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# CEO Forum

## *Characteristics Defining Success*

Every day in our business we have the opportunity to make a profound difference in the success or failure of our companies. Few in business carry the responsibilities we carry. Those of us involved in new business acquisition know what happens when we lose new bids, when we lose recompetes, and when bookings just don't happen as planned. The effect cannot simply be measured in dollars lost, earnings lost, and declines in earnings per share (EPS). The effects must be measured in human terms as well — jobs lost, paychecks lost, college tuition sacrificed, increased stress, and families undone because of that economic stress. The many often depend upon the few for continued success.



Some of you might wonder why I bring this up. Some of you know why I bring this up. Some of you might wonder why I bring this up in our Journal, a haven for scholarly, detached, and professional analysis of how we can achieve new business acquisition success in our companies. Some of you know why I have chosen to broach these issues in the Journal.

Over the past 24 years I have made some rather unscholarly and undetached observations about who succeeds in new business acquisition, who doesn't, and why. I have never catalogued these observations in an article, nor have I calibrated them against an objective set of data that proves their validity — I just know what I have seen.

Those who have been most successful in new business acquisition have the following characteristics:

- The ability to stand outside of themselves.
- An intuitive understanding of the larger community and their responsibilities to that community.
- An ability to put collective success ahead of personal ambition.
- The ability to visualize the effects of failure on individuals and families who are dependent upon them to succeed.
- The ability to translate their understanding of the effects of failure into energy, creativity, and a will to succeed that makes them almost unstoppable.
- A sense of honor that goes far beyond mere winning, coupled with a sense of duty to the organization and their colleagues that propels them even when they are exhausted.
- A courage that enables them to speak the truth when others are content with falsehoods or easy answers that avoid conflict.
- An ability to synthesize the seemingly disparate elements of customer needs, technical solutions, economic needs, and personal relationships with the real people who make up the better part of their companies.
- The ability to make people do what they need to do and not what they want to do, not through threat and intimidation, but by appealing to the desire we all share to contribute to a greater good.

In addition, the successful new business acquisition professional will challenge authority to increase the probability of a win, and will stand fearless before any corporate executive to ensure victory. They also become leaders through acclamation, not through selection and ascension.

When you read your Journal, think about the non-empirical aspects of success in new business acquisition that cannot be measured, but that are as real as any process or metrics we use to declare or to determine success. Look away from yourself for a minute and see how well you connect to the larger community of your company and the people who depend on you.

Proposal Management addresses

# Dollars and Sense



Cover art by  
Doron Krinetz

spring2001



CEO Forum

BY ERIC GREGORY

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Derived from a decade of DSDJ experience

BY DUANE TURNBULL

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Reviews all steps, from make-or-buy decisions  
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## Editorial Statement and Guidelines for Authors



# Welcome

From the Editor



## Timeless Inspiration

Ben Franklin and his sage advice have transcended more than two centuries of history. Many of the things he wrote in the 1700s are as practical and valid today as when they were written:

- One should avoid being penny wise and pound foolish.
- The rotten apple spoils its companions.
- There was never a good knife made of bad steel.

His observations and rules for living are metaphor rich and continue to teach. Wouldn't he enjoy observing—perhaps even working in—the perverse world of proposals? He would love the fact that low price can lose. That chaos is managed. And that 100 dollar bills (our currency for proposing) carry the image of a printer—him!

In that spirit, we honor our statesman on this edition's cover, as the true embodiment of “dollars and sense.” We know he would love this compendium of sensible advice and articles, insights, profiles and wit.

## Sensible Steps

Sensible steps for price and cost proposal development are revealed in several articles. Shipley Associates' Larry Newman treats us to a pre-publication glimpse at the chapters in Shipley's new *Proposal Guide* that deal with price. Darrell Oyer adapts an article from his comprehensive book, *Pricing and Cost Accounting: A Handbook for Government Contractors*. Washington, DC-based lawyer David Dempsey contributes an article on A-76 procurement developments. DSDJ's Duane Turnbull offers tips for cutting proposal costs. Allen Snodgrass tells us how to manage programs that specify CAIV—cost as an independent variable. And Michael Mickaliger updates readers on how to do well with best-value solicitations.



To this, add: Roger Dean's wonderfully provocative column, Dollars and (Non)Sense; a youthful personality profile of two good-natured proposal veterans, Lou Robinson and Gene Dawson; Jayme Sokolow's revelations and lessons for business from the world of nonprofits; the book reviews; a proposal automation products survey; and Jen Mar's witty spin on the vast number of proposal phobias affecting our populace.

What you now hold is a best value journal. A “great pennyworth,” taking Franklin out of context. A promise kept. A road map to building better proposals. A witty introspection. And my enduring gratitude to a great *Proposal Management* staff. Once again, they have produced an engaging masterpiece.

Please enjoy. Please contribute to new editions. Please help us to grow and improve every time.

Onward and upward!

A stylized, handwritten signature in black ink that reads "Dennis".

R. Dennis Green

# Dollars and (Non)Sense

*Many cost proposals suffer because proposal teams and management do not know whether their numbers are right or wrong. Just as often, they lose on price or cost credibility. Roger Dean explains how cost proposals can show dollars and sense, instead of dollars and nonsense.*



By **ROGER DEAN**

Back in the '60s, comedian Bill Cosby had a cute routine about learning to count. As I remember, the story was about him coming home from second grade and proudly proclaiming that, "One and one is two." All day long he recited this mantra, alternating it with ongoing commentary about how cool it was that he knew that one and one is two. Finally, at the end of the day, he asked his mother, "Mom... What's a 'two'?"

I think of this story on almost every proposal, especially for the cost proposal. Why? Because most proposal teams—and most company management (including financial types)—really do not know their proposal "two's." Oh sure, they can usually tell you exactly how they got to their price but, when pressed by someone not afraid to ask the "dumb" question, often they really have no solid foundation for understanding whether their numbers are right or wrong. Just that "one and one is two." And just as often, they lose on price or cost credibility.

It does not have to be that way. Cost proposals for government projects should be dollars and sense, not dollars and nonsense.

## It Is A Common Failing... You Are Not Alone

There are lots of things that even neophyte cost proposal people know to worry about. Things like following RFP instructions for required data and formats, deciding whether to estimate from the top down or from the bottom up, making sure that estimates are submitted in time for management review, filling out required forms for the proposal volume, making sure that estimators' arithmetic is correct, and making sure that there is nothing left out and no "double dipping." But when it comes to understanding whether the basic estimates themselves—especially the source data for the arithmetic—are correct, even many experienced proposal people are at a total loss. What passes for a Basis of Estimate (BOE) at many companies—and, yes, even many of the large defense contractors—is a detailed presentation of arithmetic with maybe some cryptic hints at where the numbers came from. Here are two examples taken (and sanitized) from real BOEs written by very good engineers at two prominent contractors. To a good auditor, these can equate to "dollars and nonsense":

- "7,969.5 hours for engineering analysis ... based on similar experience on other programs." This statement was followed by a 3-page list of tasks that amounted to a detailed statement of work.
- "228 hours for engineering management activities associated with the methods for conducting and controlling the software engineering and development and integration of the system software elements." This statement was followed by a detailed and credible substantiation that contrasted dramatically with almost all other estimates that had little or no supporting information.

In the first example, the estimate of 7,969.5 hours was "based on similar experience," but the explanation failed to substantiate the large number of hours. There were no details such as who would do the tasks, why particular skills were necessary, what the skill mix would be and why, when the tasks would be done and why, and, most importantly, what the data from these other, unnamed programs were, and how and why those data were adjusted for the present program. Regardless of program size, 8000 hours "estimated" to an accuracy of five significant digits demands more substantiation!



In contrast, the second example's BOE did an outstanding job of explaining the tasks, who would perform them and why, when the tasks would be done, how the total lines of code broke down, how the labor hours were derived for this type of code from an industry-accepted computer model, and how these hours correlated to another estimating approach. The only problem with this estimate is that it stood out from almost all the other BOEs; it was one of only a very few done properly. Other BOEs on the same program for 10 to 50 times the hours had essentially no substantiation! So the nonsense in this cost proposal was not this particular BOE but, rather, the rest of the cost proposal! This particular BOE simply highlighted the nonsense of the rest.

