUNCTION:			
TASK DESCRIPTION: •Completely describe the tasks you will perform based on the requirements of the RFP PWS/SOW. Do not copy and paste the PWS/SOW descriptions.			
BASIS OF ESTIMATE: This section identifies the actual rationale and calculations that you are estimating in support of the task description. It must include quantitative data that the reviewer will use to analyze your estimate and determine how you developed your estimate.			
Calculation:		<u>Hours</u>	
<b>EXAMPLE:</b>			
Program Management: 1 person x 16 hrs/mo. X 12 mo. =		192	
Contracts: 1 person x 157 hrs/mo. X 12 mo. =		1,884	
Finance: 2 people x 157 hrs/mo. X 12 mo.		3,768	
=			
SCM: 3 people x 157 hrs/mo. X 12 mo. =		<u>5,652</u>	
<b>TOTAL HOURS</b>		<b><u>11,496</u></b>	
JUSTIFICATION: This section identifies where you derived your Basis of Estimate from and should be based on past performance, historical data from previous or current contracts (the preferred method), similar-to program (include complexity factors, +/-, from the actual data obtained), discrete estimates derived from judgment/experience, a combination of actuals and applied judgment, and from factors, ratios, or percentages. If you have used historical or actual data in your estimate, you MUST provide the source information, contract number, WBS number, and actual report data identifying the initial baseline for your estimate.			



# Focus on the “B” – the BASIS of the Estimate



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*BOEs require strategy and creativity*

- Mathematical breakdowns of actual work are fairly straightforward if available:
  - “100 service calls per day must be completed, a technician can complete 10 per day, based on actual experience **from Program X**, therefore 10 technicians are required to be on site each day, which requires a total of 12 technicians assigned to the project to account for absence and peak work loads”
- It is great when you can refer to the prior program experience, but...
- Often not enough data exists from prior program
  - Consider “Factoring” versus Basis of Estimate
  - “Current program has a total of 12 technicians assigned performing the same workload. Our new streamlined automation tool allows technicians to complete a work order 10% faster based on experience implementing the same tool on **Program Y**, therefore, we are able to reduce the staffing by 10%”

