

Options and Strategies for Cost/Price Proposals

Hoping that there were real, innovative ideas for reducing cost/price I posed the question to my 2,900 direct contacts on LinkedIn. Unfortunately the majority of the answers endorsed techniques that are unacceptable by many contractors. I don't believe its good business or in the customers best interests to employe disingenuous techniques that are, in the end, harmful to everyone.

Most of the strategies available for cost/price reduction are focused not so much on reducing price but on appearing to reduce price but only hiding/obfuscating cost elements. Some, such as uncompensated overtime, are explicitly frowned on while others such as bidding throw away labor categories are simply unethical or straddle the line between good and unsavory business practices. Companies that pride themselves in recruiting, hiring and retaining people that are undeniably at the top of their field are at a disadvantage in the typical proposal evaluation process when faced with these competitors. Further, those evaluating the bidders price aren't privy to any technical advantage that accompany a higher price and those in a position to evaluate technical content can't use pricing delta's to judge the overall value of technical points.

There was one interesting and noteworthy response to the question posed to my LinkedIn network. Theresa Wilt from Cubic stated that what has worked for them was to cultivate staff via a strong co-op and internship program. "These employees started very low on the salary ladder and with no experience; however, by the time they graduate they will usually accept entry level salaries even though they may have 2-3 years of experience. You also have those 2-3 years to sell their value to the customer and facilitate the relationship building process. It's a win-win-win for you, your customer, and your new hires." You can see where this deserves consideration but it's a long term solution.

Other long term solutions (Competitive Strategy, Competitive Advantage, and Competitive Advantage of Nations, Michael Porter, 1980) include:

- Focus
- Differentiation

A focusing strategy (also referred to as niche or segmentation strategy), involves concentrating on a particular customer, product line, geographical area, channel of distribution, stage in the production process, or market niche. The underlying idea is that a focused company is better able to serve a limited segment more efficiently and at less cost than competitors can serve a broader range of customers. Firms may be able to differentiate themselves based on meeting customer needs, or they may be able to achieve lower costs within limited markets. Focus strategies are most effective when customers have distinctive preferences or specialized needs.

The second, differentiating, requires a firm to create something about its product or service that is perceived as unique throughout the industry. Whether the features are real or just in the mind of the customer, customers must perceive the product as having desirable features not commonly found in competing products.

Additional above board strategies may include locating employees near the customer when the customer's locations would provide the opportunity to lower your overhead via legitimate lower facility and labor cost. Actually collocating with the customers allows you to develop on and off site labor rates. Those in customer facilities would be bid and billed at a lower rate because you are not absorbing all of the overhead cost.

Contractors are themselves contributing to their poor price positioning in several ways. Too often the price proposal is seen as simply a repository for the B tables and other dry contractual related information rather than an additional opportunity to sell. Further, many contractors view the prohibition against including cost and pricing data in volumes other than the price proposal as sacrosanct. The unfounded fear of instantaneous elimination, therefore, takes away the opportunity to explain a higher price; a comparative explanation rather than a hard dollar calculation.

It's incumbent on the higher priced contractor to justify their pricing and expose the true cost. Employees forced to forego benefits, exist in a bull pin and suffer the effects of low wages costs your customer via lower productivity and increased turnover. While these costs are difficult to quantify there is more than enough anecdotal evidence to mount a convincing argument in favor of the vendor with the higher price. Using that argument in the Executive Summary or elsewhere in the technical proposal will not and does not violate the "no cost in the tech volume" rule.

Shipley Associates (Shipley Associates Proposal Guide for Business and Technical Professionals, 3rd Edition, age 169) lists six points for presenting cost and pricing data. They all aid in enticing the customer to perform a cost benefit analysis. Shipley's six points are:

1. Include pricing in the executive summary unless prohibited.
2. Explain and quantify, where possible your added value components instead of just claiming to offer added value.
3. Present cost and price data graphically to engage senior management, promote rapid understanding and establish perspective.
4. Substantiate cost or pricing with past performance data.
5. Present relative cost comparisons in the technical proposal when actual cost data is not permitted.
6. Prepare a cost volume summary for markets where costs are prohibited in the technical proposal.

What Shipley doesn't mention is a direct comparison to the competition based on known, public data. For example stating that the XYZ Company has underbid and overrun their last four or five contracts or that they suffer from a turnover rate significantly high than the industry average. Opinions on if and how to present this information varies and it can be unnerving to a lot of people but there is precedence for doing so. Consider the recent battle between Boeing and Northrop Grumman over the in-flight refueling tanker and the McDonald's/Burger King grilled versus flame broiled hamburgers.

Without a doubt, a proposal is not the first place your customer should learn of your pricing issues or strategy. The Program Manager or Account Rep should take every opportunity to illustrate the value of your approach between bids. Point out your ability to fill open positions with well qualified people quickly and what that means in terms of value and overall contract performance. Likewise, the release of a solicitation is not the right time to begin trying to figure out:

- What your customer believes the job will cost
- What has been budgeted for the work
- Who your competition is, how they have priced in the past and how they're likely to bid the contract in question
- What will it actually cost you

Finally, constantly validate your cost/price data. Never discount the possibility that you may be wrong about what benefits are industry standard or what constitutes a competitive salary. You may be the employer of choice for all the competitively wrong reasons. There are entire industries built on answering these questions, you can get help.

Bottom line is that your burdened cost is the price you expect the government to pay for your services. Hiding costs by reducing employee living conditions or trickery just delays payment and validates much of the bad rap contractors have in certain government circles.

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