Plenary Session II

Responding to a Solicitation – Cost Drivers to Industry

Discussion Topics

Industry Cost of Pursuit / Industry Cost of Solution

November 12th 2015

DHS Reverse Industry Day

Tenth Anniversary • 2004-2014

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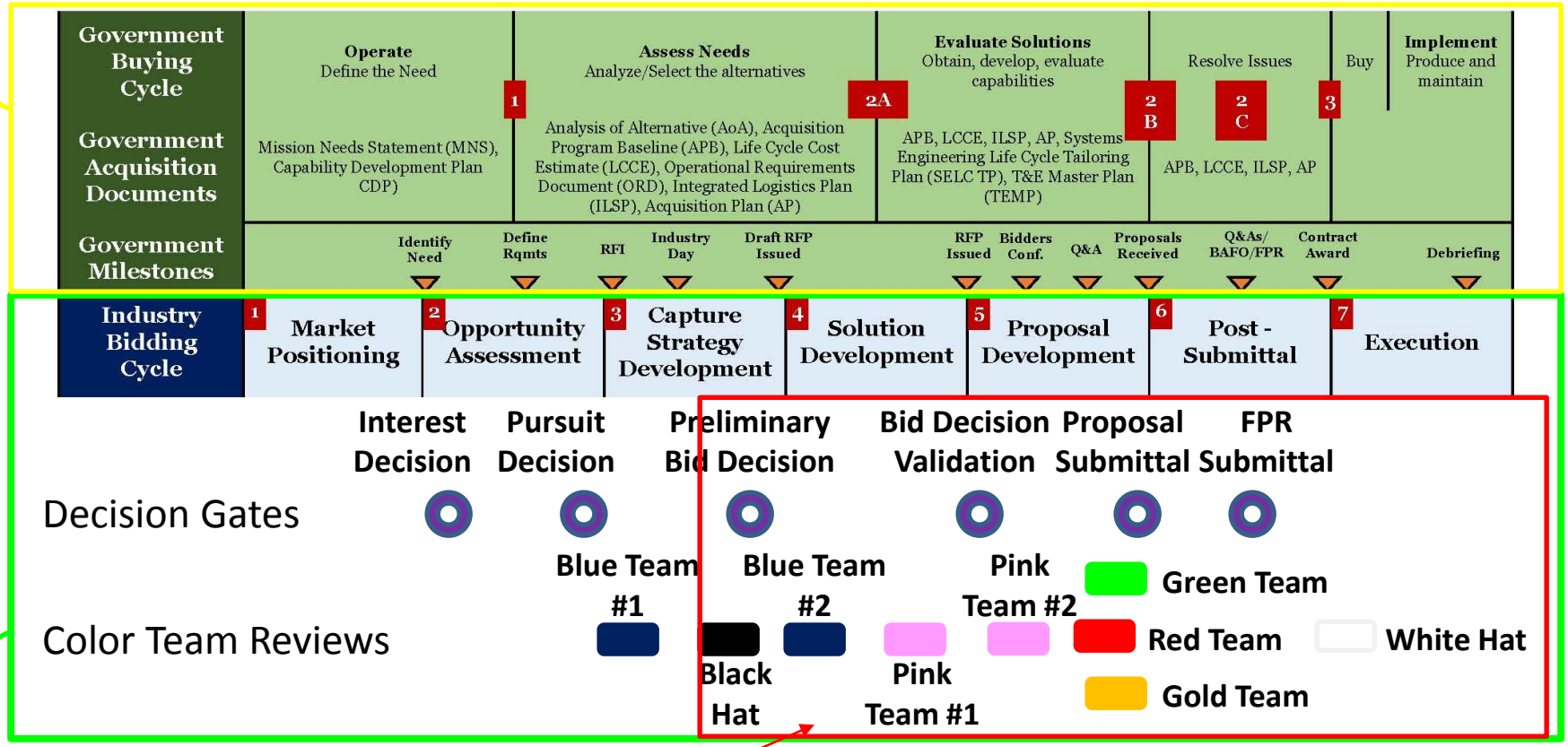
Cost of Pursuit

What drives the industry's bid and proposal cost

Responding to a Solicitation: Cost Drivers to Industry

Standard Industry Gates and Colored Reviews*

Costs Incurred by Government



Costs Incurred by Industry

Decision Gates: Business leaders determine where to allocate or withdraw BD resources