When I challenge most cost proposal managers about whether their source data are correct, the best response I can usually hope for is something like, "Well... the engineer who wrote the technical section did the estimate." That is great—essential, in fact—but it does not answer the fundamental question of whether or not the data that went into the arithmetic are anything more than just a guess by the person unlucky enough to be stuck on the proposal team. These estimators are like the Bible's "foolish man who built his house upon the sand; and the rain fell, and the floods came, and the wind blew against that house, and it fell; and great was the fall of it." (*Matthew 7:26, Revised Standard Version*). In almost any competition, you can bet that a cost proposal built on poor data will fall when subjected to the "rain and floods and wind" of a thorough analysis by skilled auditors.

## Three Parts To Solving The BOE Challenge

So how do you keep from building your cost proposal on a foundation of sand? The concept is easy, but implementing it requires three separate things: a *belief* that it is necessary, an *understanding* of what is required, and a *willingness* to actually dig out and understand the right foundation data.

**Belief** in the importance of getting better cost foundation data should be obvious, but often it is not. Too many times companies rationalize a loss based on price as just that: we were too high; we asked for too much money. Seldom do losing companies take the time or trouble to understand what "lost on price" can really mean.

"But," you might say, "what could be clearer than 'lost on price'?" In today's best value acquisitions—where price is not *supposed* to be the overriding factor—a loss based on price can mean, "While we liked what you offered, we could not understand or justify why it should cost what you say it does."

Again, you might argue that, "Isn't that what the technical proposal is supposed to do, provide information about the task to help explain the price?" In part, yes. But today's page-limited proposals simply do not give proposal writers adequate real estate to fully explain their technical approaches, never mind justify their costs... if they are even aware that such justification is necessary. So it falls to the

*more...*

BOE, usually part of the not-page-limited cost proposal. First-hand experience with the reaction of some Air Force evaluators to thorough and comprehensive BOEs—they cite them as good examples even several years after the acquisition—provide adequate evidence that good BOEs can go a long way to substantiating a higher price for a contract as the right price in a best value environment.

**Understanding** of what makes up a good, unassailable BOE is a bit more complicated. Your obligations in creating a good BOE are fairly straightforward: 1) Choose the right estimating tech-



nique based on program requirements, your company history on other programs, and the skill and experience of your proposal team. 2) Explain to your reviewers what you really did to get to the estimate. 3) Anticipate what questions you might have in their place and answer them before your reviewers have a chance to ask them. Yes, there are other things you have to do, but these three obligations set the foundation for preparing a good BOE.

## Basic Estimating Techniques

Grossly simplified, there are five basic estimating approaches that sit on either side of the cost estimating see-saw. On the “credibility” side are history (it happened like this before and it seemed reasonable), standards (“industry” says it should be done like this), and parametrics, (the computer says so). But even these present obligations to the cost estimator who chooses to use them. On the “not so credible” side of the see-saw are engineering judgment (I made it up) and its cousin, expert judgment (Joe made it up).

## Standards and Parametrics

With standards and parametrics, the estimator’s obligation is simple: cite the source and make sure it is a reliable source! Standards (and their partner, factors) usually apply to manufacturing proposals where the same tasks are done over and over. Standards and factors can come from your own company or from industry in general; they are the statistical result of lots of history. You have probably seen a sign describing “standard labor charges” at your local car dealer or garage; these are standards. With parametrics, the estimator’s obligation is equally straightforward: identify the computer program. If it is a commonly accepted program (such as the GE PRICE Model), you need say no more... about the model, that is. You still must identify where the data you put into the model comes from and why it is the right input data. But if you are using a home-grown computer model, in addition to identifying and explaining the source of the input data, you also need to explain the model itself and explain how you know it produces accurate and reliable results. You might have to go into such details as: Who wrote the program? What was the basis of the model? Whose judgment went into the model? What was the basis of the judgment? But you will only need to explain all this once in your cost proposal and then press on.

## History

History is equally straightforward: Your only obligation is to explain why the cited program—or tasks from a program or programs—is relevant and, in fact, identical to what you are proposing now. Then you just lift the numbers from that program into the current estimate and you are home free.

For new programs, it is usually difficult to find exactly parallel experience to use for cost estimating. But history has a close cousin, similar-to, that is—or should be—a much more common estimating foundation. As the saying goes, “there is nothing new under the sun.” There will be few tasks you are likely to have to do for some new program that your company has not done before, in some generally similar way. But with similar-to estimating, the job is more complicated than with straight history: Not only must you justify why the cited programs or tasks are relevant, you must also explain why and how the base data were adjusted to make them applicable to the job being proposed. You have to cite accurate and relevant data from past programs (e.g., so many drawings and so many hours per drawing), compare circumstances between the programs (same group doing the drawings), explain how you adjusted these numbers (10% more drawings and 25% more hours per drawing), and explain why these are the right adjustments (estimator now was data manager on reference program, average drawing includes 25% more parts than previous job).

It is in the explanation of adjustments that most BOEs fall short, but the better the explanation, the more likely it is that your numbers will be believed. (By the way, similar-to estimating can apply to esoteric work like basic research. The connections are a just bit harder to make and demand more explanation.)

## Estimating—Expert Judgment and Engineering Judgment

The real problem with similar-to estimating is that, even though all sorts of relevant source data usually exist, it can be time consuming to dig out that data. So estimators all too often fall back on the least credible of estimating techniques, expert judgment and engineering judgment. They start from scratch as if the current job

were the first time anyone anywhere had ever done the job.

Of these two, expert judgment is stronger, providing you choose the right expert. Since expert judgment is essentially saying that "Joe made it up," unless Joe is a nationally-recognized expert whose pronouncements are generally acknowledged as accurate, you may have to explain who Joe is and why anyone should believe him. And when there is no Joe of suitable stature, estimators will then resort to their own opinions for estimates. Without adequate explanation, engineering judgment is essentially the same as saying "trust me."

What is wrong with unsubstantiated engineering judgment? It is totally indefensible in the face of the "rain and floods and wind" of a thorough analysis by skilled auditors. Good auditors will either 1) have access to real data, or 2) their guess will be different from yours and they will apply the golden rule (they have the gold, they make the rules). More than once, when I was a young Air Force officer, I out-negotiated (read, "bluffed") engineers from one of the nation's largest defense contractors simply by sticking to a lower guess than they had. So how do you overcome this shortcoming? By taking the time and effort to do a good similar-to estimate.



## Good BOEs Do Not Have To Be A Major Headache

The third essential factor in creating a good basis of estimate is the willingness to do the research and explain what you did. This is true no matter which of the estimating techniques you employ; some just demand more effort than others.

The research part of this is the toughest because it is not just the willingness of individual estimators to do research. Often the relevant data must be extracted from other people on other programs. Good cost estimates with good supporting rationale demand company-wide commitment, which starts with acknowledgement of the two earlier elements of solving the BOE challenge. Company management—at all levels—must believe that good estimates backed by sound rationale can help them win, and they must understand what "good rationale" is.

But what if you—the individual estimator—are faced with overwhelming company inertia with respect to inter-program cooperation? All is not lost; there is still much you can do to make your estimates credible. You can do a good job of explaining how you really got your numbers...what you really did. I have challenged many engineers who, at first, cite engineering judgment as their estimating basis. When pressed, almost all of them could provide much more—and much better—explanation of how they

got to their numbers than they did. Most of the time, it was just that no one had ever asked them to go into that detail and, therefore, did not know why it might be important. It is. In fact, it is essential!

## *The bigger the number, the more explanation it should have.*

"But," engineers often ask, "how do I know how much of what you ask for is appropriate? I do not have the time or budget to write tons of stuff for every estimate." This has a really simple answer that relates directly to human nature: the bigger the number (when compared to the total program cost) the more explanation it should have.