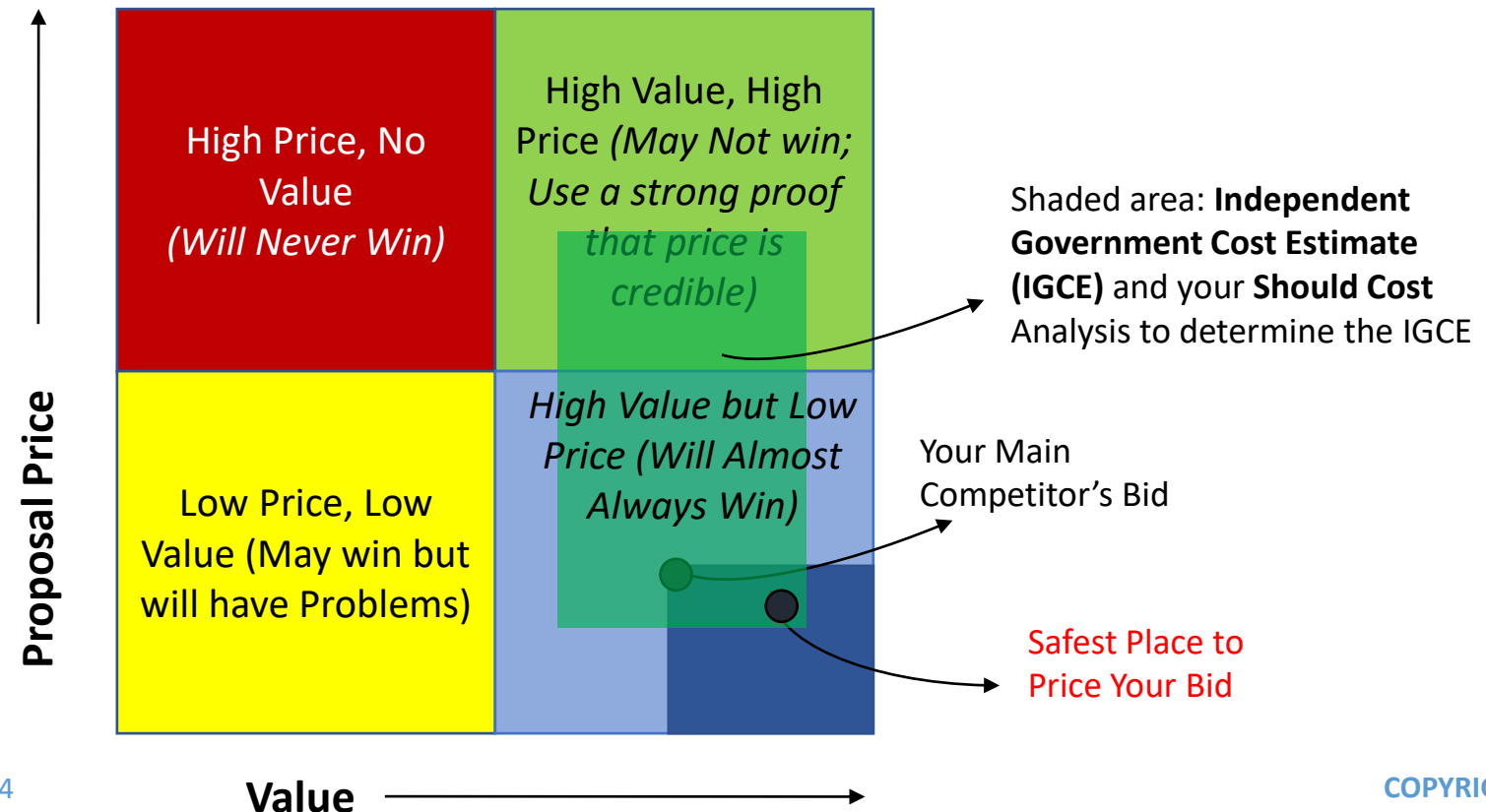
# Sharpen the Pencils



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Your positioning will depend on the bid evaluation factors (best value or LPTA), customer buying tendencies, your Should Cost analysis, and the competitive analysis from your PTW exercise



# Apply Price Strategies Appropriate for Different Contract Types



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## *Time and Materials (T&M) type contracts*

- **Use reasonable profit for 5-6 most used categories, and bottom rates for the least used ones**
  - Note that the classic “throw away tactic” is banned by most RFPs with rules against “unbalanced pricing”
  - Must be creative and have true basis for variation
- **Use the cheapest rate for each labor category from any of your subcontractors**
  - Price out who has the cheapest
  - Optimize the team by labor category
- **Price the minimum labor qualifications – NO MORE than what the RFP asked for**
- **Play with staffing skill mixes (senior, mid-level, junior) when RFP allows for staffing variation**
  - Back up with BOEs that highlight basis of a leaner mix
- **Consider aggressive escalation scenarios – assume certain attrition and rehiring at lower rates**



# More Price Strategies



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## *Cost-type contracts*

- **Seek lowest “plausible” wage and benefit solution – the goal is to be believable, not necessarily executable**
- **Price the minimum labor qualifications – NO MORE than what the RFP asked for**
- **Negotiate with the subs:**
  - Bring their rates down to specific amount
  - Ask them to use lower labor categories
  - Apply less oversight
  - Sign up for a more aggressive schedule
  - Incentivize subcontractors to reach milestones, etc.
- **Consider “bid to buy” approach with necessary, but overly costly team members**
  - Bid to buy is when you perform the FAR requirement to determine if your subcontractors price is "reasonable"
  - If you decide their bid is too high, you document the results of your analysis and put the lower number you intend to force your sub to accept after you win into your prime bid to the government
  - In other words, you intend to "buy" from your sub after you win and have a prime contract in your hand at a lower number than they "bid" to you

# Additional Cost-Type Strategies



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*On a cost-type contract, the trick is: the lowest the government can be convinced might be true versus making an assumption – whereas on a fixed price bid you might not be willing to accept the risk when the scenario is plausible versus probable*