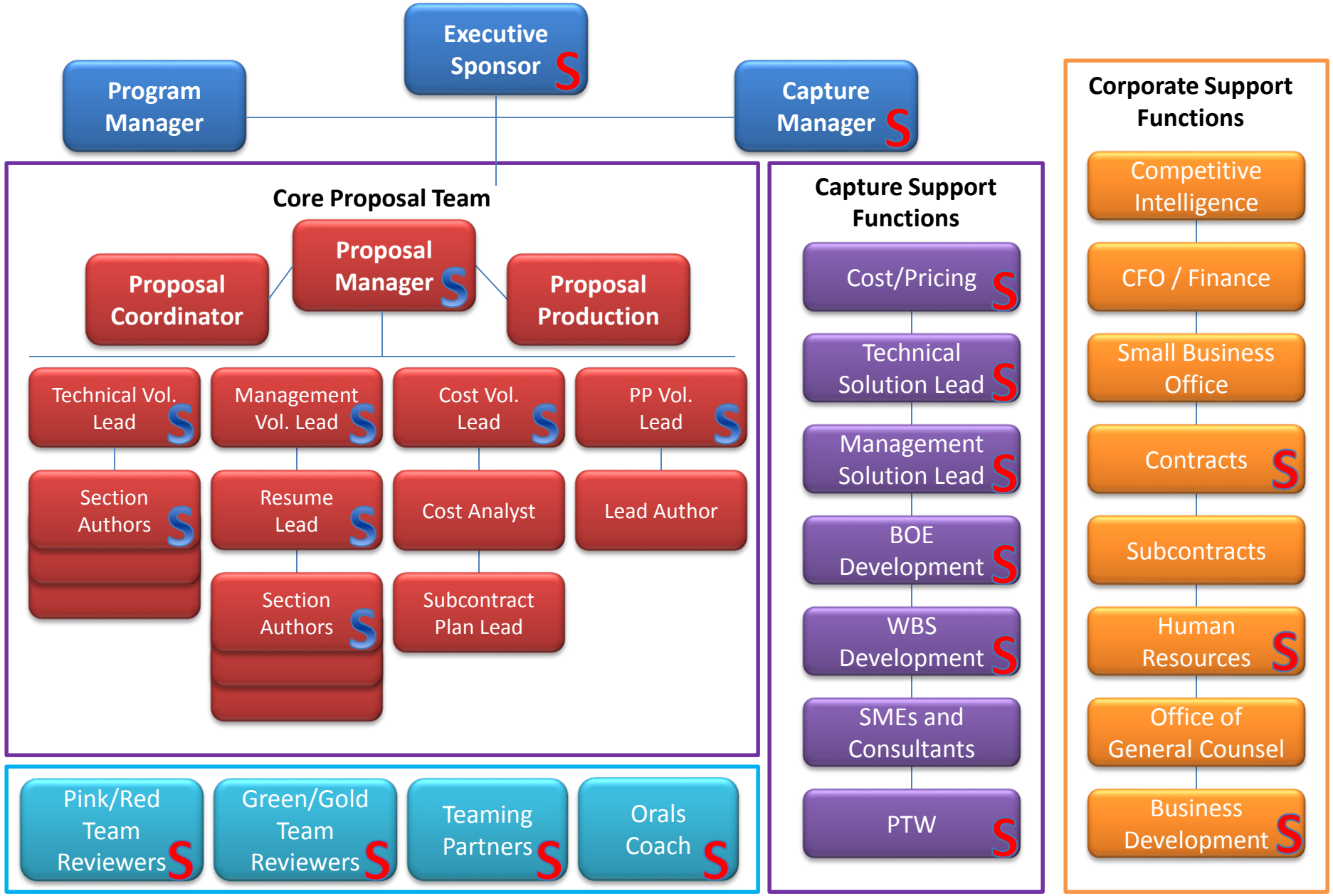
Color Team Reviews: Steps toward building a winning proposal

* As Defined by Association of Proposal Management Professionals / Shipley Associates

