



Helping government contractors
grow their business

Federal Contractor Knowledge White Paper

Fundamentals of Pricing Government Bids

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Introduction

The purpose of this knowledge paper is to outline some of the key steps involved in pricing a government bid so that companies can submit winning proposals. It is based on numerous lessons learned while working on hundreds of procurements. Pricing (shown in dark blue) is a key part of The Ten Factors That Influence Winning government contracts (Figure 1).

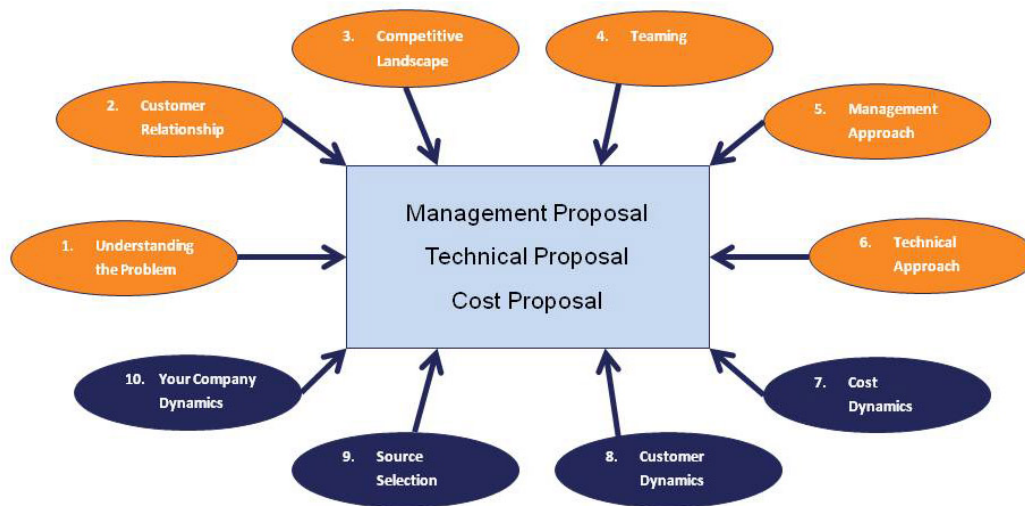


Figure 1 – Ten Factors That Influence Winning

The federal government has entered an extreme phase of cost competitiveness where a majority of bids are awarded on the basis of a Lowest Price Technically Acceptable (LPTA) evaluation. But even “best value” procurements are mostly awarded to the lowest bidder or, at best, to a slightly higher cost bidder with an outstanding solution. This means that you need to have the information at your fingertips necessary to develop winning pricing strategies.

There are five key components to positioning a company to submit successful, competitive bids: (1) **Available Funding** - identify the government's available funding, (2) **Should Cost** - establish the “Should Cost” for specific pursuits, (3) **Price Competitiveness** - determine whether your current cost pools and bidding practices are competitive in your target markets, (4) **Labor Rate Analysis** - research, reverse engineer, analyze, and compare you and your competitors' labor rates, G&A, overhead, fringe and material costs, (5) **Pricing Analysis** - determine the price that you will need to win.

These five factors are discussed in more detail in the following sections.

1. Available Funding

When funding information for a pursuit is not easily available, you can often get an educated estimate by triangulating data and metrics from a wide variety of sources (see Figure 2). Primary sources are the President's budget, FPDS contract spending, FedBizOpps, open source data points, appropriate agency websites and other government websites.

This helps determine the ceiling price and confidence factor for the target pursuit and aids in bid/no bid decision and bid pricing strategy development.

2. Should Cost

Performing a specific analysis of what the government believes the pursuit Should Cost based on past performance and future-influencing factors also helps you develop your pricing strategy.

Figure 2 is an example of program cost information based on an opportunity in Centurion's **Business Intelligence NOW™** (biNOW) tool.

