



Helping government contractors  
grow their business

## FEDERAL CONTRACTOR KNOWLEDGE WHITE PAPER

### Competitive Pricing Analysis & Best Practices

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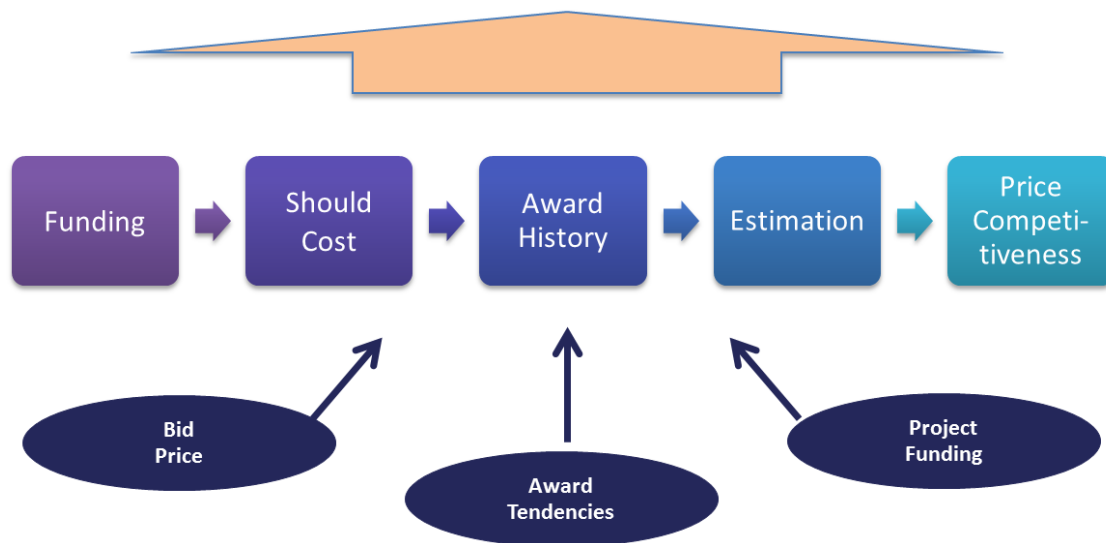
## Introduction

This White Paper focuses on the competitive pricing activities that should optimally occur before the final request for proposal (RFP) is released. There are the five types of competitive pricing analysis that should inform your pricing strategy:

1. The customer's available funding for the opportunity
2. The customer's should-cost analysis for the opportunity
3. The customer's award history and tendencies
4. Your estimation of the project scope and cost
5. Your company's overall and opportunity specific price competitiveness

The objective of these analyses is simple: to improve your probability of win.

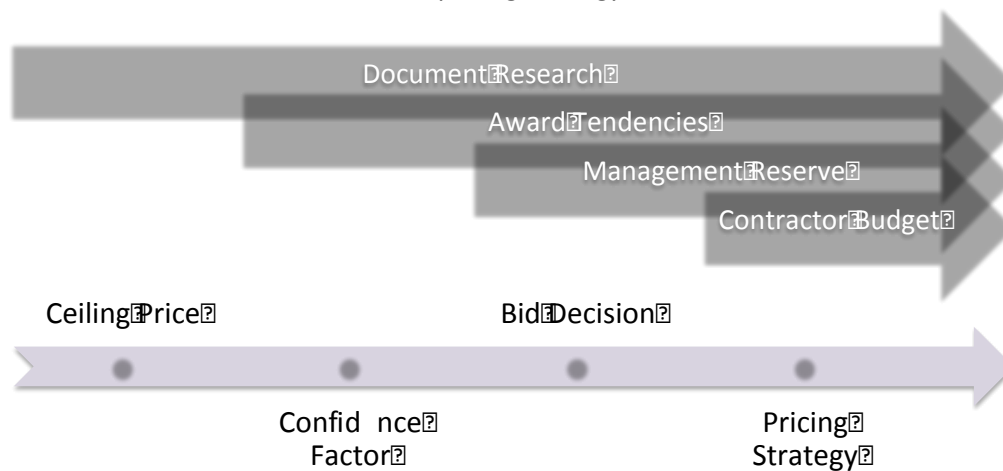
## Pricing Strategy



These factors form the backbone of the pricing component of Centurion's Opportunity Assessment *NOW*<sup>TM</sup> (OAN) analytic tool and create the core of your Capture Plan. Information about each of these factors is gathered during one or more of the opportunity tracking phases described in the following section.