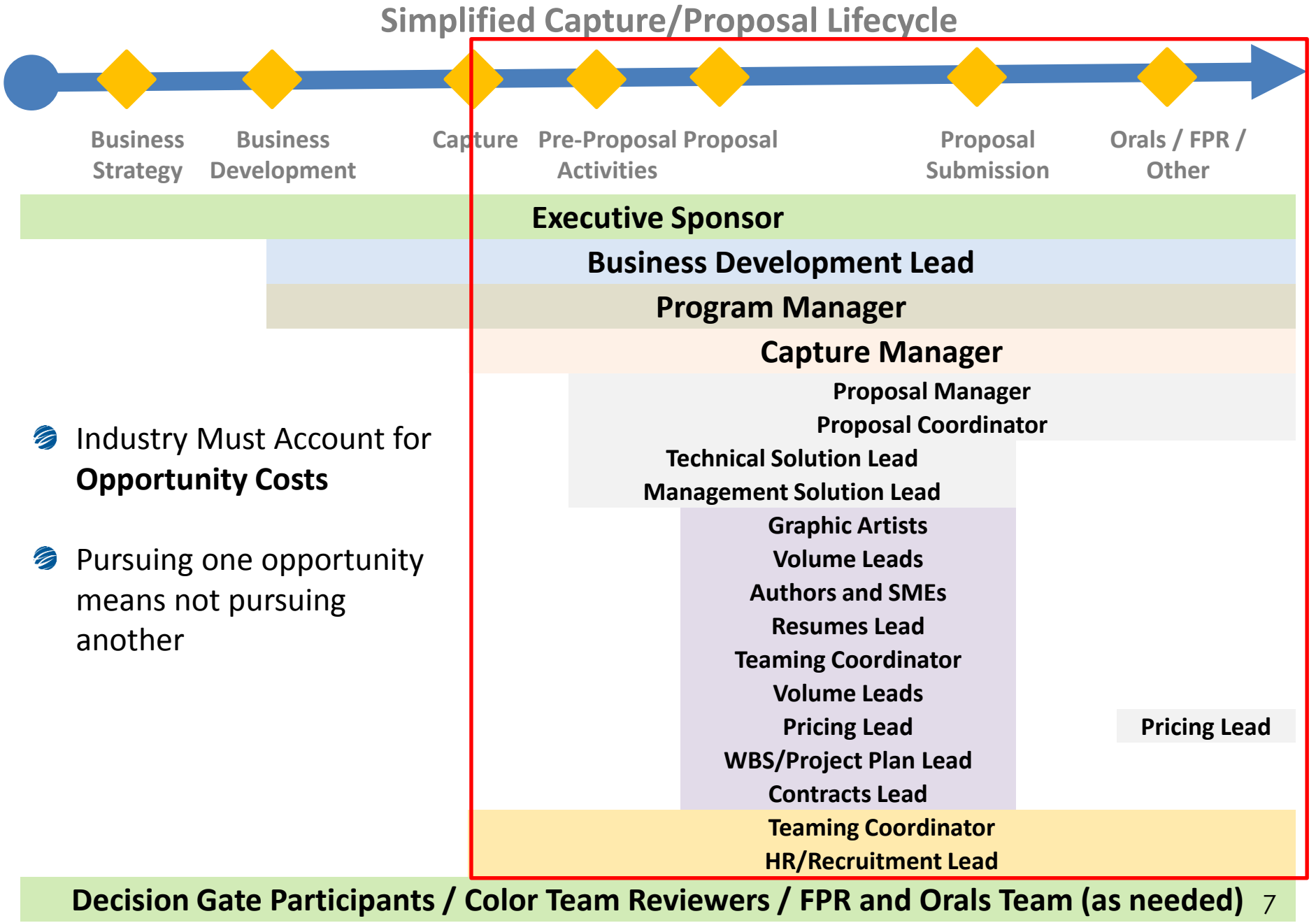
What drives industry capture costs?

- **Solution and Proposal Development**
  - Black Hat, Storyboards, Graphics, Solution and Pricing Strategies
  - Gate Reviews and Colored Team Reviews
  - Teaming and Technology Partnerships
  - Adjust for Changes in the Solicitation or Timeline
- **Proposal Support Personnel**
  - Full Time Proposal Team, SMEs, Consultants, Strategic Hires
  - Teaming Partners and Third Party Vendors
- **Proposal Production, Phases and Post Submission Activities**
  - Delivery of Final, Physical vs Electronic
  - Number of Rounds, Discussions, Best-and-Final-Offers, Oral Presentations