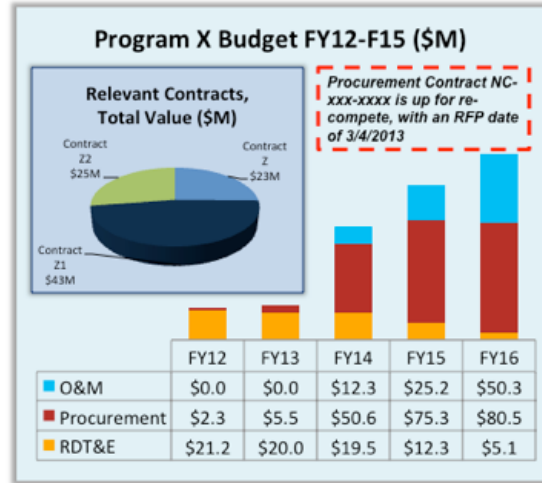


Figure 2 – Program Budget Information

3. Price Competitiveness

If you are consistently losing on price, trying to move into another market segment, reorganizing or transitioning from a small business to a large business, a price competitiveness analysis will determine if your pricing is competitive and what you need to do if you are not. Too often, when encountering one of these situations, companies do not take the time to analyze their cost pool structure and cost elements, as shown in the example below, from a design-build project. This assessment should then be considered in light of the bidding