- **Lower the man-year:**
  - 2,200, 1,920, or 1,880 hours
  - **Everyone gets:**
    - 3 weeks vacation
    - Sick time
    - Holidays
- **Look at lapse rate or non-paid factors – with lowest “plausible” thinking**
  - **Non paid absence or lapse rate means you lower the productive man-hours without planning to pay for all of the time off in your fringe**
- **If they love you and you are out of money at 11 months instead of 12 because your staff didn’t take vacation – they will usually add the money without much problem**

## Why This Works:

Lowering the lapse rate or non-paid factors is risky when it is a fixed price

But when it is a cost type bid, all you need to do is convince the government that the lower hours are plausible

It is the Government’s risk if the number of hours they have to pay for turns out to be higher after award

# More Cost-Type Strategies



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*Remember – it is a “cardinal sin” to lose on price in a cost-type competition*

- Lean out staffing skill mixes (senior, mid-level, junior)
  - Achieve the lowest “plausible” labor mix
  - The goal is to get to the lowest point at which you DO NOT suffer reduction in your technical and management rating
- Don’t add out-year escalation
  - Promote personnel and keep all the rates the same
- Pitch use of existing tools and processes as method to apply as a Basis in your BOEs for leaner staffing solution
- Create a new dedicated cost center using a whole plethora of methods and approaches to reshape indirect rates
  - Generally only palatable for strategic, very large, and/or “must win” pursuits



# And More Cost-Type Bid Strategies



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*A sophisticated strategy that calculates several steps forward*

- Develop a fee strategy that maximizes executed profitability versus evaluated profit
  - Figure out which items are likely to be **greater and lower** than the evaluated levels
  - Apply higher fee to **understated items** and lower fee to **overstated items**
  - This lowers your evaluated price, while increasing your expected profit after you win
- Here is why this works:
  - The RFP evaluates price quantities and frequencies of items – often one labor category versus another
  - You are evaluated against one mix of cost and will likely execute the program differently
  - Go ahead and adjust with tiered fee and your earned fee will be higher than your average bid fee
  - This way you can lower your bid without lowering how much fee you must have in order to be acceptable to the company management

## Example:

If the RFP mandates you price a program with 5 senior engineers and 5 junior engineers and 0 mid level engineers

So you bid 5% fee on Junior and Senior engineers, and bid 10% fee on mid level engineers

Your bid goes in with only hours with 5% fee

**You win and hire mid level engineers as better technical solution and make 10% fee instead of 5 you got evaluated in bid**

# Price Strategies for Fixed Price Contracts



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*Fixed price contracts are becoming increasingly more popular with the Government, and they are the most challenging – but you can still be creative*

- **Seek the lowest “executable” wage and benefits solution**
- **Consider various subcontractor contract type variations to shift risk in a manner that lowers the overall team price**
- **Consider “bid to buy” approach with necessary, but overly costly team members**
- **Price the minimum labor qualifications – NO MORE than what the RFP asked for**
- **Create BOEs that bound fixed price risk and lower your evaluated price**
  - Use details in BOEs to document lean interpretations of fixed price SOW
  - Assumptions are your best friend





# More Fixed Price Bid Strategies



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*All sins must be lived with on fixed price contracts*

- Develop a fee strategy that maximizes executed profitability versus evaluated profit
- Perform detailed “gap” analysis of items left out of SOW that the customer will likely want to add after award
  - Have a fully integrated program execution plan that calls for higher profits on future changes to offset aggressive competitive bidding posture
- Think through the Engineering Change Proposal (ECP)/modifications strategy during the procurement phase
  - Ensure a clean handoff to the program team after award
  - Most major fixed price failures happen because price strategy was not communicated to program team after award
  - A blame game ensues



# Assorted Other Strategies



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*Ask your cost personnel if you could apply any of these techniques*

- May price labor differently:
  - Actual person - rates of existing employees
  - Average rates of in-house labor categories
  - Blended rates
  - Salary survey rates of new hires and new labor categories salary survey.com - pick 50% of the Silver Spring, Maryland area, and show that
  - Show real names and create a subcategory; do the averaging
- Call labor categories generic
  - Members of the management staff
  - Members of the technical staff
  - Members of the administrative staff
- Assign levels (I-IV), salary grades (A-E)
- Makes pricing staff easier: as long as they meet the degree – they meet the labor cats