Evaluators usually start with the big numbers and work downward toward the smaller ones. A corollary is that simple tasks that have little explanation should be cheap while tasks with lots of explanation are probably complex and probably ought to represent a larger percentage of the total estimate. In other words, balance the amount of explanation with the relative size of the estimate. How do you know if you've done a good job? Ask yourself if another intelligent, technically-oriented outsider could duplicate and explain your estimate from your BOE. Do all the really important parts—and especially any large estimates—stand alone without additional explanation? Would he or she have any big questions about what you did that might prevent them from saying to their boss, "This is the right estimate." If so, stop; go back and add more explanation.

There is more that goes into transforming the dollars and nonsense of most cost proposals into the dollars and sense of a winning bid. But these are the basics that should be embraced by every estimator on every proposal. Will these suggestions guarantee winning? No, but they will help you win those you should. And they may even help you win those you might not otherwise have won, especially when your competitors' cost estimates do not measure up to yours. "Winning," as a friend of mine likes to say, "is the business of impression management." And nothing makes a good impression quite like good dollars and good sense.

Roger Dean is Managing Partner of Engineered Proposals, a proposal and program management services company established in 1987. Roger and his associates help defense, industrial, and commercial organizations pursue business opportunities. Roger can be reached at [RogerDean@aol.com](mailto:RogerDean@aol.com) or through the EP Web site, [www.proposalhelp.com](http://www.proposalhelp.com).



# PERPETUAL YOUTH

## The story of Lou and Gene

*Proposal Management* visits W. Louis Robinson and Albert Eugene Dawson, founders of Winning Proposals, Inc., and discovers a million-dollar proposal business for which personal relationships and the joys of working are integral to the company's bottom line.



Lou Robinson and Gene Dawson liken their partnership to this picture of two old goats.

**By R. DENNIS GREEN**

Lou Robinson and Gene Dawson do not know that proposals are supposed to be stressful. In fact, there is a lot of such folklore they simply choose to ignore. They don't know that living gets harder with age. They don't understand the concept of retirement. They don't know that owners are allowed to be heartless. The things they don't know give them oodles of charm.

What they do know and seem to have in abundance is emotional intelligence, a need to be helpful, and a love for their business, Winning Proposals, Inc. They started this proposal consulting practice in 1989 at a time in life when both would soon be entitled to retirement and a comfortable rocking chair. Why they chose a business famous for long hours, challenging schedules, stressful demands and burnout is a conundrum. They worked for two years without taking salary. They struggled to build a clientele, turning first to small businesses. They began with the laud-

able but naive notion that they could succeed by being the low cost proposal services provider. They personally found themselves working all nighters. Still, they carried on.

"Without company credentials at that point, and without [corporate] experience, we found ourselves desperate to get work," said Robinson. "We went primarily to small companies—a lot of small companies and 8(a) companies where we could most easily market. That had its rewards in that the companies always needed help. Often, they had never seen proposals and weren't sure of the methodology."

What was the down side? Small companies write fewer proposals than larger companies, so Winning Proposals, Inc., had to work harder to build a business base. Occasionally, clients would confound the consultants. "They didn't listen very well all the time," said Robinson, remembering a frustrating moment. "You'd tell them exactly what to do; they'd say, well we know how to do that. And you'd say, well you're doing it all wrong."

*When we first started, our goal was to get out the least expensive person we could possibly get out, thinking that was the thing that would get us business. As time has gone by, we have discovered that that's a mistake.*

Thinking back, Robinson and Dawson both laugh heartily. "Their pockets weren't very deep," said Robinson. "So either they were watching you every minute, or they didn't care and didn't pay you when it was all over. One of the two."

Fast forward to present day. Most of the firm's proposal work is performed by a large and seasoned cadre of on-call consultants. The firm grosses close to one million dollars annually, keeping 5 to 15 consultants busy at any given time. Most clients now are Fortune 500 firms, including repeat customers such as Verizon (formerly Bell Atlantic), General Motors, PriceWaterhouseCoopers, and Getronics (formerly Wang). They market primarily in the Washington, DC, metropolitan area, working from their office in Falls Church, Virginia. They only work outside this area when a client has other offices to serve and makes a special request.

What keeps Robinson and Dawson working – even after their pensions have kicked in – is the joy they take in helping other people. Especially when that helping leads their customer to a win. But several things make the success of their small business all the more remarkable. One is the fact that they remain both business partners and friends. The annals of business are littered with warnings that friendship and business often don't mix.

It is also remarkable for the youthful vitality and self-effacing humor they bring to the workplace. When asked, for example, what might symbolize their enduring and friendly partnership, Dawson looked up at a wildlife print in their office and quipped, "We're like two old goats."

Their equanimity extends to a give-and-take leadership style. With a friendship going on 25 years, they've each come to know and trust the other well. In conversation, it is not uncommon for one to finish the other one's sentences. Some of their management responsibilities are divided; others overlap. If one is absent, the other can speak for him.

How did Dawson come to be President? "We sort of flipped for it," Robinson said. "And he lost!"

To which both of them laugh.

## Proposals The Hard Way—Learned By Doing

Before starting a business together, both men learned about proposals in the trenches. "Back in the beginning, no matter who I worked for, I wound up writing company proposals," Dawson said. "I would write the proposal, I'd win the contract, and then I'd be the project manager. For maybe up to six months. Then BOOM — I'd be pulled back to write another proposal. I finally figured I might as well make a living at this rather than being yanked in."

For Robinson, the engineer, there were parallels in experience. "Usually," he said, "on my engineering jobs – always with small companies, I was usually writing my own follow-on proposal. I knew if I wanted a job after my current project, I'd better have a good proposal on the street."

Robinson and Dawson first crossed paths at Inco, an engineering firm, in the mid-1970s. Together, they supported a Defense Intelligence Agency contract for training DIA analysts. Dawson wrote the wargaming scenarios. Robinson designed and assembled hardware and software on which those scenarios would run. By 1980, they would go separate ways, but a friendship was born, and they stayed in touch.

## Relationship Building That Never Stops

For these men, 'staying in touch' is not a worn out cliché. It is an obsession. It extends well beyond the confines of the office. And its dogged pursuit may be the secret heart of the purpose and meaning that drives and enriches them both.

Both, for example, are avid members and supporters of APMP and its National Capital Area chapter. Collectively, their record of attendance at chapter meetings is close to 100 percent. This year, Robinson begins a term serving as chapter President.

Both men have also taken active leadership roles in ancillary groups. For Dawson, it's a reunion group of Air Force personnel from the 307th Bomb Group, veterans who flew B-29s from Kadena Air Base in Okinawa during the Korean War. Dawson was a navigator. He not only founded the group that now numbers more than 600 people, he also writes and publishes a newsletter for the group.

For Robinson, it's his work with a group called the Cow Pasture River Preservation Association whose intent is to preserve that river's pristine condition for years to come. The river ("otherwise known as the Wrong Way River," according to Dawson) is, according to Robinson, probably the cleanest river in Virginia at the present time. Robinson publishes an association newsletter whose mission is to unify and promote the group's goals.

Robinson is also famous throughout his office building for organizing football and sports pool competitions. He also organized and manages a racquetball league that has met and played continually for almost 20 years.

## Secrets Of The Business—Winning Habits

When APMP colleague Rich Freeman recommended these men for our journal profile, he said, "Both those gentlemen are, first and foremost, gentlemen." Another APMP colleague, Kate Rosengreen, said they're very ethical, focused on quality, and display an old-fashioned spirit of genuine regard. "There's no dark side to those guys," she said.

From our observation, we witnessed these winning habits.

## Joy In Their Work

Robinson and Dawson have always had a strong work ethic, but the stimulation and joy of working survived long after basic monetary needs were met. When they started the company, they did not take salaries, deferring that luxury until the company grew.

*more...*

They thrive on relationships, helping people, solving problems, and making a difference in people's lives. "We're helping people all the time," said Dawson. "I wonder what the hell I would do if I retired."

