

Leveraging Cost Estimating Techniques for Price-to-Win Analysis

Darren Kreitler, CCEA

15 May 2024

Agenda

- Introduction – The Importance of Pricing Correctly
- Significance of Price-to-Win Analysis
- Overview of Cost Estimating Techniques
- Mechanics of Price-to-Win Analysis
- Integration of Cost Estimating and Price-to-Win Analysis
- Conclusion: Challenges, Benefits and the Future

Introduction – Importance of Pricing Correctly

- Companies must balance providing a quality product or service at a price that allows them to make a reasonable profit but also gives them a high confidence of winning.
 - Pricing too low sacrifices profit margins and jeopardizes realism.
 - Pricing too high can lead to missed opportunities when another bidder offers a more attractive proposal.
- Price-to-win (PTW) analysis is a strategic tool designed to gauge the most competitive price that can be offered while ensuring the contract's viability.
- PTW is not isolated on market perceptions. Its efficacy is heightened when grounded in sound cost estimating techniques.

Introduction – Importance of Pricing Correctly

- Cost estimating itself is a vast field that uses several methodologies and techniques.
- Each technique offers a different lens to look at the financial aspects of each bid.
- As markets are evolving, the synergy between PTW and cost estimating have never been more pronounced.
- PTW strategies grounded with comprehensive cost estimating techniques have an advantage over those that are not.
 - These strategies perceive the price their potential customers are willing to pay but also know the limits to which they can stretch without compromising their own sustainability.

ICEAA 2024

The Significance of Price-to-Win Analysis



Significance of Price-to-Win Analysis

- According to Bloomberg Government, FY 2022 had a record **\$705B** in federal contracts awarded.
 - A significant percent of these contracts are awarded competitively.
- In the high-stakes world of competitive bidding, success hinges on more than just offering quality products or services.
- The true game-changer often lies in understanding the client's perception of value and presenting a proposal that resonates with it.
- Enter PTW Analysis - a strategic methodology that bridges the gap between a bidder's capabilities and a client's expectations, all while ensuring the bid remains both competitive and profitable.

Understanding Price-to-Win Analysis

- At its core, PTW Analysis is a competitive pricing strategy that aims to determine the optimal price point at which a proposal or bid is most likely to succeed.
- It's not just about undercutting competitors; it's a nuanced balance that weighs the organization's internal cost structures against external market dynamics and competitor strategies.
- The central premise is simple: "What price do we need to propose to win the contract while ensuring sustainable profit margins?"
 - My personal definition of PTW is "How **high** can we bid and win?"

The Need for Price-to-Win Analysis

- In sectors like defense, aerospace, IT solutions, and large-scale infrastructure projects, contracts can be worth hundreds of millions to several billion dollars.
- Here, the bidding process is intense, expensive, and the margins between competitors can be razor-thin.
- Winning such contracts can significantly elevate a company's market position and financial health.
- On the flip side, consistently losing bids or winning at unsustainable prices can spell financial disaster.
- PTW Analysis emerges as a beacon, guiding businesses through this intricate landscape.

ICEAA 2024

MAY 14-16 ~ MINNEAPOLIS

Cost Estimating Techniques

How Cost Estimating Interacts with PTW Analysis

Cost Estimating Techniques

- Expert Judgement
 - Technique of last resort as it has little to no basis in historical or statistical data and is susceptible to biases of the expert.
- Analogous
 - The strength of this technique, especially in PTW Analysis, is when the projects are very similar and more detailed data is not available.
- Parametric
 - There are several tools available and are extremely powerful. They can be invaluable in PTW analysis if the data to use these tools is available.
- Engineering Build Up
 - This technique is not a good fit for PTW analysis due to the rigor required and time-consuming nature of the activity.
- Actual Cost Extrapolation
 - Not a good technique to use in PTW analysis as other bidders will look to reduce costs and not simply extend what the current incumbent has been billing the government.

Cost Estimating Techniques Summary

- To summarize, the two best cost estimating techniques to use for PTW analysis are Analogous and Parametric.
 - The strengths of these techniques lie in their basis on historical and statistical data and the speed at which the estimating and analysis can be performed.
 - During a bidding cycle, time is very limited and the PTW analyst must arrive at a Price to Win early enough so that the bid team knows how to react in order to reach the PTW recommendation.
- This is not to say that the other techniques may be used from time to time.