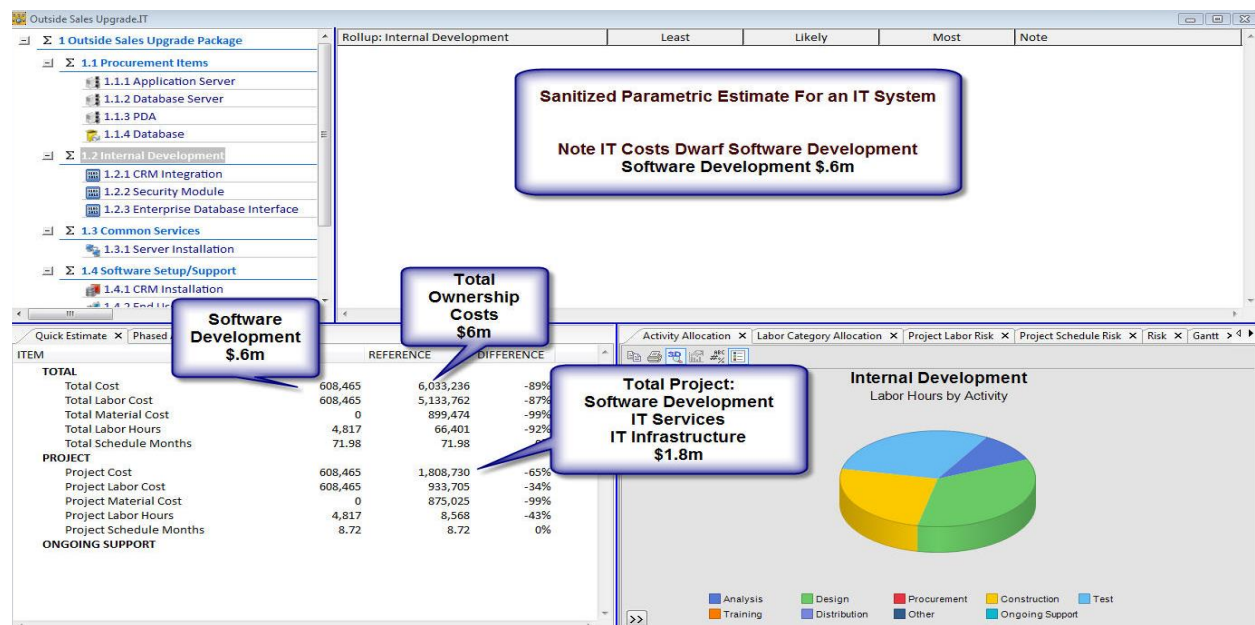
## 1. Available Funding

Understanding the funding status of a federal opportunity (see the following figure) is one of the most critical but often-ignored bid factors. Identifying the funding source and whether the project is in the budget and stable is key to determining if the program is viable. This analysis will help determine the probable ceiling price, a funding estimated confidence factor, the financial rationale for making a bid decision and serve as a critical element of the pricing strategy.



## 2. Should-cost Analysis

Here is a notional example of a should-cost analysis for a software development project. The should-cost

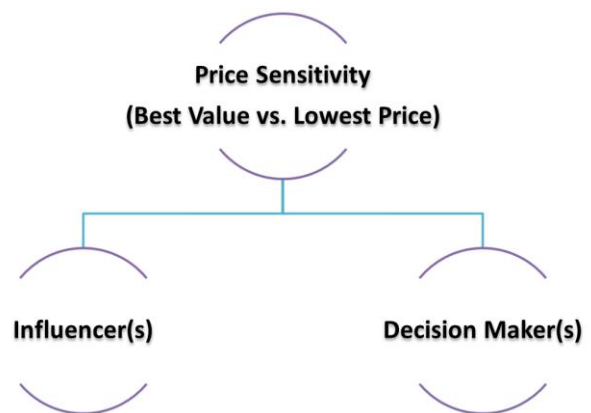


process is highly dependent on the dynamics of the pursuit and, of course, availability of information.

The federal government has entered an extreme phase of cost competitiveness where a majority of bids are being awarded on the basis of lowest price, technically acceptable (LPTA). This means there is a need to have competitive pricing information readily available in order to develop winning pricing strategies.

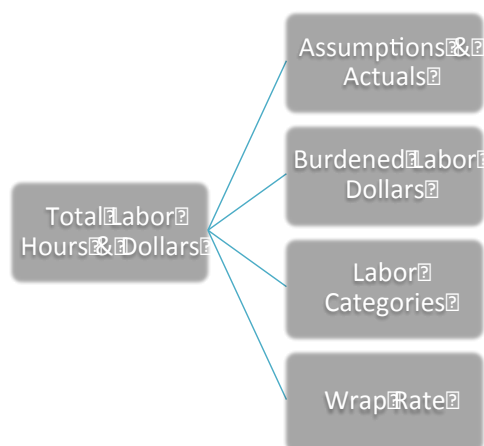
### 3. Award History

Knowing the agency and individual stakeholders' (both influencers and decision makers) award tendencies, and how favorably or unfavorably they view your company and the competition, are essential considerations in your decision to bid. One key question is how sensitive are they to price?