### Specialization

Asked to describe what distinguishes their firm, Robinson said, "We're purely proposals. Most of our competitors do proposals plus a number of other things. Our focus is in one spot: the quality of the proposal." Unfortunately, he notes this good news can also be bad news in a business whose fortunes can be very up or down. "When it's big, you have to save so that you can fill in the [revenue] gaps in between."

### Augmentation

Winning Proposals has chameleon tendencies, adapting to each client's development procedures, methodology, and tools.

"We've always been an augmenter to other people's proposal groups" said Robinson. "As a result, we're usually strapped to whatever procedures and methodology are being used by the company."

Their years in the business have familiarized them with both traditional and situation-specific approaches. "We try," Robinson said, "to be inventive and offer suggestions." Dawson offered another perspective: "We don't commercialize on procedure," he said. "We commercialize on the results of procedure rather than procedure itself."

### Quality Emphasis

Every firm that wants to succeed must emphasize quality in the products or services that it provides. Winning Proposals is no different. But as it relates to company goals, its founders can indulge themselves in ways that would handicap a younger competitor.

"Initially, we were entrepreneurs," said Robinson, referring to the company's early and broad ambitions. "As time has gone by, we've probably mellowed. But one thing we've always focused on is quality. And if it becomes a choice of making more money or doing quality, I tend to go more towards the quality side." "I'm old enough," he adds, "where I've built the savings and so forth that this isn't an essential part. I don't have to have this [business] to make things meet, but I want it to work really well. So I can do it as a quality tool rather than a profit making tool, though, hopefully, the two go together."

### Ultimate Fairness

When asked to bracket its consulting rates as high, medium or low, Robinson pegged their firm in the middle, noting that this reflects a change since they've grown.

"When we first started," he said, "our goal was to get out the least expensive person we could possibly get out, thinking

# W. Louis Robinson ... at a glance

**Title:** Partner, CEO and Operations Vice President

**Age:** 65

**Family:** Wife, son and daughter

**Resume:** Winning Proposals, Inc.

Lektron, Inc.

INCO, Inc.

Systems Technology

Association

Leasco Response

Systems Engineering Labs

**Education:** BSEE, Virginia Polytechnic Institute

**Hobbies:** Daily racquetball; Travel (including motor home);

Newsletter (River Preservation Association)

**Favorite Quote:** "The buck stops here." (Truman) "I hate to pass things through."



that was the thing that would get us business. As time has gone by, we have discovered that that's a mistake. Now we go for the quality person. It's not always the most expensive person, but you want the person that best fits that situation; that's the person you put [on the job]. As a result of that, our rates are not on the bottom."

Their markups, however, appear to be modest. In an industry where a consultant's hourly markups can range from 40 to 100 percent, Winning Proposals favors the lower end of the range.

Dawson is pleased to make this observation: "We don't have anybody call us and really bitch and complain. Very rarely. That's very, very rare when we get either a consultant or a client that complains."

"One of our goals," Robinson adds, "is to be ultimately fair to both the client and the consultant. I try to make it so—if we do business—it's good for everybody. Try not to gouge anybody. So therefore, we don't get many complaints, because we try to make a good deal going in."

### Punctual Payrolls

In the proposal services industry, on-call consultants working for brokers are typically paid in one of two ways. Either the broker withholds payment until after being paid by his or her customer or, alternatively, the broker pays on a fixed schedule following receipt of a consultant invoice. The latter is less common, however, because it can require the broker to float a loan.

Winning Proposals pays its consultants on the 15th and final day of each month, always based on the invoices that it receives on the previous payment day.

"We want our consultants to be happy," said Robinson. "I'm really dependent on the consultants solely for the quality of the company. There's not that much we can do to make them happy. But one of the things I can do is pay them on time."

# albert "gene" dawson



**Title:** Partner, President  
**Age:** Impervious  
**Family:** "Two wives," one daughter,  
four sons  
**Resume:** Winning Proposals, Inc.  
Advanced Technology  
Systems  
INCO, Inc.  
NCPAS, Inc.  
SRI International  
307th Bomb Group

**Education:** MSA, George Washington University

**Hobbies:** Gym/regular exercise; Travel (last year, Italy); Newsletter  
(307th Bomb Group)

**Favorite Quote:** "You can never leave home."  
(referring to 3 sons)

better if you exercise regularly," said Dawson. "You've got to keep the blood flowing," adds Robinson. "The brain is going to go dead if you don't."

## Complementary Schedules

One obvious advantage of partners sharing management responsibilities is that one partner covers when the other is out. This feature and the freedom it affords may be a notable contributor to this small business's success. Dawson opens the office each morning, covering for Robinson, who arrives about 10. Robinson then works till 6 or 7, allowing Dawson to leave in the afternoon.

The partnership facilitates vacation absences, attendance at conferences, and client site visits. For Dawson, it's afforded recent trips to Italy, Cambodia and Thailand. Robinson likes taking 3-day trips to a home in southwestern Virginia or longer escapes in his motor home.

## Loyalty to Colleagues and Friends

Both Dawson and Robinson show an unfaltering allegiance to colleagues and friends. The friends and colleagues seem to reciprocate. How else to explain Robinson's 20 years with the same Racquetball partners. Or Dawson's allegiance and dogged initiatives that help hold together the 307th Bomb Group/Wing.

## Rules For Successful Partnering

The pleasure that Robinson and Dawson take in their work is infectious. It's easy to see why they draw repeat business and engender the loyalty of so many on-call consultants in their staff. Based on this interview and discussions with other colleagues, we gleaned these secrets to why their partnership works.

### Mutual Respect

"Being friends is being part of the company," Robinson told me. "But we don't always agree. There are things that Gene does now that I don't agree with. And things I do with which he doesn't agree." When those things arise, they take a seat at their conference table, passing the issues back and forth until they find closure and common ground. "There's seldom anger," Robinson continues. "Occasionally, one or the other is slightly disgruntled, but nothing major. We have learned to pass things back and forth, to handle the issues, and still remain friends."

### Health and Fitness

Both men have daily routines leaving time for regular exercise. For Robinson, it's racquetball every morning. For Dawson, it's a workout in the gym on alternate afternoons. "It makes you feel

## Division of Labor

Another key to their working partnership is the complementary but non-redundant roles each person fulfills. At Winning Proposals, Robinson handles the corporate financial matters and administration. He also interviews new consultants and personnel. Dawson maintains and manages corporate databases, including resumes and consultant profiles. He also carries a larger share of the marketing.

"We have our own functions," Dawson said, "so we don't conflict at all."

## Frequent Laughs

The company of Dawson and Robinson is ripe with good-natured ribbing and humorous hype. It's never mean spirited and – in its way – the positive banter is a type of respect.

Winning Proposals, Inc., is a medium-size player on the services side of proposal management. It and the people who make it work are a complement to our profession at large. Although its founders may strike you as eccentric or too good natured—although their logo has a home-made quality, wholly understated for a sales support enterprise—these men have a sage perspective on balancing work and play in life.

"We have a good time in the business," said Robinson. "This is a pleasant place to be. But in addition, we do find time to make sure our lives get carried out... You've got to make sure you get everything in."

R. Dennis Green is a management consultant, writer and proposal practitioner with 20 years experience. He is Managing Editor of *Proposal Management* and was founder and first president of APMP's National Capital Area chapter. Email: RDenGreen@aol.com.

# Developing and Presenting Cost and Price Data

In this pre-publication exclusive, *Proposal Management* readers can preview two chapters from Shipley Associates' new *Proposal Guide*. To put the excerpt in proper context, we asked Shipley partner and vice president Larry Newman to summarize the new publication and the genesis for recommendations it makes.

## Introduction

By **LARRY NEWMAN**

Why are some organizations up to 10-times more effective at winning new, competitive business than others? The APMP benchmarking studies and other best practice reviews suggest process differences are a major factor.

The most effective organizations in any market follow framework processes based upon fundamental principles understood by their employees. Less effective organizations may follow defined processes, but employees have lost sight of the principles. Their inflexible processes cope poorly with market shifts. The least effective organizations lack both consistent processes and employees awareness of the principles.