Contract Labor Categories & Loaded Rates			Salary Adjusted for CY		Salaries from WMG verified through Monster.com and Salaries .com								
Contract Labor Category	Govt Site	Cont Site	Base Salary	Indexed Salary	WMG #	WMG Job Description	10%	25%	50%	75%	90%	Govt Site Wrap	Cont Site
Program Manager	\$166.36	\$195.72	\$180,794	\$185,314	1519	Program Directors 3A, 3B, 3C	\$148,500	\$154,900	\$180,794	\$191,400	\$200,000	1,8673	2,1968
Project Manager	\$110.66	\$130.19	\$119,790	\$122,785	1523	Project Manager Technical 3	\$102,800	\$111,218	\$119,790	\$130,070	\$135,000	1,8746	2,2054
Senior Subject Matter Expert	\$166.36	\$195.72	\$180,794	\$185,314	1519	Program Directors 3A, 3B, 3C	\$148,500	\$154,900	\$180,794	\$191,400	\$200,000	1,8673	2,1968
Subject Matter Expert	\$110.66	\$130.19	\$119,790	\$122,785	1523	Project Manager Technical 3	\$102,800	\$111,218	\$119,790	\$130,070	\$135,000	1,8746	2,2054
Sr. Comp Softw are Integration Analyst	\$110.66	\$130.19	\$149,700	\$153,443	6427	Software Design Engineer 7	\$128,440	\$149,700	\$149,700	\$163,111	\$177,236	1,5000	1,7647
Sr. Computer Specialist	\$110.66	\$130.19	\$149,700	\$153,443	6427	Software Design Engineer 7	\$128,440	\$149,700	\$149,700	\$163,111	\$177,236	1,5000	1,7647
Computer Specialist	\$88.94	\$104.64	\$88,682	\$90,899	6424	Software Design Engineer 3	\$81,243	\$87,700	\$88,682	\$97,428	\$102,067	2,0353	2,3944
Senior Computer Systems Analyst	\$110.66	\$130.19	\$149,700	\$153,443	6427	Software Design Engineer 7	\$128,440	\$149,700	\$149,700	\$163,111	\$177,236	1,5000	1,7647
Junior Computer Systems Analyst	\$64.71	\$76.13	\$74,300	\$76,158	6422	Software Design Engineer 2	\$68,300	\$70,400	\$74,300	\$79,207	\$82,979	1,7672	2,0791
Applications Programmer	\$88.94	\$104.64	\$88,682	\$90,899	6423	Software Design Engineer 3	\$81,243	\$87,700	\$88,682	\$97,428	\$102,067	2,0353	2,3944
Applications Development Expert	\$110.66	\$130.19	\$149,700	\$153,443	6427	Software Design Engineer 7	\$128,440	\$149,700	\$149,700	\$163,111	\$177,236	1,5000	1,7647
Senior Computer Systems Programmer	\$166.36	\$195.72	\$149,700	\$153,443	6427	Software Design Engineer 7	\$128,440	\$149,700	\$149,700	\$163,111	\$177,236	2,2551	2,6531
Computer Systems Programmer	\$88.94	\$104.64	\$88,682	\$90,899	6423	Software Design Engineer 3	\$81,243	\$87,700	\$88,682	\$97,428	\$102,067	2,0353	2,3944
Senior Computer Programmer	\$110.66	\$130.19	\$149,700	\$153,443	6427	Software Design Engineer 7	\$128,440	\$149,700	\$149,700	\$163,111	\$177,236	1,5000	1,7647
Junior Computer Programmer	\$64.71	\$76.13	\$74,300	\$76,158	6422	Software Design Engineer 2	\$68,300	\$70,400	\$74,300	\$79,207	\$82,979	1,7672	2,0791
Advanced Tech Senior Applications Dev	\$64.71	\$76.13	\$74,300	\$76,158	6422	Software Design Engineer 2	\$68,300	\$70,400	\$74,300	\$79,207	\$82,979	1,7672	2,0791
Advanced Tech Applications Dev	\$64.71	\$76.13	\$74,300	\$76,158	6422	Software Design Engineer 2	\$68,300	\$70,400	\$74,300	\$79,207	\$82,979	1,7672	2,0791
Sr. Information Engineer	\$110.66	\$130.19	\$149,700	\$153,443	6427	Software Design Engineer 7	\$128,440	\$149,700	\$149,700	\$163,111	\$177,236	1,5000	1,7647
Information Engineer	\$88.94	\$104.64	\$88,682	\$90,899	6423	Software Design Engineer 3	\$81,243	\$87,700	\$88,682	\$97,428	\$102,067	2,0353	2,3944
Senior IT Professional	\$88.94	\$104.64	\$120,000	\$123,900	6436	IT Generalist 5	\$96,422	\$107,304	\$120,000	\$127,620	\$135,585	1,5641	1,7685
Database Manager	\$110.66	\$130.19	\$120,000	\$123,900	6646	DB Design Eng/Adm'n 5	\$110,800	\$116,600	\$120,000	\$130,070	\$139,508	1,8713	2,2015
Senior Database Management Specialist	\$110.66	\$130.19	\$120,000	\$123,900	6646	DB Design Eng/Adm'n 5	\$110,800	\$116,600	\$120,000	\$130,070	\$139,508	1,8713	2,2015
Junior Database Management Specialist	\$64.71	\$76.13	\$69,690	\$71,432	6642	DB Design Eng/Adm'n 2	\$59,987	\$65,539	\$69,690	\$73,921	\$79,300	1,8841	2,2166
Quality Assurance Manager	\$110.66	\$130.19	\$117,800	\$120,745	10909	Quality Engineering Manager 2	\$105,658	\$111,528	\$117,800	\$120,000	\$129,138	1,9062	2,2426
Senior Quality Assurance Consultant	\$110.66	\$130.19	\$117,800	\$120,745	10909	Quality Engineering Manager 2	\$105,658	\$111,528	\$117,800	\$120,000	\$129,138	1,9062	2,2426
Quality Assurance Specialist	\$88.94	\$104.64	\$94,185	\$96,540	10908	Quality Engineering Manager 1	\$91,000	\$91,000	\$94,185	\$102,800	\$108,390	1,9163	2,2545
Testing Specialist	\$88.94	\$104.64	\$102,000	\$104,550	10314	Test Engineer 4	\$86,100	\$92,998	\$102,000	\$112,658	\$118,023	1,7696	2,0818
Training Specialist/Instructor	\$88.94	\$104.64	\$115,700	\$118,593	8719	Customer Training Manager 2	\$89,760	\$107,000	\$115,700	\$122,400	\$131,800	1,5600	1,8353
Senior Systems Engineer	\$110.66	\$130.19	\$168,000	\$172,200	6407	Systems Design Engineer 7	\$115,523	\$150,000	\$168,000	\$180,140	\$180,140	1,3396	1,5725
Systems Engineer	\$64.71	\$76.13	\$91,000	\$93,275	6403	Systems Design Engineer 3	\$80,000	\$88,400	\$91,000	\$96,796	\$101,409	1,4429	1,6976
Software Engineer	\$88.94	\$104.64	\$88,682	\$90,899	6423	Software Design Engineer 3	\$81,243	\$87,700	\$88,682	\$97,428	\$102,067	2,0353	2,3944

Median and average wrap rates for government and contractor sites	Wrap (X Market)	Government Site	Contractor Site
	Median	X.XXX	X.XXX
	Average	X.XXX	X.XXX

Figure 3 – Design-Build Project Cost Elements (intentionally blurry)

practices related to these pools and disclosure statement details to determine if the cost pool structure and rates allow you to be competitive in a particular market. Our pricing experts can help if you lack the internal resources or bandwidth to perform this analysis.