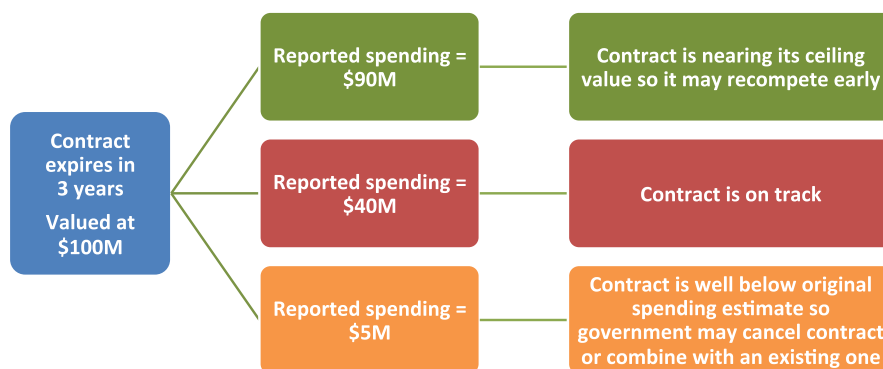


Perform reverse engineering on existing contracts in your market and service area with available financial information to determine burdened labor rates, direct labor rates, average rate per hour and total contract value. This data will help determine whether to bid on a recompetes or similar contract and if so, what the competition, including the incumbent(s), might bid. Of course, all the information you need isn't always available. But if not, Centurion's pricing experts can often ferret it out.

There are basically two types of analyses that provide insight into the competition's wrap rates and bidding strategies. Looking at competitive rates and strategies allows you to see if you are competitive with a particular competitor. This analysis is done for many of the opportunities in Business Intelligence NOW™ at no charge and, if a client is interested in a particular opportunity in the database where the necessary data is available but not yet done, Centurion will complete the analysis for the client at no charge.



Here is an example of using contract budget and financial reporting data to identify which projects are most likely to have re-competes that are well funded. This is an example of an Information Technology services contract scheduled to expire in 3 years.



If the contract has already reported an amount close to the spending ceiling (the two green boxes) it might be recompeted early, the incumbent contractor has been performing well enough to have received a significant portion of the contract value and the follow-on contract will probably also be well

funded. This is important information to have when making a decision whether to pursue the recompete.

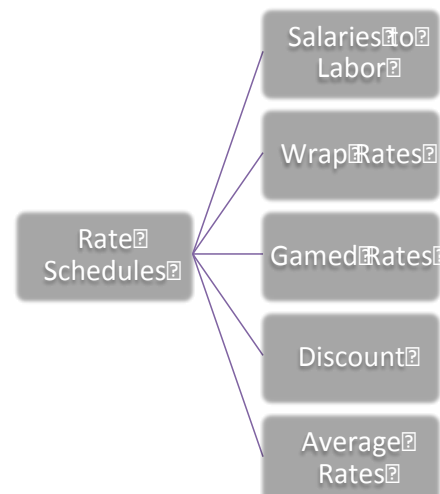
Or, if the reported spending is on track (the two red boxes), then the contract will most likely run its full term unless the incumbent contractor is performing poorly or the project is hit with unexpected budget cuts. It also means that the contract has a fairly high probability of being fully funded in the future.

Finally, if the reported spending is well below the budget baseline or expected spending (the two orange boxes), then

- The contractor may be performing poorly,
- The program may not be seen as really required by the customer, or
- The program may be targeted for restructure or early recompete

There are two major types of contracts to reverse engineer. The first involves labor rate schedules where labor categories are listed with fully burdened labor rates:

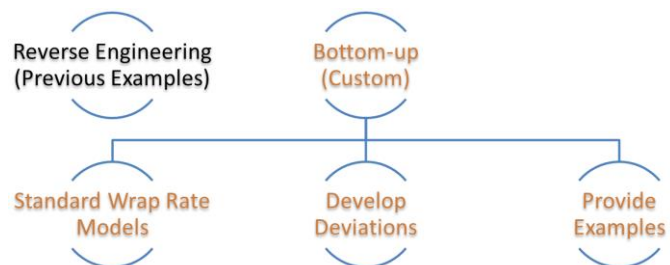
- Map salaries to labor categories
- Calculate wrap rates by dividing fully burdened labor rate by salary
- Remove obviously gamed rates
- Apply a discount, if appropriate
- And then average the resulting individual wrap rates



The second type of contract includes those where total hours and total labor dollars are available or calculable.

- If total hours and total hours by year are available, assumptions are made or actuals are given regarding Other Direct Costs (ODC), travel and materials based on the contractor Statement of Work (SOW).
- Burdened labor dollars are calculated by subtracting these out.
- Labor categories are mapped to salaries from various surveys and databases to calculated direct unburned labor dollars.
- This provides Insight into competition's wrap rates and bidding strategies and allows you to see if you are competitive with this particular competitor.

Labor contract pricing greatly benefits from a custom competitive wrap rate analysis. There are two basic methods: reverse engineering as previously discussed and bottom-up using Centurion's set of standard wrap rate models, then deviating from those based on open source differences for a particular target.