To improve business capture effectiveness and stay employed, business development managers have analyzed and defined their processes, trained employees, hired consultants, and hired competitors' employees.

Numerous excellent books have been written about sales, business development, and proposals. Most follow a process approach, from beginning to end. But individuals facing delivery deadlines, tough competition, and demanding managers want guidance fast. Even Shipley's own workshop training manuals, while designed to serve as references after the training, have not always served as a quick and easy reference.

In this context, the *Proposal Guide* has three aims:

- Offer easy to find, practical, and clear guidance to business development professionals
- Record best-practice guidelines
- Help individuals and organizations win competitive business more effectively, efficiently, and consistently

The *Proposal Guide* is divided into two parts, *Guidelines* and *Model Documents*. The Guidelines comprise 45 topic sections arranged alphabetically. Each topic section has a short introduction, a brief list of numbered guidelines, then explanations and

illustrations of the guideline. Related topic sections are referenced, but each topic is written to stand alone.

Two of the 45 topic sections, *Presenting Cost and Price Data* and *Pricing*, are included in this excerpt. The *Proposal Guide* is not primarily focused on costing and pricing issues.

The *Model Documents* illustrate best practices in business development and current business English. All documents follow the guidelines as closely as possible.

The organization of the *Proposal Guide* was inspired by the original Shipley Associates' *Style Guide for Business and Technical Communication*, now owned and sold by Franklin-Covey.

The guide reflects industry best practices observed and practiced by Shipley Associates during 25 years of proposal training, proposal consulting, research, and business development process reengineering. The *Proposal Guide* offers guidelines, not rules or laws. Reality encompasses more shades of gray than can be covered in a guide intended to be concise. When in doubt, do what the customer says and be consistent.

Larry Newman is a partner and Vice President of Commercial and International Services at Shipley Associates. He authored the original Shipley *Style Guide*, published in 1990, and is the principal author and editor of the new *Proposal Guide*. He has served more than 100 different organizations in commercial, international, and Federal market sectors since 1986. He has developed numerous training workshops and presented at five APMP national conferences. He can be reached at 801.451.2323. E-mail: LNewman@shipleywins.com.

The Shipley Associates' *Proposal Guide* is protected by copyright and printed here with permission of Shipley Associates. One difference, also approved, is that the published guide is printed in color; the reprint is black and white.

The *Proposal Guide* will be published in 2001.

**P**resenting cost and price data is routinely neglected in different ways in different markets. Federal government bidders see it as a time consuming process of completing numerous forms and spread sheets. Commercial bidders may hide their price in the back of their proposal, thinking that will force the prospect to read their proposal and discover their added value.

Some perspective on the differences between government and commercial markets is needed to understand the following guidelines. Many governments have cost disclosure requirements similar to the U.S. Federal government.

Because governments make large purchases from a few bidders, they tend to require full disclosure of the bidder's cost and pricing data above defined dollar thresholds. The U.S. Government defines cost and pricing data as all facts at the time of agreement on price that can be expected to affect price negotiations significantly.

If cost and pricing data is not disclosed, the Government can demand a refund. Price adjustments never happen in the contrac-

tor's favor. If the data was intentionally not disclosed, the government can send bidders to jail for fraud.

As a result, governments get so much cost and pricing data, literally boxes full of paper, that no one but specialist cost analysts look at it. This creates an opportunity for bidders to gain a competitive advantage by presenting their cost and pricing data clearly and concisely in a cost volume summary.

In commercial markets, 90 percent of all bidders think that their price is higher than their competitors so they try to hide it. Instead, disclose your price early, in the executive summary. To limit the prospect's ability to negotiate, include detailed price breakdowns only when required.

### *Presenting Cost and Price Data*

1. Include pricing in the executive summary unless prohibited.
2. Explain and try to quantify your added-value components instead of just claiming to offer added value.
3. Present cost and price data graphically to engage senior management, promote rapid understanding, and establish perspective.
4. Substantiate cost or pricing with past performance data.
5. Present relative cost comparisons in the technical proposal when actual cost data is not permitted.
6. Prepare a cost volume summary for markets where costs are prohibited in the technical proposal.

## 1

### **Include pricing in the executive summary unless prohibited.**

Seldom will a sales professional say that price is not important. Even when price is not the most important factor, price invariably falls into the prospect's top four hot buttons.

Sales professionals who get the opportunity to present their proposal to their prospect usually say they keep the prospect's attention for about 5 minutes, then the prospect begins turning through the proposal, looking for the price.

Keep the prospect's attention by putting your price in the executive summary, unless prohibited.

Even if price is a minor selection factor, everyone has a budget. Price is a rapid elimination factor as long as several bidders are

within the prospect's budget.

Consider the following examples:

A company was bidding an IT support contract to a large city, priced at approximately \$1 million. The price was placed on the front page of the executive summary in bold type larger than the text. The seller's comment, "We offered excellent value for money. Why hide our price?" The prospect's comment, "We appreciated having the price on the first page. Everyone else hid theirs."

A buyer of a retail store computer system valued at \$50,000 made the following comment, "I had 15 proposals. When I got to them, one cover caught my eye. I remembered their account executive who seemed competent. I opened their executive summary; their price was within my budget. I gave them the contract. I had no requirement to open the other proposals."

Note: If you wonder whether price is important, consider how your account executives spend their time when the proposal is being prepared. Do they spend more time seeking a price cut or reviewing the proposal?

# 2

Explain and try to quantify your added-value components instead of just claiming to offer added value.

Most sellers claim to offer added value. Many Government bid requests cite “best value” as an award criterion. Yet few explain or attempt to quantify their added value.

Added value is essentially quantified cost-benefit selling. Figure 1 illustrates the concept.

Price to the seller is simply the cost plus profit, assuming the sale is profitable. However, the prospect sees the price as the cost. These terms change as the perspective changes.

Added value to the prospect is the difference between the value of the benefits of the solution less the prospect’s costs. The prospect’s costs include both the purchase cost and potential implementation costs.

Prospects trying to obtain maximum added value must determine the difference between the value of each seller’s solution and the total cost to the prospect of each seller’s solution.

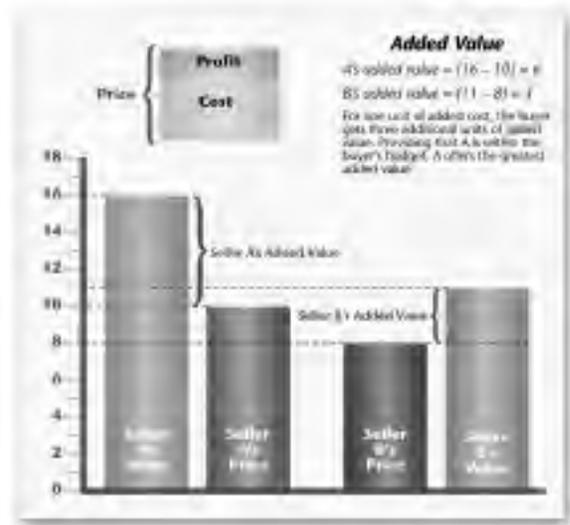


Figure 1. Understanding the Concept of Added Value. *Most proposals claim to offer greater added value but never attempt to explain or justify their claim. Credible explanations require an intimate understanding of the prospect’s business and collaboration with the prospect to understand their cost and value structure.*

# 3

Present cost and price data graphically to engage senior management, promote rapid understanding, and establish perspective.

Graphic presentation of cost and pricing data elevates the analysis to the level where best value decisions can be made. Examine your proposed costs or prices from the point of view of the prospect’s senior management.

Senior managers are interested in the following cost or price-specific items:

- How is the cost spread among products and services?
- What are the major cost drivers?

- What is the spending pattern over time both in total and by major cost category?
- Which costs are at risk, and what is being done to manage that risk?
- Which items are subcontracted?
- Who are the major subcontractors, and where are they located?

Potential ways of presenting different cost elements are listed in figure 2. Review the mocked-up cost volume summary in figures 3 through 14 for more examples.