Resource Consumption: *Large vs Small Business*



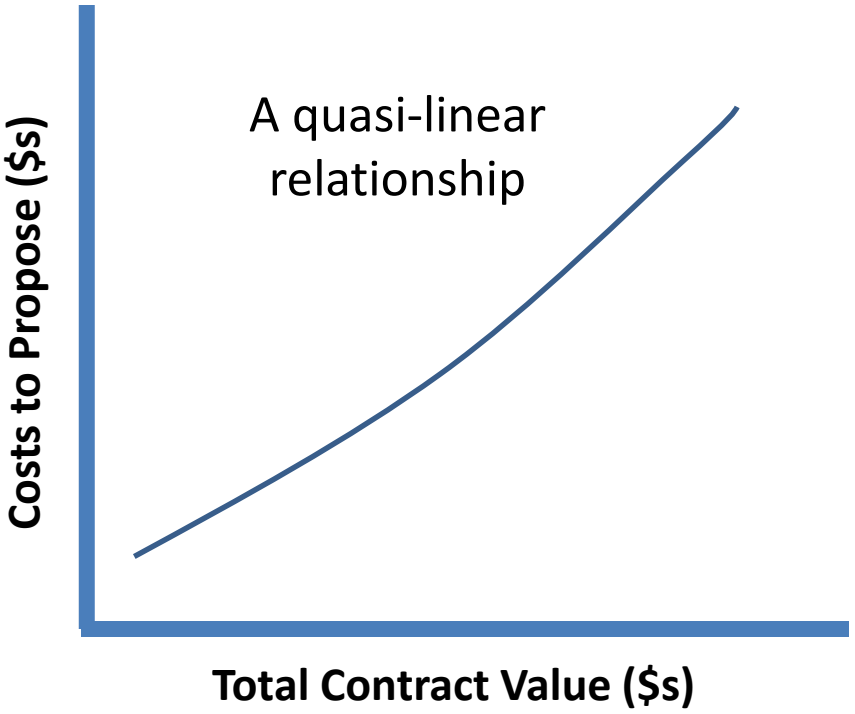
Resource Consumption: *Roles Across Acquisition Lifecycle*



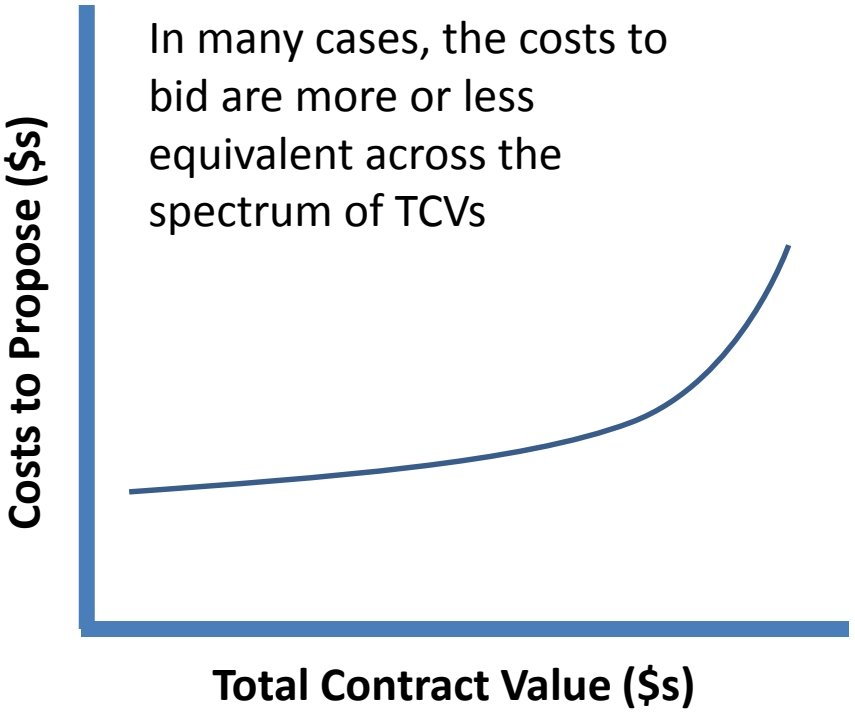
- Industry Must Account for **Opportunity Costs**
- Pursuing one opportunity means not pursuing another