The Mechanics of Price-to-Win Analysis

A Short “How to” of PTW



The Mechanics of PTW

- To execute a successful PTW analysis, organizations typically traverse the following stages:
 - Customer Analysis: Understanding the customer's needs, budgetary constraints, and past awarding trends provides invaluable insights. Historical data can offer clues about the client's behavior and preferences.
 - Competitor Analysis: Studying potential competitors is paramount. What have they bid in the past? What are their costs, strengths, and vulnerabilities? Tools like SWOT analysis can be instrumental here.
 - Competitor Price Estimation: The competitors' potential bid is estimated using open-source data and cost estimating techniques.
 - Evaluation Criteria: The evaluation criteria for each specific bid is analyzed and the recommended price to win is positioned to appeal to the client while ensuring profitability.

Customer Analysis

- An analysis and understanding of the customer's requirements (usually in the form of an RFP or similar document) is required to ensure the proposal meets these requirements.
- Budgetary constraints of the customer must be understood so that an affordable proposal can be submitted.
 - This is where a Top-Down estimate is performed based on historical contracts, available budgetary data and current awarding biases of the customer.
- Trends in past awards should be analyzed and need to be understood.
 - Historical data can offer clues about the client's behavior and preferences.

Competitor Analysis

- Studying potential competitors is paramount. The following elements must be analyzed for each competitor.
 - The past contracts they have bid on and won.
 - Their strengths need to be understood in context of the bid and compared to your company.
 - Their vulnerabilities need to be understood and exploited
 - Their costs need to be understood and estimated.
 - Division and location of the bidding entity.
 - Bidding history.
 - Fee and margin history.
 - WRAP Rates

Competitor Pricing

- A generic, baseline cost estimate is conducted to arrive at a potential solution to the bid. This estimate is not tied to a specific competitor.
- Once the baseline model is built, separate and distinct models are built for each competitor.
 - Labor rate assumptions are made based on location and salary percentiles.
 - Competitor specific WRAP Rates are applied to each model. These WRAPs are either estimated internally or are purchased from vendors of such data.
 - Fee percentages are estimated for each competitor based on their reported margins and how strategic this particular bid is to their future.
 - Potential variances to the proposed solution are also considered.
 - A competitor could choose to use technology to augment labor.
 - Lastly, potential gaming of the total evaluated price is analyzed.