# LPTA



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*LPTA = the lowest bidder will win; But there is more to the story*

- May want to try to influence technically acceptable to get to a higher than notional definition of technically acceptable
- Resist the temptation to offer a product that *more than meets the most basic requirements*
- Deliver a complete package around the minimally technically acceptable product, unless you can clearly show no increase in price (but be careful of GEMPC)
- BOEs used as ghosting are the most important tool to influence an evaluator
  - Prove that you will deliver the solution within schedule and price
  - Prove that a solution priced any lower is too risky
- Technical, management, and past performance are also good influencers
  - But only if consistent with the BOEs



# Highlight Risk in Your BOEs and Technical Solution



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*The Government is traditionally risk-averse – leverage this knowledge in your proposals; their resort will be to try to disqualify your competitors or cancel an LPTA competition and re-compete the work on best value*

- Prove that pricing a solution any lower is too risky and is not executable
  - Traditional saying goes: “Better, faster, cheaper” – pick two
  - Low price is often associated with high risk, because “cheap” leads to lower quality, increased likelihood of failure, lost efficiency, and project failure
  - Throughout the technical proposal and BOEs, remind the evaluator of the dangers associated with a poor buying decision
- Highlight solution risks, then designate select features found in your solution as the *critical success factors* to mitigate these risks
  - Highlight the features required to deliver the best possible service at the lowest price
  - If in your competitors’ proposals these features are missing or are described poorly, they may be deemed not TA



# Ghost Your Competitors to Undermine Their TA Rating



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*All these methods help to possibly ghost the competition and seed the doubt in an evaluator's mind that the competitors' approach is not Technically Acceptable (TA)*

- Showcase past performance references to support your approach
  - Past performance is requested but is not needed in LPTA because the FAR states that a missing past performance references will get an “acceptable” rating
  - Use your past performance as a proof of concept for your illustrated approach and how it can be delivered cheaper
  - **Imply risk** in selecting your competitor without past performance and proof that their approach is technically acceptable
- Compare how your approach is leaner, and therefore cheaper, than traditional approaches
  - Prove you can execute the solution at the quoted price by cutting out the number of steps in a traditional approach versus yours without negatively impacting the result
- Use numbers to establish credibility for your approach – any quantifiable proof you may have collected



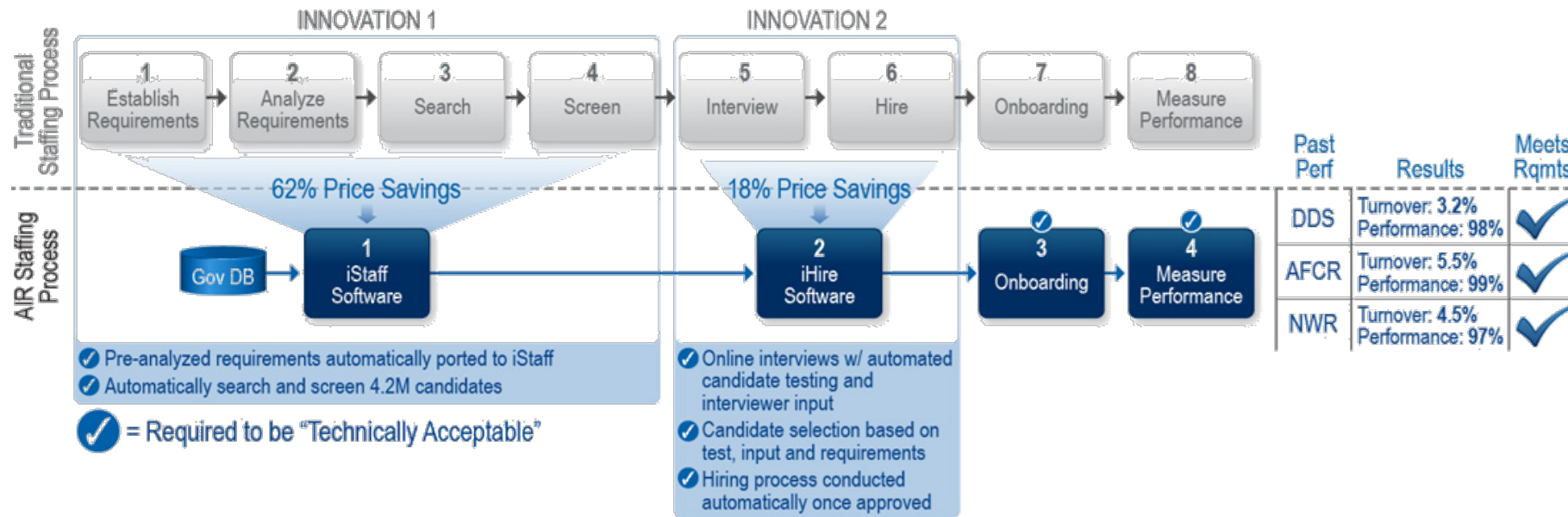
# Ghosting Technical Acceptability in Proposal Graphics