Relationship of Bid Costs to TCV

What an Economist Might Expect

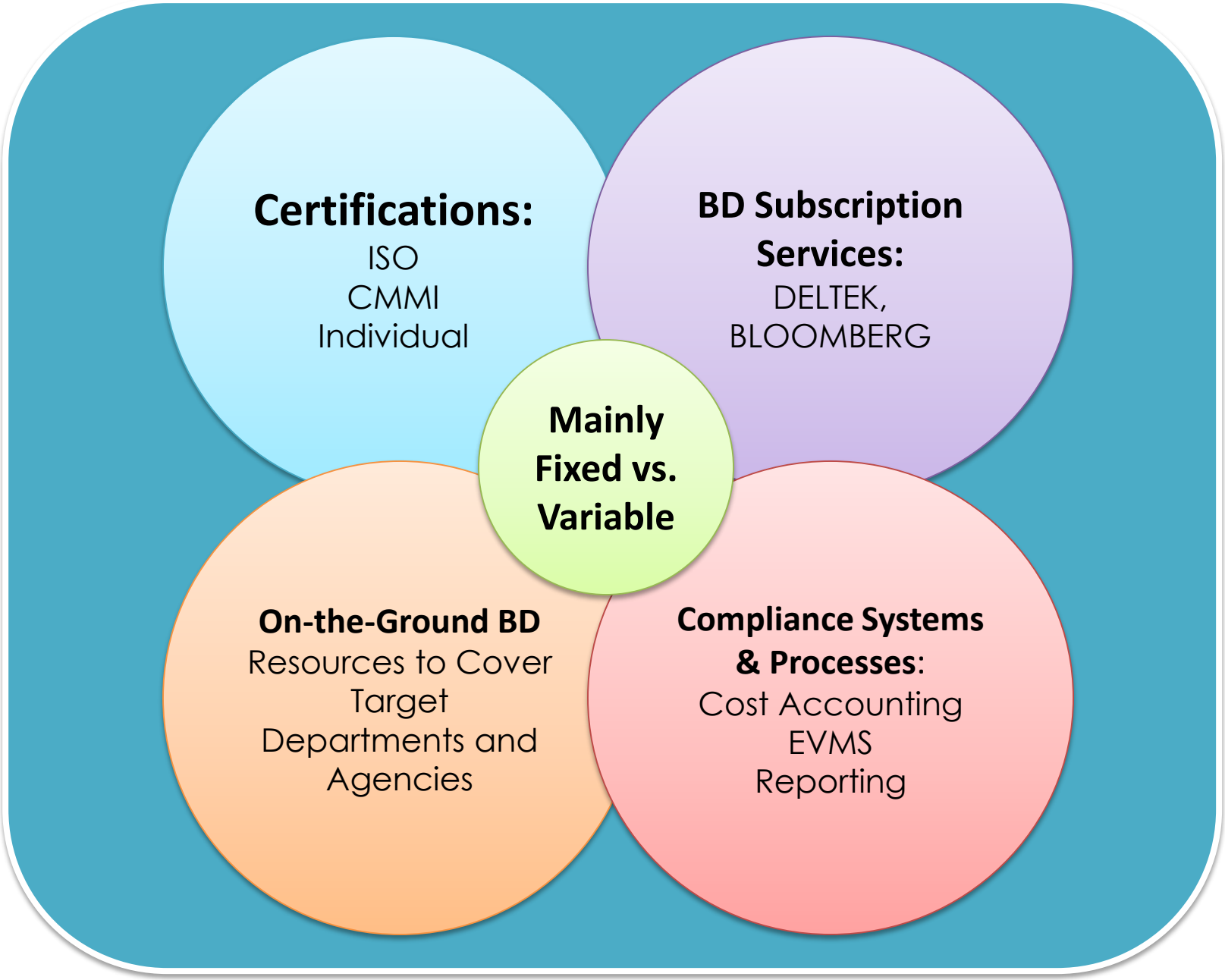


The Reality



Potential Major Benefits to Industry and Government by Better Aligning Costs to Participate with Potential Financial Outcomes

Other Cost Buckets for the Pursuit and the Solution



Optimizing the Acquisition Lifecycle to Create a Win-Win for Government and Industry

