

Baker Tilly
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Advisory Services

Top 10 Cost/Price Proposal Missteps

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Faux Pas Preview

- > Cost/Price Proposal as a Sales Document
 - 1. Poor alignment with the technical or management volumes
 - 2. Poor differentiation from competitor's or prior proposals
 - 3. Poor or missing bases of estimate (BOEs)
 - 4. Lack of "proofs"
 - 5. Lack of value proposition
- > Cost/Price Proposal as an Evaluation Document
 - 6. Clerical errors
 - 7. Poor transparency
 - 8. Perceived direct cost rate & factor risk
 - 9. Perceived indirect cost rate risk
 - 10. Poor or missing subcontract cost/price analysis

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Faux Pas #1


Poor alignment with technical and management volumes

- > Cost volume should complete, or help tell, the story presented within the technical and management volumes
- > Further demonstrates understanding of requirements
- > Align with the RFP's WBS and CLIN structure

Ideal Government Reaction:
"This proposal is tight."

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Faux Pas #2

Poor differentiation from competitors or prior proposals

- > Cost volume is often an afterthought relative to the technical and management volumes
- > Often contains reused language from prior proposals
- > Where technical approach leaves little opportunity to differentiate, the cost/price proposal offers lots of opportunity
- > Create an executive summary
- > Use cost/price approach to help sell the technical approach

Ideal Government Reaction:
“This cost volume is unique, clear, addresses what matters to me.”



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Faux Pas #3

Poor bases of estimate

- > If prepared at all, BOEs often focus on the “what” of an estimate
- > Exceptional BOEs will explain –
 - “How” the information is derived,
 - “Where” the information was obtained or derived, and
 - “Why” information was used relative to other alternatives, including rationale for quantities, etc.
- > BOEs must tie to pricing model – be sure to update when pricing changes

Ideal Government Reaction:
“I understand what they did, how they did it, and why.”



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Faux Pas #4


Lack of “proofs”

- > Many cost/price estimates are derived in one way (i.e., bottoms up)
- > Providing alternative means of estimating a requirement helps to –
 - Demonstrate understanding of requirements
 - Validate primary estimating approach
 - Inspire confidence (both internally and with Government)
- > Proofs are also useful when proposing –
 - Cost/value trade offs
 - Cost mitigation strategies
 - A radically different way of performing

Ideal Government Reaction:
“The cost/price of performance feel less risky.”