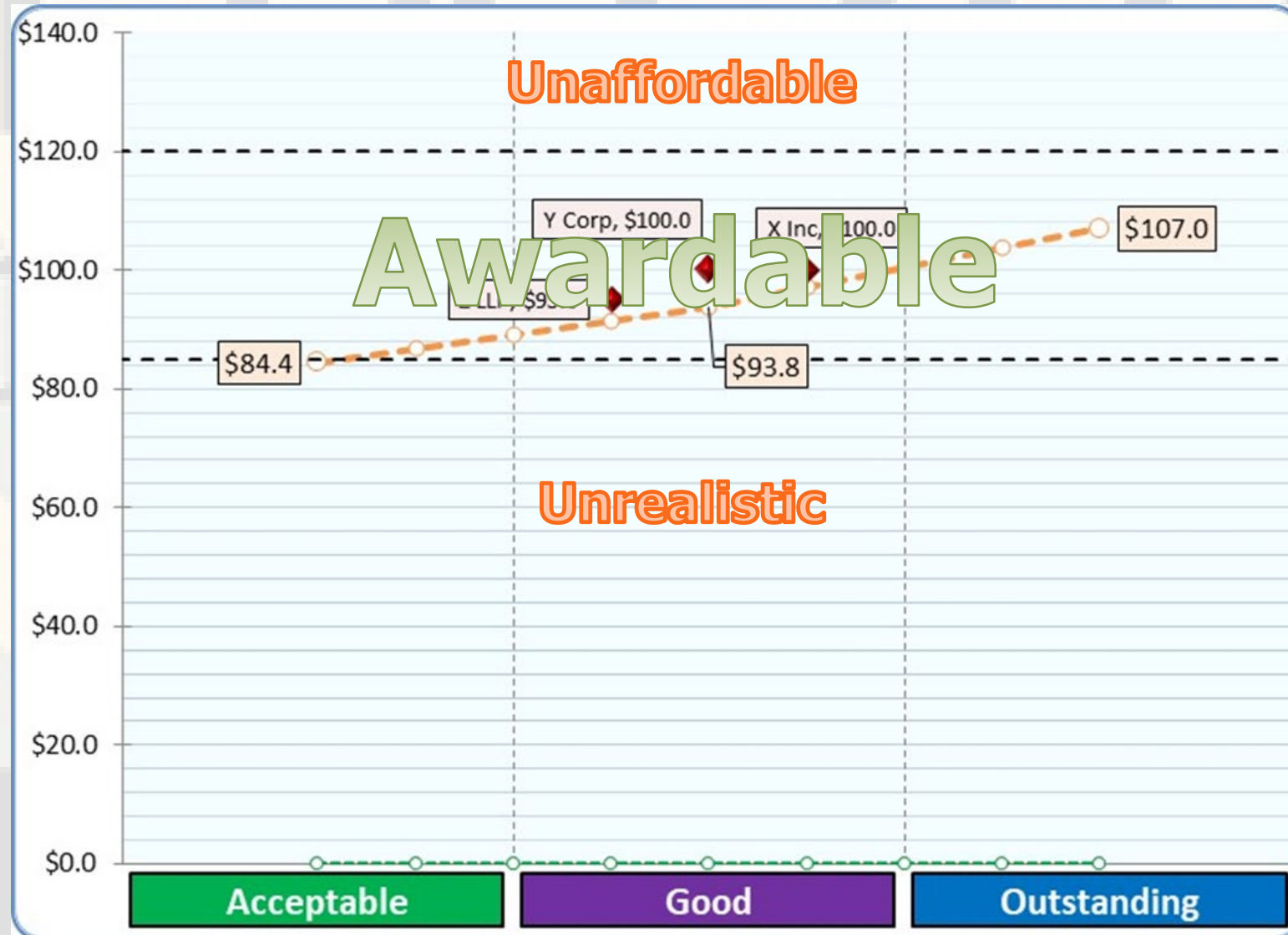
Competitor Pricing – WRAP Rates

- A WRAP Rate is a factor that is applied to direct labor to estimate the total cost of direct labor. Some examples of costs accounted for in a WRAP rate are:
 - Fringe
 - Medical Insurance
 - Life Insurance
 - OASDI/Medicare/FUTA/SUTA
 - Holidays/Vacation
 - 401k and/or Pension
 - Overhead
 - Occupancy
 - Indirect labor
 - G&A
 - Home office
 - Corporate services

Evaluation Criteria and Recommendation

- Based on the insights from the above steps, a price range is established. The price is positioned to appeal to the client while ensuring profitability.
 - One of the most important steps of PTW Analysis is understanding how the bid will be evaluated, both technically and price.
 - If the evaluation is Lowest Price Technically Acceptable (LPTA) then the lowest price wins.
 - However, if the evaluation is Best Value, then a premium may be paid to the technically superior bidder.
 - Understanding how much of a premium the customer may pay is imperative.
 - Properly estimating how each bidder will score on the technical proposal will drive the eventual recommended price needed to win the bid.

Arriving at a PTW Recommendation



Budget/IGCE

Minimum Realistic

Mechanics of PTW - Summary

- In a world driven by competitive bidding, Price to Win Analysis stands tall as a strategic lighthouse, guiding organizations towards informed, data-driven pricing decisions.
- It demystifies the chaos of bidding by providing a structured approach to understand, adapt, and ultimately win.
- For businesses that aim to thrive in this high-stakes arena, PTW is not just a tool; it's a philosophy that melds ambition with realism, aspiration with pragmatism.
- In federal contracting, PTW is the capability that separates the winners from the losers.