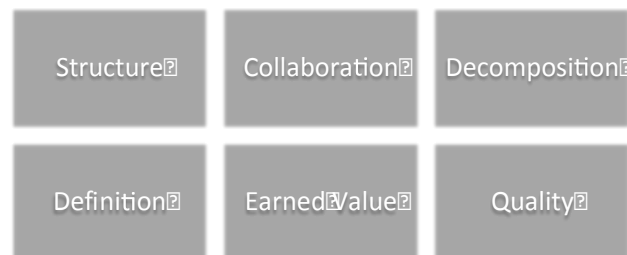


This usually includes multiple target competitors in a particular market for a particular pursuit. Centurion can also include a competitive assessment relating to the impact of the analysis on pricing the specific opportunity.

## 4. Cost Estimation

There are two basic overall proposal cost estimating methods, top-down, which is based on similar projects and bottom-up, which is developed by estimating the cost of each element of a project.

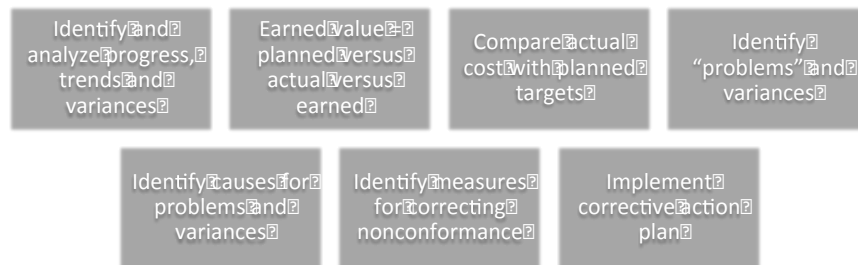
A preliminary project work breakdown structure (WBS) provides you with a structure that defines the tasks and/or work that needs to be performed to meet project objectives. Development of the final WBS should be a team activity to build consensus and understanding of the scope and work plan necessary to complete the project. A WBS should illustrate the project activities at successively lower levels of detail but no further than necessary to assist with the management of the project. It is important to understand that this process is about defining how you will perform the job not just a regurgitation of the statement of work.



Some projects require earned value management (see following diagram). In these cases, you will need to factor in earned value discrete work packages. Earned value management is a schedule and cost system used to assist project teams and customers in assessing progress, provide early warning of the



need for corrective action and estimates of future schedule and cost based on current progress. It's too complex a topic to adequately cover in this white paper, however, your pricing estimate will need to incorporate the necessary resources and schedule time to accommodate earned value management.



Finally, the WBS will also need to reflect whether you are planning a fixed price, level of effort, or a defined task project.

There are several approaches that can be taken to define a work breakdown structure – for instance, by function or by

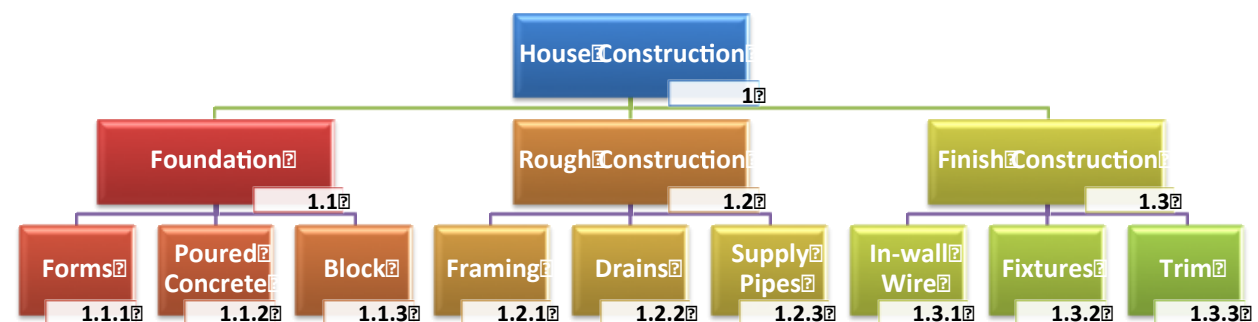
deliverable. Regardless, it should clearly identify necessary tasks and should be used to develop schedules, cost estimates, skill sets, and project risks.

Shown here are two simple examples of a possible WBS for the development of three training modules. The WBS on the left is arranged by functional phase while the WBS on the right has been structured around each of the three training modules.

1. Build a computer-based training course
  - 1.1 Plan
    - 1.1.1 Develop plan
    - 1.1.2 Review with the boss
    - 1.1.3 Finalize plan
  - 1.2 Implement
    - 1.2.1 Identify Requirements
    - 1.2.2 Design the system
    - 1.2.3 Develop the contents
    - 1.2.4 Finalize the training material
  - 1.3 Accept
    - 1.3.1 Test
    - 1.3.2 Review with users
    - 1.3.2 Incorporate changes
    - 1.3.4 Release new course

1. Build a computer-based training course
  - 1.1 Module one
    - 1.1.1 Plan
    - 1.1.2 Implement
    - 1.1.3 Test
    - 1.1.4 Accept
  - 1.2 Module two
    - 1.2.1 Plan
    - 1.2.2 Implement
    - 1.2.3 Test
    - 1.2.4 Accept material
  - 1.3 Module three
    - 1.3.1 Plan
    - 1.3.2 Implement
    - 1.3.3 Test
    - 1.3.4 Accept