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Courtesy of Mike Parkinson, GetMyGraphic.com



# Prevent LPTA Prior to the Proposal Stage



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*Prove that government regulations state it is unacceptable to treat a barely capable bidder on the same level as the most innovative firms in the industry if the government is seeking to achieve service or technical excellence*

- Point out that LPTA may be at odds with regulations and inappropriate
  - FAR 15.101-2 (a) states “The lowest price technically acceptable source selection process is appropriate **when best value is expected to result** from selection of the technically acceptable proposal with the lowest evaluated price.”
  - DOD Appendix A of the DOD’s Source Selection Procedure (3/4/11) states: “LPTA may be used in situations where the government **would not realize any value** from a proposal **exceeding** the government’s minimum technical or performance requirements, often for acquisitions of commercial or **non-complex services or supplies** which are **clearly defined and expected to be low risk.**”
- When using LPTA, the government must admit that there is no benefit from an offeror exceeding a contract requirement rather than just barely meeting it
- An evaluator can only decide if the offer meets the minimum requirements or it doesn’t, while to contract goal may be much higher than that

# Prove that Confidence Based on Past Performance and LPTA are Incompatible



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*LPTA guidance lets bidders with no relevant past performance be evaluated as if they had the same past performance as the most pedigreed firms in the industry*

- Check if past performance is important to the customer; then LPTA should not be a viable option:
  - FAR states: “If the contracting officer documents the file pursuant to 15.304(c)(3)(iii), **past performance need not be an evaluation factor** in lowest price technically acceptable source selections.”
  - DOD guidance states: “In the case of an offeror **without a record of relevant past performance** or for whom information on past performance is not available or so sparse that no meaningful past performance rating can be reasonably assigned, the offeror may not be evaluated favorably or unfavorably on past performance (see FAR 15.305 (a)(2)(iv)). Therefore, the offeror shall be determined to have unknown past performance. In the context of acceptability/unacceptability, **“unknown” shall be considered “acceptable.”**”



# Seed Doubt that the Customer Can Adequately Define Technical Acceptability



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- The National Defense Authorization Act of 2017 directs more limited use of Low Price Technically Acceptable (LPTA) procurements. It legislates a Defense Federal Acquisition Regulation (FAR) Supplement revision which would limit the use of LPTA to only the most straightforward commodity procurements.
- This legislation is a logical follow on to Under Secretary of Defense for Acquisition, Technology and Logistics Frank Kendall's March 4, 2016 memo, which stated that LPTA "has a clear, but limited place in the source selection best value continuum" and narrowly defined when LPTA is appropriate for Department of Defense procurements.
- NDAA 2017 specifically recommends avoiding LPTA for the following procurements:
  - "(1) information technology services, cybersecurity services, systems engineering and technical assistance services, advanced electronic testing, audit or audit readiness services, or other knowledge-based professional services;
  - (2) personal protective equipment; or
  - (3) knowledge-based training or logistics services in contingency operations or other operations outside the United States, including in Afghanistan or Iraq."
- The contracts office should let the technical team define technical acceptability
- Many complex services and solutions such as systems integration make it hard enough to define the work and performance metrics, let alone technical acceptability
- If the government cannot specify EXACTLY what constitutes technical acceptability in the RFP, then they shouldn't use LPTA evaluation criteria