Integration of Cost Estimating and Price-to-Win Analysis

How the Two Worlds Intersect

Integration of Cost Estimating and PTW

- The complexities of today's federal contracting environment demand intricate strategies to navigate the challenges of competitive bidding.
- Cost Estimating and PTW Analysis, are the cornerstones of formulating effective bidding strategies.
- While each offers its distinct advantages, the true magic emerges when these methods are integrated seamlessly.
- Their combined power creates a holistic approach that maximizes the chances of winning bids without compromising profitability.

The Power of Integration

- When Cost Estimating and PTW Analysis operate in isolation, a gap emerges between cost realities and competitive scenarios. This disconnect can lead to bids that are either financially unsustainable or uncompetitive. The integration of the two bridges this gap, creating a balanced and informed strategy.
 - Holistic View: This synergy allows businesses to have a full view of the bidding landscape. They gain insights into the bottom-up estimate and can adjust their bidding strategies based on market dynamics.
 - Precision in Bidding: By understanding the precise costs involved and aligning them with what the market (or a specific client) might be willing to pay, businesses can craft bids that are aggressive yet sustainable.
 - Risk Mitigation: One of the inherent risks in bidding is the potential for financial strain when the actual costs surpass estimates. Integrating PTW Analysis with Cost Estimating ensures that the bid price is grounded in real, quantifiable data, reducing the risk of unforeseen expenditures.

Practical Integration

- The practical steps to integrate these methodologies involve a mix of data analytics, market research, and strategic forecasting:
 - Data Collection: Gather detailed data on all aspects, ensuring all potential expenditures are accounted for. Parallely, collect data on customers, market trends, and competitor behaviors.
 - Analysis Phase: Use the cost data to develop detailed cost models that are the basis for PTW analysis which is used to predict potential bid prices that could win the contract.
 - Alignment: This is the crux of integration. Align the internal pricing models with the PTW recommendations. The goal is to find a sweet spot—a bid price that is competitive in the market and aligned with internal cost structures.
 - Continuous Feedback: The business environment is dynamic. Regularly update cost models and PTW recommendations based on real-time data and feedback, ensuring the integrated approach remains relevant.

Integration of Cost Estimating and PTW - Summary

- In the intricate dance of competitive bidding, the integration of Cost Estimating and PTW Analysis emerges as the pinnacle achievement.
- It melds the art of understanding market dynamics with the science of accurate cost estimation.
- For contractors seeking an edge in today's markets, this integrated approach is the touchstone that promises guidance, clarity, and success.
- As the business adage goes, "knowledge is power," and this synergy epitomizes the apex of informed decision-making.

ICEAA 2024

Conclusion: Challenges, Benefits and the Future



Challenges and Benefits in PTW Analysis

- While PTW analysis presents a robust framework, it's not without challenges:
 - Dynamic Market Conditions: Economic fluctuations, technological advancements, and geopolitical events can greatly influence both customer expectations and bidder capabilities.
 - Data Accuracy: PTW analysis is heavily reliant on accurate data. Misinterpreting or misapplying data can skew the analysis, leading to undesirable outcomes.
 - Competitor Unpredictability: While historical data provides clues, competitors can, and often do, adapt and evolve, making their actions unpredictable.
- Benefits
 - Enhanced strategic positioning in bid environments.
 - Informed, data driven, decision-making leads to increased contract wins.
 - Sustainable profitability.

The Future of PTW Analysis

- With the increasing complexity of projects and contracts, the importance of PTW analysis continues to grow.
- Emerging technologies, like artificial intelligence and machine learning, are poised to refine PTW strategies, offering predictive models that can adapt and evolve in real-time.
 - I foresee applications like ChatGPT being used in PTW analysis and competitive intelligence in the new future.
- Moreover, as global markets become more interconnected, PTW analysis will need to factor in a broader range of variables, from global economic indicators to intricate supply chain dynamics.

Conclusion

- The integration of cost estimating techniques with PTW analysis is strategically imperative for companies in the government contracting and defense sectors. While challenges persist, the benefits far outweigh the hurdles, leading to improved contract acquisition and profitability.
- Firms that master this integration will not only secure contracts more often but will also increase their profitability by not leaving money on the table when bidding.