- **RID** - Mutual Understanding of Objectives, Cost Drivers, and Macro-issues
- More Alignment of **Costs to Bid to Total Contract Value**
- Balance Long Lifecycles with Types and Size of procurement
  - May be Best Suited for GWACs/IDIQs, Large and Complex programs
  - May be Less Effective for Small to Medium Sized Single Award Situations
- Promote an Acquisition Dynamic which Values **True Solutions Delivery Capability** over the Highest Capture and Proposal Engines
- Explore Alternative Acquisition Approaches - **Oral Rounds, Simulations, and other Interactive Exercises**
- LPTA vs Best Value – Find the Balance to Achieve Success and Cost Savings
- Section M Evaluation Factors Drive Industry Behaviors – Government Defines Factors that Optimize Bid Effectiveness and Program Delivery Outcome

Cost of Solution

What drives the industry's actual proposal price/bid

Drivers of Solution Cost

What Industry Bids

Bottom-up Analysis of Actual Costs to Perform the Work

1. Government Provided Information
2. Industry's Assessed Risks
3. Historical Spending Info
4. Information Discovery
5. Benchmarks
6. Quality Requirements: CMMI, ISO, Other

Outputs of this Exercise

1. Work Breakdown Structure (WBS)
2. Resource Loaded Project Plans
3. Job Descriptions and Salaries/Compensation
4. Direct Cost Estimate

Only the starting point of the costing/pricing exercise

Drivers of Solution Cost

What Drives Cost Build-up

- **Overhead** – No one-size-fits-all approach
- **G&A** - Indirect Support Functions (TCI/13%, VACI/17%, MH&Sub/3%*)
- **Fringe** – Cost of Employing the Labor Force (37%*)
- Uncompensated additions to equipment, infrastructure, etc. (G&A and Overhead)

Industry Labor Multiplier Trend*

Labor Type	2015	2013	2012	2011	2010
On-site Direct	2.3	2.2	2.4	2.3	2.1
Off-site Direct	1.8	1.9	2.0	1.9	1.8

**According to Grant Thornton's 2015 Government Contractor Survey*

Drivers of Solution Cost

Industry Assessment of Risk & Conversion to Cost/Price

- One-off program or TO under GWAC/IDIQ such as EAGLE II
- Customer track record and company behavior regarding change orders and uncompensated work
- Contract Type: Cost Plus, Firm Fixed, Hybrid, Time & Materials
- Relationship/Partnership with customer
- Performance incentives and penalties

