Price Matters!
The Role of Strategy in Developing a Winning Price

By Marsha Lindquist

In these days of slashed Government budgets, price is even more a factor now then it has been ever before. Whether the procurement specifies best value or low price technically acceptable (LPTA), doing your homework and sharpening your pencil to get the most competitive price is likely to spell the difference between a win and losing an important competitive procurement.

Many companies have great technical solutions, but winning a competitive procurement requires a winning price as well as a great technical proposal. In today's environment of lean budgets and low cost awards, Price Matters more than ever. The winning price may or may not necessarily be the low price. But more often these days, it is the low price. We seem to get involved in the mechanics of filling out the forms and spreadsheets without much of a thought to what constitutes a winning price. It takes getting information ahead of time, doing the analysis, and looking at you in the price mirror objectively.

What makes price matter so much these days is that you can win technically but lose on price. We hear this so often these days. What makes the difference? Not hoping you guess what the price ought to be. Hope doesn't get you a win but finding out about your customer, your company and your competition will get you closer. You've got to make it a priority to find out what your target price range ought to be.

What most companies still do today is build up cost, slap a reasonable (or competitive) fee on the cost and submit the price. Most of the time pricing gets accomplished at the last minute with very little thought to what it takes to win. There are three parts of Price Matters – data gathering, analysis, and real decision-making about price. This process is ongoing throughout the proposal process (pre-requirement stage, proposal stage and post-proposal but before final proposal revision) and, most importantly, the process begins earlier than you think. Developing and implementing a pricing strategy as part of the win strategy is critical to a win – it can't be accomplished at the last minute.

Most people believe that the only way to get the pricing "right" is to perform a price to win (PWIN) that will generate a target price. Let's set the record straight here – PWIN creates a winning range rather than an exact number that translates to the winning price. PWIN activities are intended to get you to create a range of winning targets along with thoughtful actions to assess risk and capabilities – it is not an exact science or number. It's a myth that PWIN is an exact magical number that can be calculated and used as the winning price. You weigh the prices you develop against the company capabilities and the risks your company are willing to take. The components of winning price are determined from objective data and subjective data (objective examples: current labor data, customer budget or government-generated independent cost estimate, D&B reports on competitors, past & current contracts, competition databases and subjective examples: internet searches, investigations, projections of competitor indirect & labor rates, interviews with current & former employees, your assessment of your company, your assessment of your competitor's strengths & weaknesses).

While PWIN is not about developing an exact number, and should be viewed as a compulsory activity to developing a winning pricing strategy, it's a process that gives you direction to consider variables such as rates, risk, capabilities and creative pricing techniques. When you "pick" a rate rather than constructing a target range you are playing darts – you might not get near the target nor will you consider the variables that will make your price a winning price. Wrap rates are not the only driver in costing; consider need for technically compliant labor rates, escalation/de-escalation, and fee. Your best homework and analysis will consider price along with many other variables. Be serious about the process.

To develop a PWIN process that gives the data you need, you must obtain knowledge of your customer, your company, and of your competitors. Without all three knowledge bases, you will be missing all you need to develop a winning pricing strategy. Most people only focus on the competitive analysis and skip the other two steps. So you would be dealing with partial information and likely incomplete results.

1. Knowledge of customer. Customer information "must haves" include synopses, draft and final RFP, anticipated RFP release date and contract start date, contract duration, prior buying history, authorized program funding, deductions from funding for Government program support, customer staff, & reserves, and customer independent cost estimate. Other questions might be: Are they experiencing budget pressure? What is their award history? Who are their favorites? Are they single item price-sensitive? Are they price-oriented or performance oriented? Is the customer interested in more than the requirement like a lower risk approach? Are they interested in the relative value of added value features? Are the gee-wiz-bang things you are going to add high value or low value for the customer? How much would they be willing to pay for them in a best-value procurement?

2. Knowledge of your company. Be realistic about your direct and indirect rates. What you did in history isn't something that you must repeat. Break the habit of saying "this is the way we've always done it". Do an honest self assessment: of how do others see you including your customers, other companies, and outside consultants. Know your history of wins and losses and why. Resist the temptation to over emphasize your strengths but be realistic about your weaknesses. Do a top down view by knowing your competitors' past pricing behavior & current market conditions. Find out what is the target range. Perform a bottom up analysis so that you know what your costs are really. Challenge those cost areas that don't reach the target. Keep in mind that a bottom up analysis usually results in higher projections than the target range. That's because the estimators put in everything they can think of. Give the estimators guidelines so that you don't spend a great deal of time having to cut where a clear schedule and resource definition would help. In developing bid strategies include creative or new cost centers, consider de-escalation, seek quotes through competitive bidding of lowest supplier costs, design tradeoffs, and seek corporate investments in order to show your commitment to the program. Teammate pricing can get you in trouble. Know ahead what they are likely to bid since their pricing can drive up the bid.

3. Knowledge of competitors. Most often a PWIN only focuses on a competitor analysis. This is short sighted and only gives you part of the information you need. GSA Advantage, D&B,

Internet searches and FOIA requests will give you information about the competing companies and their contracts. Find out who their teammates are and how they will likely bid. Gather intelligence about what corporate investments competitors are likely to make in the project and what their probable approaches are to bidding. Find the little tricks the competitors have used in the past to get lower pricing and their bid aggressiveness. Do they intend to use a new work location to get to lower costs or infuse their workforce with productivity enhanced tools? Companies tend to do the same things over time. Consider if they are the incumbent because incumbents tend to take fewer risks and think less 'outside the box'. Consider using search services such as GovWin (fusion of Input, FedSources, and Deltek), and Tech America. Remember competitive intelligence is 80% data collection, 15% creative digging & 5% instinct or luck.

The following are the keys points to consider in developing a winning pricing strategy:
1.PWIN is not a exact number but rather a process to derive price + capabilities + risk
2.Costs do not set price – market does
3.Get knowledge of customer
4.Competitor's likely price includes history & bid aggressiveness
5.Get creative!
6.Timely decision making on price strategies
7.Work your own costs early
8.Resist technical temptation to over scope
9.It's not just about wrap rates
10.Are there any certain prices that matter more - what's the customer's focus button?
11.Teammates can mess up your price
12.Get externally focused – Price Matters!

When you set out to price a project to win, developing your strategy encompassing ALL of the factors will get you closer to making your bids winning bids. That means taking into consideration your customer, your company information and your competitor's information. Without all three reviewed continuously throughout the process, you will likely be guessing, rather that riveting your attention on the range of price you need. Consider whether lowest price is a factor and if your added value items mean that much to your customer.

About the Author

Marsha Lindquist, President of Granite Leadership Strategies, Inc., has over 30 years experience as a business expert in Government contracting She has enhanced her clients' cost competitiveness, improved their contractual positioning, and solidified overall strategies with companies including BP Amoco, DynCorp, and Northrop Grumman. Marsha adds value by telling you what you need to hear. For more information on her, please contact Jerry Buonanno.