TYPE OF COST DATA	POTENTIAL PRESENTATION METHODS
Cost distribution among cost elements	Pie or bar chart.
Major cost drivers	Table; pie or bar chart.
Spending pattern or profile	Line chart over time, one line for each category Sum can be additive.
Higher risk cost elements	Line chart showing standard deviations; tables citing the category, amount at risk, and risk management approach.
Subcontracted vs. inhouse sourced	Pie or bar chart.
Subcontractors by location	Combination map and pie chart, perhaps accompanied by a table insert.

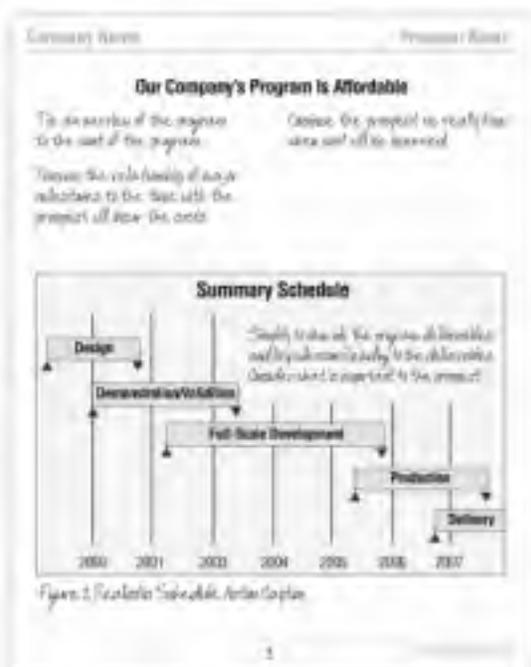
Figure 2. **Present Costs and Pricing Graphically.** *Succinct, graphical presentations of costs are more likely to influence decision makers. Place similar graphics in your executive summary and cost volume or pricing summary.*



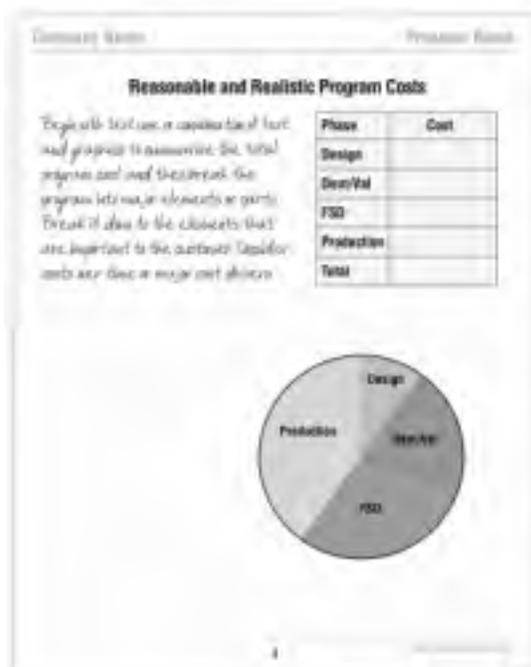
**Figure 3. Summary Page.** Overview the entire program in one paragraph followed by the key reasons to select your organization. Insert a graphic that summarizes the overall program. Explain how this cost volume summary will aid cost analysts, then preview how the cost volume summary is organized.



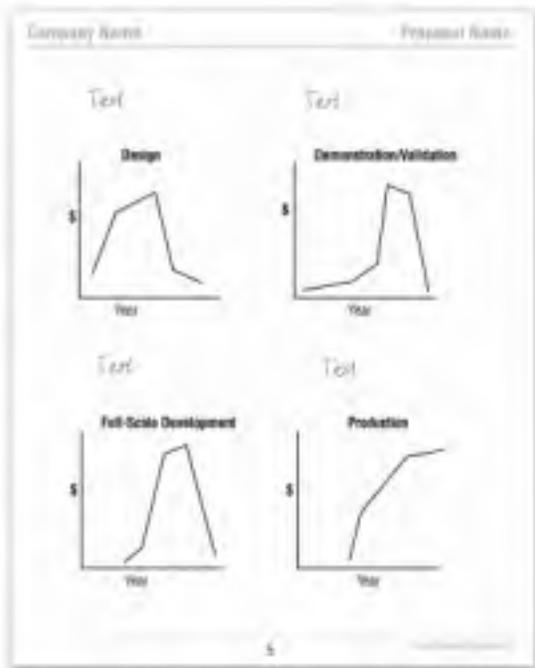
**Figure 4. Reflect the Cost Evaluation Criteria.** Summarize how your costing approach reflects the prospect's bid request cost evaluation criteria. Stress responsiveness as well as compliance. You are essentially presenting your costing strategy, drafting a justification that the cost analyst can later use to help justify supporting your approach.



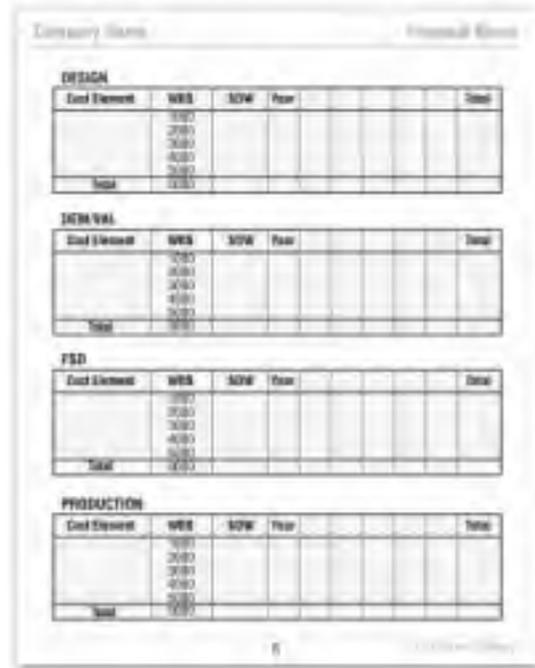
**Figure 5. Stress Affordability Tied to Your Schedule.** Use this page to present an overview of the program schedule, the first opportunity for the cost analyst to see the relative costs of different parts of the program over time.



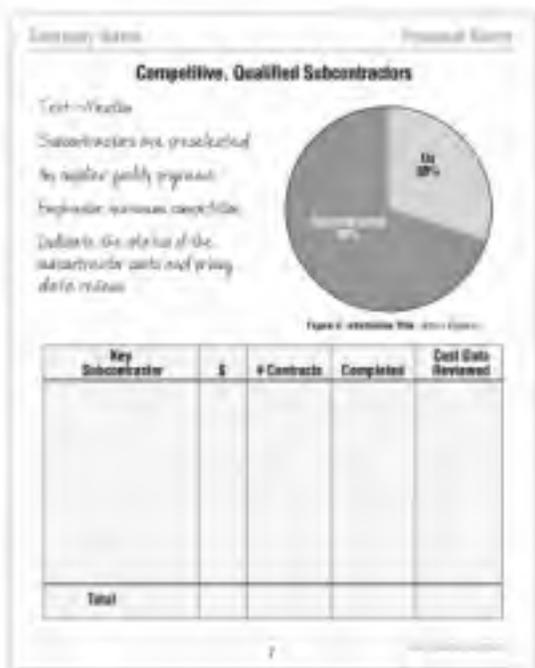
**Figure 6. Stress Your Cost Reasonableness and Realism.** This page gives each reader some perspective on the major cost drivers, whether by component, task, or program phase.



**Figure 7. Cost by Phase Over Time.** Present your cost profile, so the cost analyst can easily compare it to the funding profile. The funding for complex programs often comes from different sources with different restrictions. For example, maintenance money may have to be spent within a fiscal year, while capital expenditures are usually allocated for longer periods.



**Figure 8. Cost Summary by Element.** This is the most detailed presentation of costs in the cost volume summary. Present costs by phase, cost element, Work Breakdown Structure (WBS) tracking number, Statement of Work (SOW) task, and year.