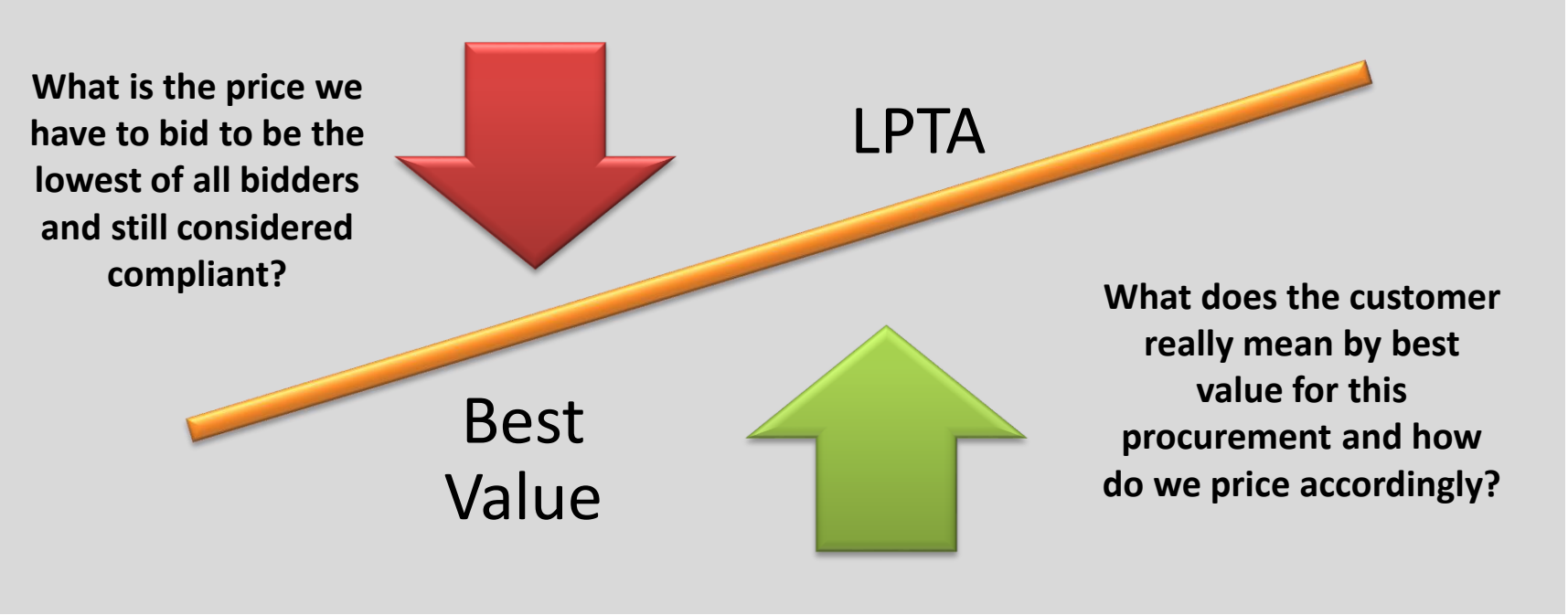
2015 GT Proposal Win Rates*

Respondent Type	Median Win Rate
New	35%
Incumbent	75%

**According to Grant Thornton's 2015 Government Contractor Survey*

Determining the Final Price Offer

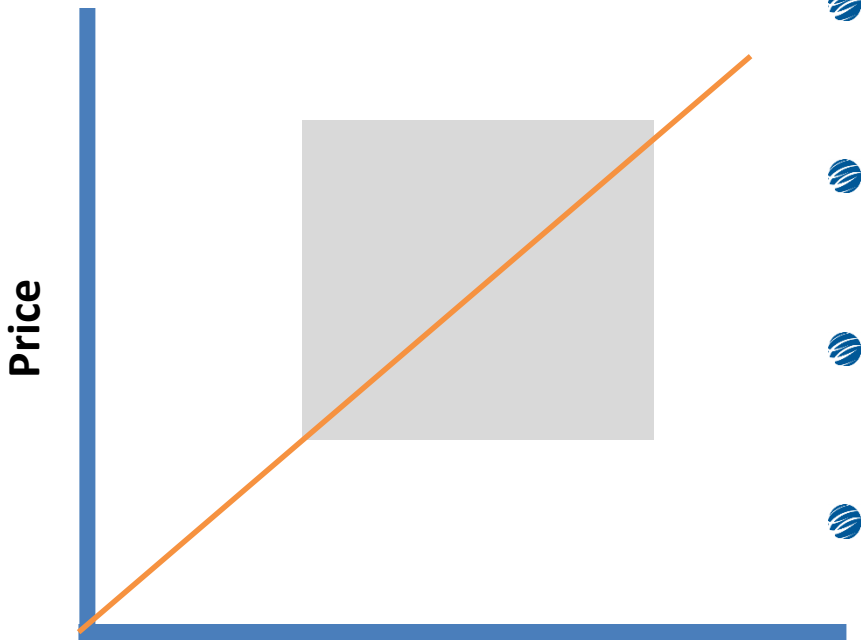
A Fascinating Dilemma for Industry that Distorts Behavior



- **LPTA**: lowest bidder takes all (what is "technically acceptable")
- **Best Value**: triggers **Price to Win** thought process that is misunderstood (it's not the price the customer "really has in mind")

Best Value & Price to Win

Price to Win Thought Process



- Winning combination of capability, solution performance and price?
- To what extent will this customer pay for more capability/performance?
- Where do we position ourselves in the gray box to win?
- Where does the government want to be in the gray box?

Clarity on What Value Means to the Government Drives Bids that Offer Best Value – Capabilities and Performance Attributes

Create a Win-Win for Government and Industry to Reduce Solution/Project Cost

Possible Actions	Win-Win Benefits
Provide Relevant Facts	Promotes Healthy Competition & Discourage Industry from Pricing in Risks
Performance Incentives and Penalties	Drives Quality & Reduces Cost
Establish Performance Baseline, Value Add & "Extras"	Allows for a Good Mechanism of Change Orders & Discourages Contractors from Pricing in Risks
Look for Tangible Value on FFP bids rather than detailed cost build up	Encourages Innovation & Drives Value-Add Services
Make "efficiencies" a required part of the proposal discussion for steady-state delivery programs	Reduces Cost & Improves Productivity
Approach Requirements with a Lean mentality	Ensures contractors are doing value-generating work & Reduces Cost
Take a Zero-based Approach to Re-competes	Removes extraneous & outdated work items, Reduces Cost, Improves Productivity

Open Discussion