# Build a Case Against LPTA



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*Inappropriate use of LPTA criteria is likely to result in contracts with unacceptable performance*

- Research similar LPTA projects to show failed or difficult contract performance
  - Search for terminated for poor performance or substantially modified to offer price relief to the lowest priced bidder
  - Document these instances to arm the PM shop against the contracts shop
- Cite articles from government contractor-related media that LPTA is inappropriate for most IT services, and other types of services



# Iterate – Adjust Your Bid to Meet PTW



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## Adjust Customer Bid to Meet PTW

### Price

Scrub RFP

Scrub Assumptions (inc. Fee)

Change Team Make Up

Bid-to-Buy

Beat up subs/vendors

ID Alternatives (inc. Schedule, Staff)

**Make the cost evaluators see our Price as the Baseline**

### Technical and Other Volumes

Constantly Test Against Model

Test/Adjust each time Model Changes

Spell out Cost Strategy and Assumptions

Constantly talk to risk as it pertains to our cost and tech solution

**Make the technical evaluators see our Solution as the Baseline**

# Review the Price Data, Not Only the Narrative



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*Just because you are not a “cost person” doesn’t mean that you couldn’t review the proposal and find irregularities and problem areas*

- **Don’t be intimidated by the math**
- **Look for recognizable pieces:**
  - Labor categories
  - Number of personnel
  - Equipment
  - Materials
- **Ask a question if something looks strange or doesn’t add up**
- **Ensure it all makes sense**
- **Don’t be surprised if you find errors in smart people’s work**



# Final Reviews

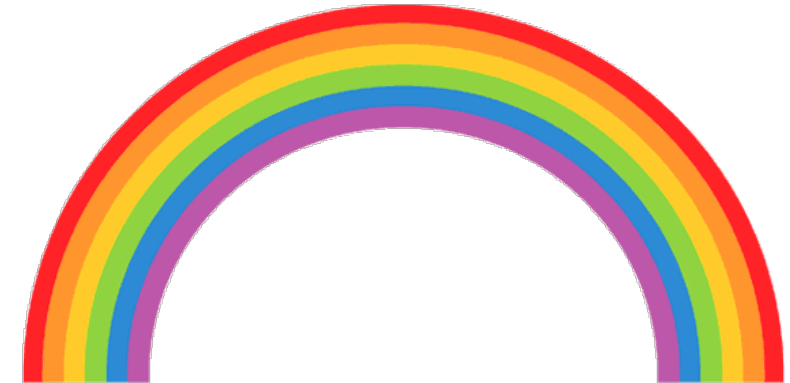


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*Having the cost proposal develop with the rest of the proposal through the normal color review process will enable you to polish the volume properly*

- Read-Out-Loud of the narrative
  - Proposal is fully edited and formatted
  - Inconsistencies, bloopers and errors are so few that you are able to correct them on the fly
  - Review speed is 6-9 pages per hour
  - This is not a group editing and rewriting session
- Gold Team
  - Don't allow it to turn into another Red Team – it is too late in the game
  - Standard: Proposal is 99.99% done
- Book Check
  - Did the cost volume get built correctly?



# Final Tips



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*Do not let your win rate be at the mercy of others; not everybody likes numbers but everyone likes money...*

- Do not be intimidated by cost proposals, even if you are not a numbers person
- Don't hesitate to review the document and ask questions
- Expertise comes through practice
- Given how important is the cost volume, you cannot afford to miss the opportunity to have your hand in it



**(When it involves counting money)**

# Course Recap



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*Let's go over today's material*

- What kinds of information make a cost proposal narrative stand out?
- Why do you need a WBS?
- What is the difference between PWBS and CWBS?
- What is the biggest problem with the way BOEs get developed?
- Please, name the cost strategies that surprised you the most
- What action items from today's class you are going to implement right away?
- What was the most valuable part of this course for you?



# Thank You for Attending!



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