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Faux Pas #5

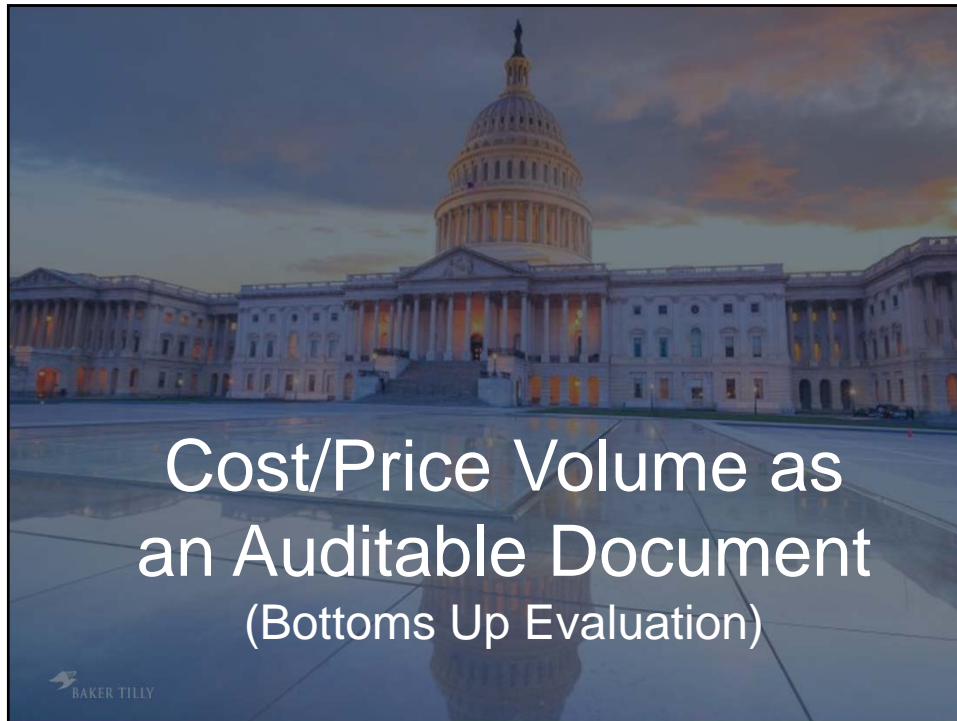
Lack of value proposition

- > Cost/price volumes generally present just that: elements of the offered cost and/or price.
- > Alignment to the technical volume, a fresh presentation approach, clear BOEs, and confidence inspiring proofs leaves one thing missing: Value
- > Value = buyer’s perceived benefit vs. seller’s proposed price
- > For the Government, this often means:
 - More for less, and
 - Reduced risk (i.e., performance, cost, and administrative)

Ideal Government Reaction:
“I want to buy from this contractor.”


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Cost/Price Volume as an Auditable Document (Bottoms Up Evaluation)

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Faux Pas #6


Clerical errors

- > Clerical errors in the cost/price volume reduce the Government's confidence and increase financial risks
- > Clerical errors commonly arise as:
 - Stale/old data wasn't updated consistently throughout cost/price volume (unless intentional with explanation)
 - Bad formulas and links
 - Hard-coded numbers within formulas (or instead of formulas)
 - Missing data
- > Use proofs, reconciliations, and revision roll-forwards as a control

Ideal Government Reaction:
"This cost estimate is current, accurate, and complete."

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Faux Pas #7

Poor transparency

- > Poor transparency frustrates cost/price analysts and makes auditors nervous, which increase the time and depth of review
- > Transparency issues commonly arise as:
 - Hidden spreadsheet cells, worksheets, or unknown source data
 - Links to data and documents not provided to the Government
 - Compound calculations and overly complex formulas
 - Busy schedules without notes and/or unexplained adjustments
 - Poor alignment of pricing model to BOEs
- > Proposal QC reviews should include “audit readiness”

Ideal Government Reaction:
“I understand how the pricing works and where the data comes from.”



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Faux Pas #8

Perceived direct cost rate and factor risk

- > Direct cost rates and factors are used extensively within cost estimates, but often not well explained unless part of FPRP
- > Government concerned about veiled contingencies/margins, especially in non-competitive FFP cost/price proposals
- > Factors of particular interest to the Government include:
 - Direct labor bid rates (i.e., labor categories and pay scales)
 - Material yield factors
 - Scrap and rework factors
 - Escalation rates
- > BOE for these items should address fairness and balance risk

Ideal Government Reaction:
“The contractor’s estimating techniques are reasonable.”



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Faux Pas #9

Poor support for indirect cost rates

- > Indirect cost rates that differ from industry norms, from a contractor's established structure, or from existing agreed-upon rates require considerable explanation
- > Government is often skeptical of unfamiliar cost structures
- > Examples include:
 - Rates bid lower than established forward pricing or provisional rates
 - Rates other than MH or G&A applicable to subcontractors
 - Direct vs. indirect functions that differ from competitors

Ideal Government Reaction:
"The contractor's indirect rates are reasonable."



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Faux Pas #10

Poor or missing subcontract price/cost analysis

- > The DoD's current hot button, even when subcontractors are the prime's teammates in a competitive award
- > Primes often do not have time to perform traditional cost/price analysis during cost proposal preparation
- > Key points to address in cost/price volume:
 - Work performed to determine, and basis for concluding, that subcontract costs/prices are reasonable
 - Proposal documentation and/or cost or pricing data for subcontractors is the same as or similar to prime's data
 - Explanations for apparent dissimilarities between subcontractor's and prime's costs/prices

Ideal Government Reaction:
"The proposed subcontract costs are supported and reasonable."



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