**Figure 9. Summarize the Costs of Team Members and Subcontractors.** Who is doing what work and where they will do the work is important to cost analysts and their managers. Funding sources want to make sure that they get their share of work. For example, congressmen want work in their state, and export prospects want a fair share of the work in their country under co-production agreements.



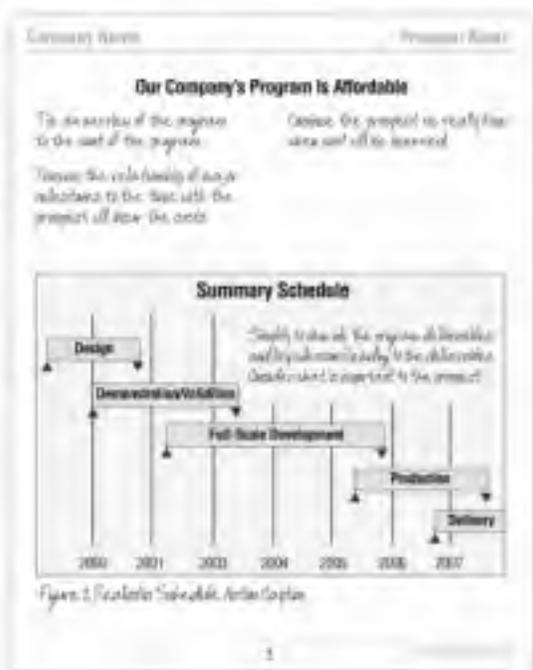
**Figure 10. Reflect Strategies that Reduce Cost and Risk.** Technical proposals are full of claims of superior approaches. Summarize the actual cost impact of each of these claims, cross-referencing the cost analyst to the appropriate pages in your technical proposal.



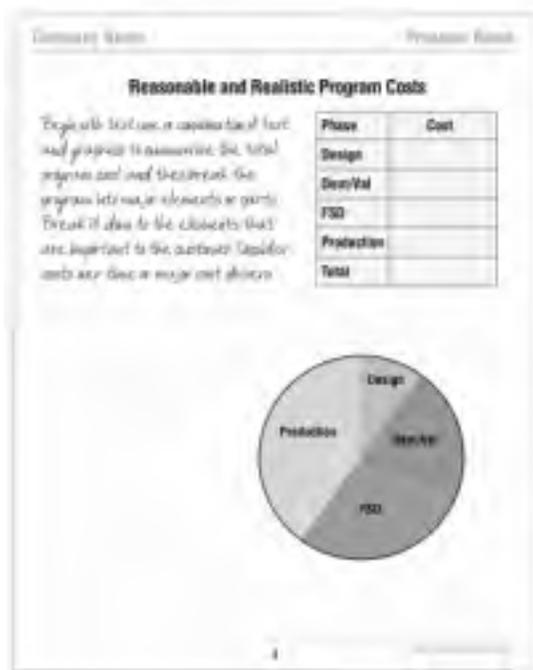
**Figure 11. Summarize Your Costing Approach.** Use both text and a graphic to summarize your costing approach. Summarize and justify any changes in your approach. If you have calculated new labor standards, justify why. For example, one cost volume manager justified a high engineering cost per hour by noting that all drafting and computer support costs were wrapped into the engineering overhead rate.



**Figure 12. Explain Your Cost Volume Organization.** Cost analysts are often forced to spend a lot of time just trying to figure out how cost volumes are organized. Eliminate this wasted time and improve cost analysts' evaluation perspective by clearly explaining your approach.



**Figure 13. Graphically Show the Organization of Your Cost Volume.** Emphasize the traceability of costs through the cost volume, emphasizing the relationship between the various forms either required in the bid request or used by your organization.



**Figure 14. Overview Major Elements of Your Cost Volume.** Until you see the boxes of paper submitted with some major government procurements, few individuals would understand the value of the last four pages suggested. While numbers are objective, the credibility of numbers is pretty subjective. Cost analysts tend to believe bidders that make their jobs easier.

## 4

**Substantiate cost or pricing with past performance data.**

When costs or prices have to be justified, cite past performance data. Enhance credibility by citing how this data has been adjusted for future conditions.

Understanding how government cost analysts evaluate cost proposals will help proposal writers in all markets. Cost analysts begin with two primary assumptions:

1. Nothing is new. Everything has been done before.  
Even if the overall task has never been done, the sub-tasks, when sufficiently segmented and defined, have all been done before.
2. The accuracy of cost estimates is directly related to the basis of the estimate.

Cost analysts rank the following bases of cost estimates from most accurate and credible to least accurate and credible:

1. Firm negotiated price by future delivery date
2. Actual past price paid, escalated for future delivery based on an accepted cost index
3. Vendor quote
4. Engineering judgement

On seeing “engineering judgment” as the basis of estimate, one cost analyst said, “I offer them 25 to 50 percent of their quoted price and see what they can do to justify any amount above that figure.”

Note: Vendor quotes, cited by many estimators as the most reliable, are negotiated and purchased at a lower price. Analysts apply a negotiation decrement to vendor quotes.

## 5

**Present relative cost comparisons in the technical proposal when actual cost data is not permitted.**

Relative cost comparisons in the technical proposal help justify your approach compared to alternative solutions when direct cost figures are not allowed.

Evaluators are trying to compare approaches and want to know that a bidder considered all feasible alternatives. Many technical people complete an exhaustive analysis of alternatives, select one, then describe only the selected approach in their proposal. Evaluators get the impression that only one approach was considered.

When costs cannot be included in your technical proposal, present relative cost comparisons as follows:

1. Cite your selection criteria.
2. List the alternative considered.
3. Cite cost differences in relative terms.
4. Justify your selected approach.
5. Explain why others were not selected.
6. Note potential changes in your selection if the selection factors changed or the importance of the selection factors changed.

## 6

**Prepare a cost volume summary for markets where costs are prohibited in the technical proposal.**

Beginning the cost volume with a cost volume summary is a best practice in Federal proposals. This means going beyond preparing a Standard Form 1411, the top-level cost summary form for U.S. Government proposals.

Evaluators of the cost volume rarely make the selection decision, and decision makers rarely look at the cost volume because it is too difficult to quickly understand. A good cost volume summary can be read and understood by the decision makers and senior influencers and positively sets up the cost analysts' evaluation of the cost volume.

A cost volume summary uses the graphical presentation methods outlined in guideline 3 in this section to present a clear, easily read summary of your costs for the

prospect's senior management and decision makers.

Federal cost analysts must prepare a summary document, a Price Analysis Report, to summarize their evaluation. Think of the cost volume summary as the draft of the report you would like the cost analyst to present to the source selection authority or decision maker.

Place a copy of your executive summary in the front of the cost volume. Place it directly in the binder or place a copy in the pocket in the binder cover. Make it available to every cost analyst.

Prepare a cost volume summary that meets as many of the following objectives as possible:

- Projects overall proposal themes
- Overviews your approach
- Discusses total prices or costs in graphics and words
- Discusses price and cost implications of your approach while ghosting alternative approaches
- Emphasizes how costs are fair and reasonable
- Summarizes exceptions taken to the RFP
- Summarizes your estimating approach
- Summarizes how costs are accurately tracked and controlled
- Demonstrates sound logic
- Indicates your cost system has been audited and approved by the appropriate agencies
- Contains approximately 50 percent graphics and 50 percent text
- Comprises no more than 12 pages

An open mock-up of a cost volume summary for a large, multi-phase systems program is shown in thumbnail version in figures 3

through 14. As shown in figure 14, the cost volume comprised eight chapters, all in separate binders.

Evaluators look favorably at proposals that are easy to evaluate, giving them higher scores. The last portion of the cost volume summary, figures 12 and 13, sets up the evaluation, telling cost analysts how the cost volume is organized. A 40-year veteran of cost proposal evaluation made the following comment:

A well organized cost proposal is trackable. I should be able to open the cost volume at random, page backward or forward to the beginning of any subsection, and directly see where it ties to other sections. I can see where these costs are supported in greater detail, and where they roll-up to the next cost level.