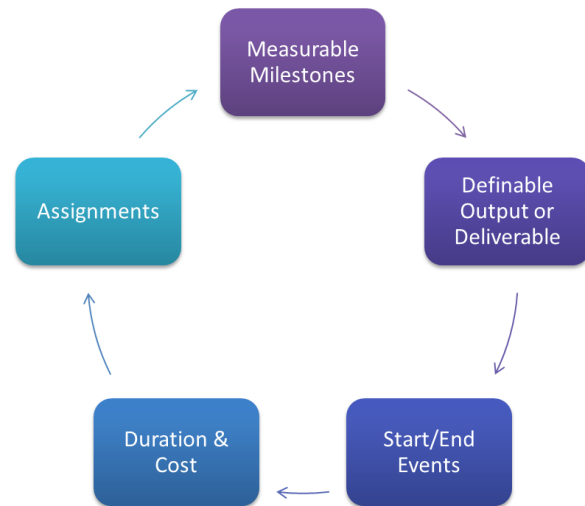
It is sometimes easier to picture the relationship between the various work elements in a graphical representation such as the one pictured below where the categories of work to be performed are clearly





outlined. In this example of building a house, the foundation, rough construction and finish construction are each decomposed into their constituent subtasks with corresponding WBS paragraph numbers as shown in the small white boxes.

Each work element or activity should have a measurable milestone such as review complete and, if possible, a definable output or deliverable. The start and end events should be clearly defined. The activity duration & cost should be easily estimated. Work assignments should be independent and definable. But don't overwork the WBS. It should be only as detailed as necessary to describe what you need to manage the project. Keep in mind the burden placed on the company support staff of dealing with too many work and cost elements.



One final point – be certain to check all the special requirements in the RFP. For instance, many Department of Defense contracts specify Military Standard 881, which gives specific direction regarding WBS development.

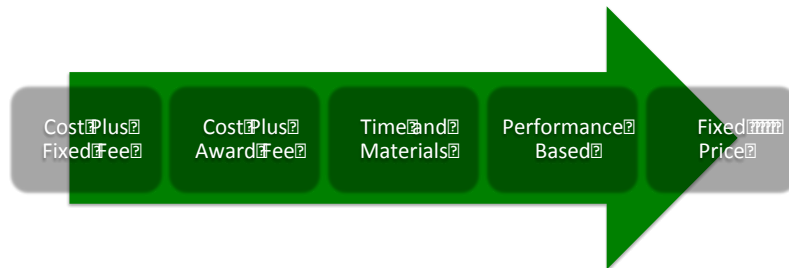
WBS	CLIN0002 Design Phase Elements
2.1.1	Data Modeling
2.1.1.1	Logical Data Model
2.1.1.1.1	Validate Logical Data Model Document, Deliver to DOL
2.1.1.1.2	DOL Review of Logical Data Model
2.1.1.1.3	Finalize and Deliver Logical Data Model
2.1.1.2	Physical Data Model
2.1.1.2.1	Validate Physical Data Model Document, Deliver to DOL
2.1.1.2.2	DOL Review of Validated Physical Data Model
2.1.1.2.3	Finalize and Deliver Physical Data Model
2.1.1.2.4	Perform Initial Baseline of Data Model
2.1.1.2.5	Perform Initial Analysis of Lookup Values for Data Model
2.1.1.2.6	Populate Initial Lookup Values in Data Model

On the left is an example of part of the design phase WBS for a software development project. It illustrates the decomposition of two major tasks shown in yellow into subtasks shown in light green. These subtasks are discrete activities that can be measured and, if required, for which earned value can also be tracked.

The key activities necessary to determine your competitive 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, and
- Consider your ability to successfully perform at the bid price, especially on fixed price or performance-based contracts.

Your pricing strategy and estimate needs to take into consideration the type of contract. Familiarize yourself with the Federal Acquisition Regulation Part 16. It describes the federal regulations for each of the major federal contract types including the five illustrated here. Anyone who does proposal pricing should be familiar with the provisions of this document.

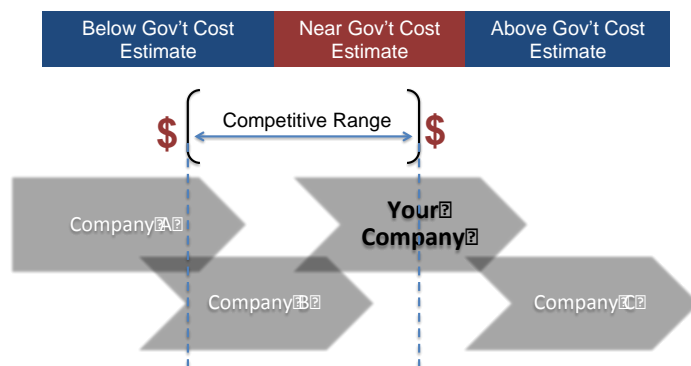


## 5. Price Competitiveness

The figure on the right presents a list of competitive pricing data. 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. This analysis will provide you with insight into the wrap rates and bidding strategies of your likely competitors.