4. Labor Rate Analysis (Reference Figure 4)

Perform reverse engineering on contracts with available financial information to determine burdened labor rates, direct labor rates, average rate per hour and total contract value, as appropriate. This will provide data to assist in determining whether to bid on a recomplete or similar contract and if so, what the competition, including the incumbent(s), might bid.

Research GSA and other rate schedule, labor category and burdened labor rates for your specific service areas and target agencies. Next, map these 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 (see Figure).



Figure 4 – Key Labor Rate Analysis Factors

Figure 5 is an example of competitive pricing data from Centurion's **biNOW** database from a real multiple award contract just to give you an idea of what's available.

Company / Details	Finance Info			
Company A	Price:	\$771,651,404	Labor:	\$346,619,282
Fiscal Year: All Years	ODC's:	\$425,032,122	Avg Rate:	\$75.21
Site Type: Mix (See LOE)			Hours:	4,608,900
Company B	Price:	\$779,983,703	Labor:	\$354,951,581
Fiscal Year: All Years	ODC's:	\$425,032,122	Avg Rate:	\$77.01
Site Type: Mix (See LOE)			Hours:	4,608,900
Company C	Price:	\$775,567,203	Labor:	\$350,535,081
Fiscal Year: All Years	ODC's:	\$425,032,122	Avg Rate:	\$76.06
Site Type: Mix (See LOE)			Hours:	4,608,900

Figure 5 – **biNOW** Competitive Pricing Data Example

5. Pricing Analysis

In a simplified manner, Figure 6 illustrates a possible outcome of a competitive price assessment based on the information described in the previous pricing sections.

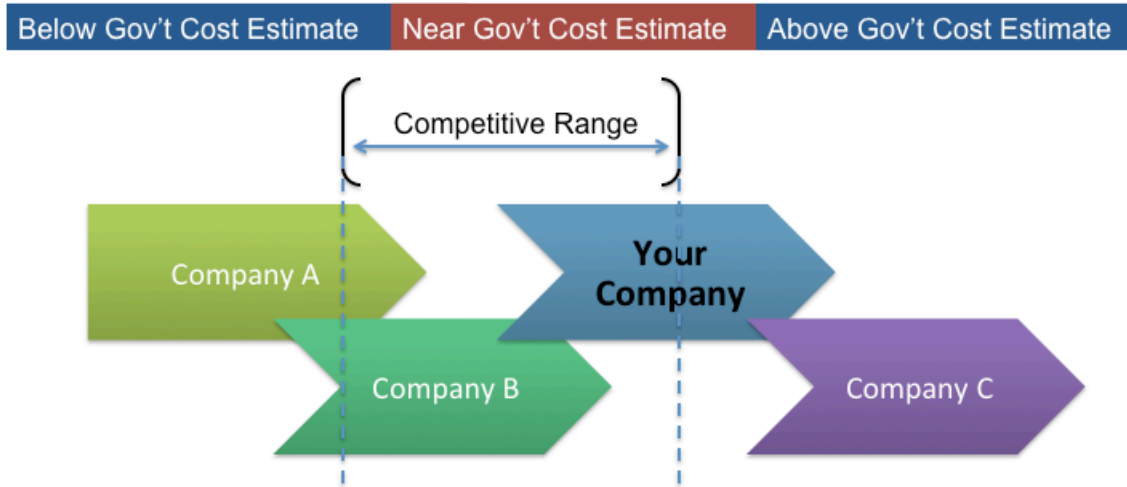


Figure 6 – Determination of Competitive Range

It summarizes the results of an analysis of the government's most likely Should Cost estimate and a determination of the most likely competitive range for source selection.

By understanding where your company falls in the competitive range as it relates to the customer's probable Should Cost and the likely competitors, you can determine if you should even bid the job and, if so, what changes or actions you might need to take to your capture strategy including staffing mix to achieve your target price.