Clearly, all this analysis can all be overwhelming. But especially on highly competitive bids, the hard work has been proven to pay enormous dividends.



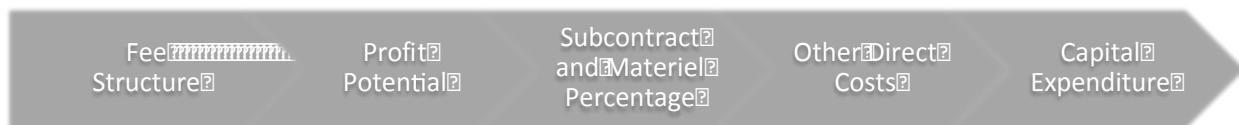
By understanding where your company falls in this competitive range as it relates to the customer's probable should-cost and the likely competitors, you can determine if you should even bid the job and, if so, what changes or actions you might need to make to your capture and pricing strategy including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

If the scenario shown to the left was a best-value procurement, then your company's position might be sufficient assuming you have outstanding key personnel, client relations and past performance. On the other hand, the delta between your price and Company A and B prices probably wouldn't allow the government to select you if this was an LPTA procurement.

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.

A company price competitiveness analysis should be performed if you are consistently losing on price, moving into a new market segment, reorganizing or transitioning from a small business to a large business. This involves an assessment of your business unit's financial structure including cost pools, disclosure statement details and previous bidding practices. This will help you to determine if you are cost competitive in a particular market.

Shown below are some of the key financial elements of your pricing approach including fee, profit, subcontract and material, other direct charges and capital. The bid pricing strategy often evolves over time as teaming arrangements are solidified and further competitive information is gathered. Each version of the capture plan should further refine this strategy.



The next pricing strategy section presents several complex pricing elements that may be new. I'd encourage you to discuss this section with one of your company's finance and pricing experts or a Centurion pricing expert.

Companies use different terms to refer to the key labor rates and cost structure elements shown in this diagram.

A labor rate (sometimes called a direct rate) is a term that needs to be modified with either the word **unburdened** or **burdened** to make complete sense. An unburdened labor rate is the hourly rate being paid to an employee.



A proposed burdened labor rate is an hourly labor rate fully burdened with fringe, overhead, general & administrative costs (G&A), and the fee (profit) that you are proposing to the government for a specific labor category. Your project controller has the financial related overhead structure necessary for you to incorporate into your price estimate.

A negotiated fully burdened rate is the final negotiated hourly labor rate on the approved (awarded) contract. A price wrap rate is a factor that when multiplied by an hourly unburdened labor rate equals the final fully burdened rate including fee. An operating unit is a collection of similar work within a definable organizational unit that applies the same wrap rate to hourly labor rates. In other words, an operating unit, sometimes called a cost center, has the same fringe (benefits), overhead & G&A structure.

Labor Category	Education & Experience
Program Manager	College degree & seven years of relevant experience
Subject Matter Expert	College degree & ten years of relevant experience
Program Analyst	College degree & five years experience or high school diploma & eight years of experience

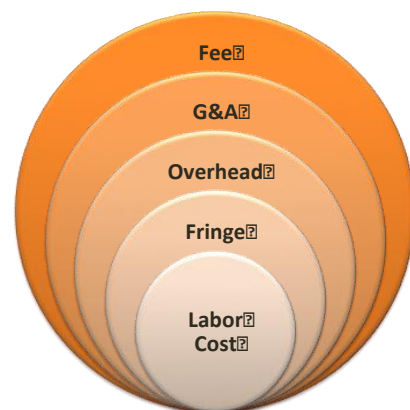
On labor contracts, labor category information is an important component of your pricing strategy. Some of this information can be found in Centurion's biNOW and Freedom of Information Act (FOIA) requests for previous contracts. It can also be inferred from company-published GSA schedule rates – keeping in

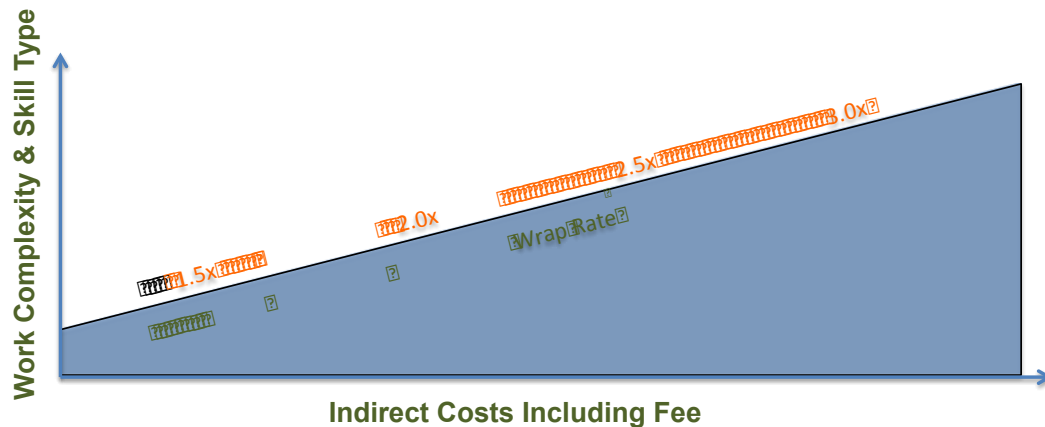
mind that these are often discounted further. Centurion's pricing experts can help you perform this analysis.

## 6. Pricing Strategy

The overall company pricing structure can significantly harm individual opportunity pricing competitiveness. Essentially, the fringe, overhead, G&A and fee make up the additional costs that are added to the direct labor rate to establish the amount that will be billed to the government. This information is very company competition sensitive.

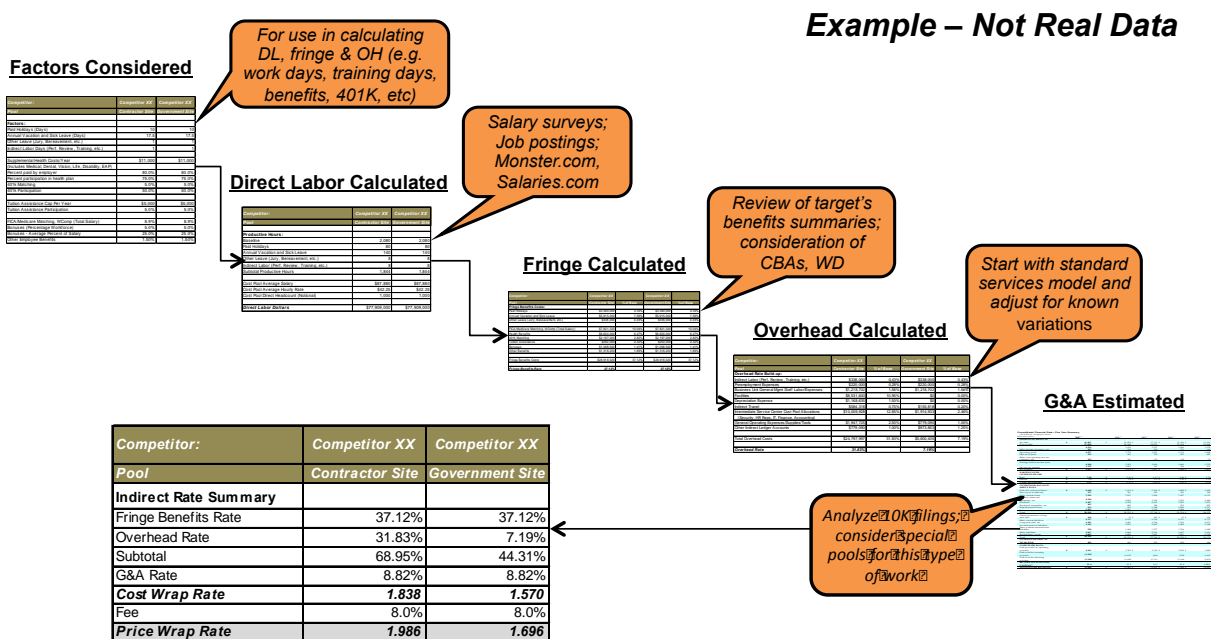
As shown on the left axis of the following graph, federal contractors provide a full range of services from less skilled but no less important labor contracts to more complex design, hardware and software contracts. These lend themselves to lower or higher corresponding indirect costs as shown along the bottom of the graph. In other words, you need to take into consideration what wrap rate, shown on the rising line, competitors who are providing a similar service are bidding. Unfortunately, the recent increase in LTPA contract awards has had a dampening effect on wrap rates and the fees companies are able or willing to bid.





Contractors need to find a balance between winning and being to successfully perform – and in some cases, be willing to walk away.

The Centurion bottom-up wrap rate development process is illustrated in the following figure. We do not know the companies' specific wrap rate structure, cost components or wrap rates. Even if we somehow did, the data is proprietary and we are ethically bound to keep that data in confidence.



Our pricing experts first look at various factors considered in wrap rate development such as: benefits, 401k and vacation. Then we calculate direct labor using applicable salaries from a variety of sources. Based on a target competitor's benefits and other fringe components, we calculate fringe rate. These include Social Security, Medicare and Workman's Comp, paid holidays, sick time and several other benefits.

Next, deviating from market based standard models, we target specific differences and then calculate the overhead rate. The overhead calculation includes the business unit general management and staff as well as other business unit expenses including facilities, security and any other indirect expenses.