If this contract was a best-value procurement, then your company's position as shown above might be sufficient assuming you have outstanding key personnel, client relations and past performance. On the other hand, the delta between your price and the Company A and B prices probably would not allow the government to award you the contract on a best price, technically acceptable acquisition.

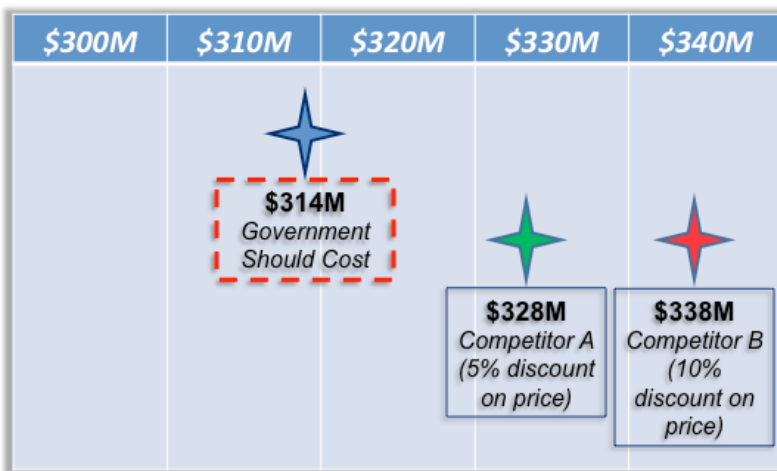


Figure 7 – Competitive Pricing Example

Figure 7 is another example of a competitive pricing exercise for a development project based on an estimate of the government Should Cost, previous contract data and competitor wrap rates.

There are, of course, much more sophisticated pricing tools and methodologies. But, for many smaller contractors, even a simple cost competitive exercise can make a big difference.

Conclusion

There are many factors that should be evaluated to make sure you understand a target agency and contract. Try to identify the customer's typical award criteria for the specific type of contract you are interested in bidding. Also, how sensitive is the agency to price and what key pricing elements are most likely to impact your price? Consider what the risk to your company is for the contract type, project deliverables and schedule. Understand how an agency runs an acquisition, what the stakeholder and evaluator concerns are, and some background on the likely selection official.

Pricing your bid is more critical now than ever. Some of the key activities necessary to determine your bid price are:

- Analyze competitive landscape
- Analyze the customer's view – their likes and dislikes
- Determine the agency's pricing/award history
- Model the competition's pricing
- Develop a cost basis and justification
- Model your bid price

Finally, consider your ability to successfully perform at the bid price, especially on fixed price or performance-based contracts.



Mike Lisagor, Government Business Development Subject-Matter Expert - Mike Lisagor has spent over 30 years in the government contracting community. As Centurion's Government Business Development Subject-Matter Expert he is responsible for sharing business development, capture and proposal processes and best practices with Centurion clients. Mr. Lisagor conducts Centurion's Federal Contractor Knowledge Webinar Series and is the author of the business development advice in Centurion's marketing campaign.

Mr. Lisagor founded Celerity Works in 1999, a government contracting consulting firm. Prior to 1999, Mr. Lisagor was an IT government contractor BD Vice President for over 10 years. During this time he led successful bid capture efforts at several federal agencies including FAA, FBI and the Department of Defense. Mr. Lisagor has an MS in Management and taught marketing for managers at National Louis University. He was the recipient of the Fed 100 Award in 1999 and 2002, the co-chair of the WTIA B2G community, an emeritus board member of AFFIRM, and the author of *Winning and Managing Government Business* and *The Enlightened Manager*.



Al Freer, Vice President of Client Solutions & Analytics - Al Freer brings a wealth of experience with strategic pricing and cost modeling, analytics and federal business development. He oversees the delivery of strategic and tactical pricing and cost modeling services while also providing subject matter expertise to Centurion's Analytics Competency Center.

Mr. Freer has a diversified background of over thirty-four years with expertise in the areas of project management, capture management, price-to-win analysis, proposal management, project operations, finance, business, and administration. He has leadership skills in line, functional and staff organizations. His previous position was with SM&A-ifour as Vice President, Price-to-Win.

Prior to that, Al was employed by Raytheon and TRW where he held a variety of positions including business/financial management, deal-to-win, operations management, program management, business unit management and business development.

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The full suite of iNOW products and services is illustrated in this diagram.
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