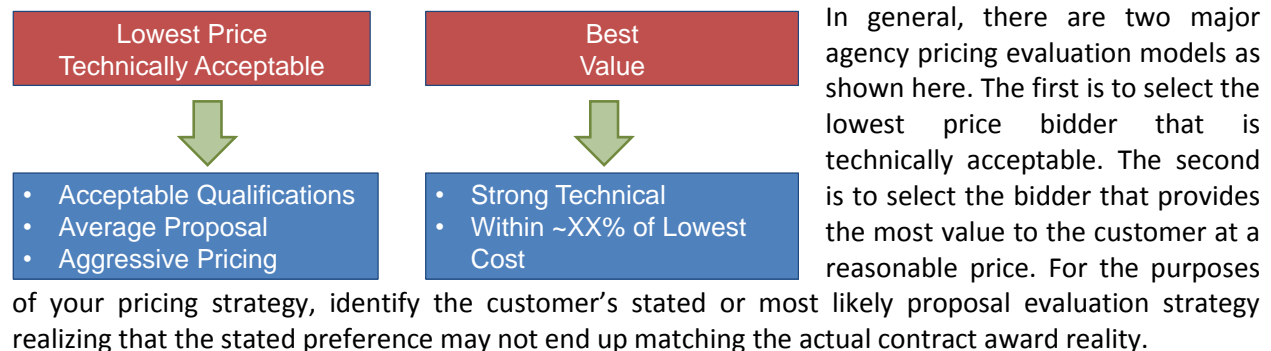
G&A rates are calculated the same way, but we rely more heavily on 10K filings and financial statements that are available in open source. The G&A calculation includes the organization and corporate management and staff as well as expenses for:

- Executive and support staff
- Sales, marketing, business development (BD), corporate allocations and bid and proposal costs.

The final chart on the lower left of the diagram above illustrates the final competitive rate analysis.

Determining the price your company needs to bid to win is, of course, a critical component of the capture phase. This activity should begin, where possible, well before RFP release. The pricing complexity varies greatly between product, software, hardware and services contracts.

The opportunity lead, whether a BD professional or a capture manager, along with a pricing lead's assistance, should gather competitive pricing information as well as prior agency award history.



Try to identify the customer's typical award criteria for the specific type of contract you are interested in bidding. What is the relative importance of price? Clearly this information will help you develop the highest possible scoring pricing strategy and proposal. Here is an example of typical best-value RFP evaluation criteria:

- 70% - Management & Technical are equal and more Important than Key Personnel and Past Performance.
- 30% - Price Realism & Price are of equal importance.

This is a pricing example from the transition-in phase of a project WBS in an Excel spreadsheet form. It illustrates how you can document the labor hours for each of the WBS subtasks and then calculate corresponding budget dollars by multiplying the hours times the fully burdened labor rate. In general, a task should be broken down until you can adequately monitor and control that task.

WBS	Hours	CLIN0001 Transition-In Phase Events	Budget
1.1.1	48	Vendor Coordination (Assume 12 meetings) 4 hours each	\$4202.88
1.1.2	32	Project Management & Project Artifact Transition	\$2801.92
1.1.3	4	Internal Budget Review Milestone	\$350.24
1.1.4	30	Development Environment Setup	\$2626.80
1.1.5.1	80	Review	\$7004.80
1.1.5.2	66.5	Revis	\$5822.74
1.1.5.3	24	Requirements Elaboration Meetings (6 meetings) 4 hours each	\$2101.44
1.1.5.4	32	User Interface Design Meetings (Assume 8 meetings) 4 hours each	\$2801.92
1.1.6	71	Updated Supplemental Specifications Document	\$6216.76
1.1.7	80	Updated Glossary, Acronym List, and Business Rules	\$7004.80
1.1.8	70.5	Updated Requirements Traceability Matrix	\$6172.98
	<b>538</b>		<b>\$47,107.28</b>

x Fully Burdened Labor Rates =

## Conclusion

Pricing analysis and determination is often a complex and time-consuming activity. Yet the return on investment in terms of increased win probability and revenue growth is considerable. Centurion's pricing experts can often perform these analyses more efficiently and at a lower cost than internal resources. When Centurion performs your pricing analysis, we strictly adhere to these professional standards:

- Projects are tailored to the specific client needs. We don't force your pricing requirements into a canned model,
- We make sure non-disclosure agreements are in place to protect your confidential and proprietary data,
- We hold analysis projects in strictest confidence,
- Every pricing engagement is exclusive to you, and
- Centurion does not publicly publish client names and engagements.



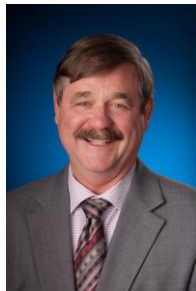
## About the Author



**Mike Lisagor**, Centurion's Government Business Development (BD) Subject-Matter Expert, has spent over 35 years in the government contracting community. 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, writes white papers and is the author of the popular "BD Tips" in Centurion's weekly emails.

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, is an emeritus board member of AFFIRM, and the author of *Winning and Managing Government Business* and *The Enlightened Manager*.

## About Centurion's Pricing Expert



**Al Freer**, Centurion's Vice President of Client Solutions & Analytics, 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-six 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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**How to Develop a Winning Capture Plan**

**Analytics and Business Development** and over 50 useful **Business Development Tips**

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