## What's Next for *Proposal Management* FALL2001

### Professional Survival In A Topsy-Turvy Market

Terrific  
Tips for  
Turbulent  
Times

Next up, in Fall 2001, we examine proposal management in the context of professional advancement. Taking in the entire career landscape, we'll consider both full time employment and consulting paths. Whether your focus is seeking that next job, work as a consultant, education and skill requirements, or learning to positively influence a company's decision makers, this edition of *Proposal Management* is going to have something for you. At a time when corporate layoffs are commonplace, mergers frequent, and budgets tight, you'll want to see our survival strategies for getting the work, or workers, you need.



We will round out the issue with a new case study, profile interview, more trends commentary, and book and product reviews.

SEND US YOUR BEST SEARCH-FOR-WORK ANECDOTE OR TIP. We encourage reflection, laughing, bragging and self-help counsel. What was your most daring, most calculated, or most unconventional job-hunting success? What was your biggest job-hunting mistake? What did you learn from your experience? What guidance or tips can you pass on? Please send your anecdotes and tips to the editor at [RDenGreen@aol.com](mailto:RDenGreen@aol.com) under the subject header "PM Anecdote or Tip" (no later than September 15). Please include your name and contact information on the email. We look forward to sharing your stories in the next edition.

**P**ricing requirements vary by market and are unique to every organization. In government markets, pricing is often regulated. In a market with one prospect and few sellers, prospects might be required to base their prices upon a defined set of costing rules plus an allowable profit margin.

In open markets with many prospects and sellers, cost is only one of many factors that are used to set the price. The price offered in the proposal will be negotiated before purchase.

Consider this paradox:

- Most sellers say prospects in their market select the solution with the lowest price.
- Most prospects say they seldom select the solution with the lowest price.

The reality is that most prospects try to select the best value solution within their budget.

---

## Pricing

1. Differentiate value and price.
  2. Develop should-costs or cost bogeys early.
  3. Define a pricing strategy that supports your sales strategy.
  4. Base all cost estimating rationale on the assumption that nothing is new; everything has been done before.
  5. Prepare or tailor written estimating guidelines for each competition.
  6. Minimize negotiated price decrements by using the most credible rationale.
  7. Consider not bidding if the primary focus of your sales team is on cutting the price.
  8. Disclose your price in the executive summary, unless prohibited.
- 

# 1

## Differentiate value and price.

To win a bid and maximize your profits from a contract, differentiate price and value.

- Price is what you charge for a product or service.
- Value is your prospect's perception of what the product or service is worth.

**Value is both tangible and intangible.** Tangible value is the quantified improvement in a prospect's profit or a decreased loss. Intangible value is by definition not quantified and often undervalued.

Even for government procurements, price is rarely the single factor that determines a buying decision. Often other less tangible factors influence the buying decision, all forming a perception of value. This is true even for commodity items; in buying a gallon of fuel a driver will put a value on the safety, cleanliness, and courtesy of one ser-

vice station over another to justify or rationalize a higher or lower fuel price.

Prospects must attach a value to one offer that is higher than the price to justify a purchase. In mathematical terms, buying requires the following to be true:

$$\text{Value} > \text{Price}$$

An offer has to be affordable, so the price must meet this requirement:

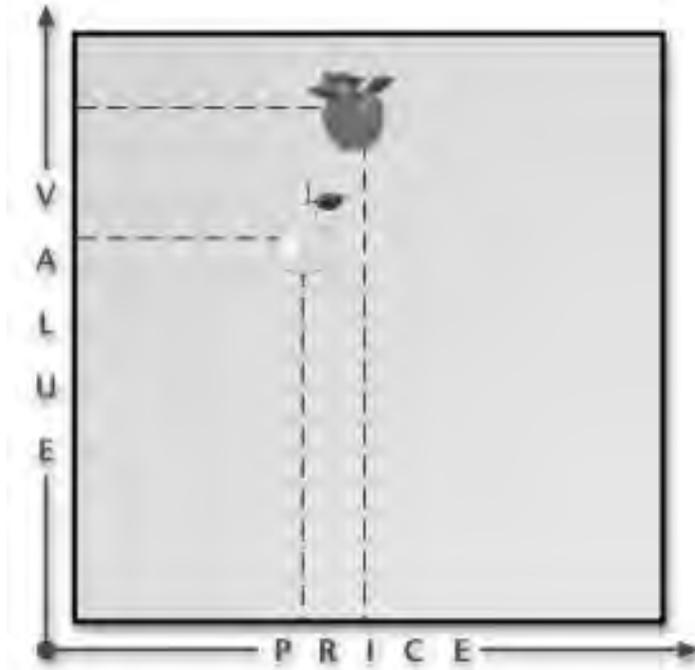
$$\text{Budget} > \text{Price}$$

Smart prospects always have alternatives. The selection process among vendors requires choosing the offer with the best value for the price:

$$(\text{Value} - \text{Price}) \text{ Winning Offer} >$$

$$(\text{Value} - \text{Price}) \text{ All Competing Offers}$$

These equations are visualized in figure 1.



**Figure 1. Comparing Apples with Pears.** Using the concept of value and price, higher priced objects may be preferred to lower priced objects as long as extra value compensates. The apple offers added value but at a higher price. Whether the added value justifies the higher price is purely a judgement made by the prospect.

**Consider an example of the concept:**

Assume that you live in Dallas and want a vacation in London. You have three ticket choices.

NOTE: While this example is clear but possibly trivial, many of the most disciplined selling organizations use a similar approach. Sales teams from these organizations develop formal, quantified value propositions containing the following elements:

- Specific—States what products and services are to be purchased, and who will purchase them.
- Measurable—Tells how much is to be purchased.
- Timed—Cites when the purchase will be made.
- Result—States, quantitatively if possible, the result or process change the client anticipates.

See Value Propositions.

OPTION	DESCRIPTION	PRICE
1	Economy seat with Delta to London Gatwick .....	\$450
2	Club seat with British Airways to London Heathrow .....	\$1200
3	Economy seat with a charter carrier to London Heathrow with an 8-hour stop in Greenland .....	\$200

The option you choose depends on the value you attach to the different features of each choice. Your ideas on this will be unique and may embrace unfair perceptions. Assume that getting to London is worth \$800 to you. So which one is the best deal?

OPTION	ISSUE	VALUE-PRICE
1	Getting to London .....	\$800
	Gatwick less convenient than Heathrow .....	-\$50
	You like Delta's food .....	+\$20
	<b>Option Value</b> .....	<b>+\$770 – \$450 price = .....+\$330</b>
2	Getting to London .....	\$800
	Great wine and food .....	+\$50
	Lots of leg room .....	+\$50
	<b>Option Value</b> .....	<b>+\$900 – \$1,200 price = .....-\$300</b>
3	Getting to London .....	\$800
	Could be unsafe .....	-\$100
	Lose a day of vacation .....	-\$200
	Save money on London Hotel .....	+\$150
	Airport meal in Greenland .....	+\$50
	<b>Option Value</b> .....	<b>+\$600 – \$200 price = .....+\$400</b>

So the third option is the best deal. Had option 2 been the only ticket you could get, you would have stayed at home as the worth is negative.

## 2

NOTE: When your government audits your cost, as is done in the U.S., should you disclose cost bogeys to the proposal team? Best practices vary. Depending upon the local Defense Contract Audit Agency office, cost bogeys that are disclosed to team members may be considered cost and pricing data and must be disclosed. For this reason, some proposal managers use cost bogeys to sanity-test estimates but do not disclose them to the team.

### Develop should-costs or cost bogeys early.

Most sales professionals like to avoid any early discussion of price because it leads to objections from the prospect. Instead, they leave price discussions to the end when the prospect requests a lower price. Then they talk about added value, or say, "We cost more but we're worth it." Citing this price-performance justification at the end is too late because it does not relate to the value derived by the prospect. If the prospect does not see the added value, you will not overcome the price objection.

Instead, in the early meetings with a prospect, discuss the contribution your organization can make to profitability. Once you have both determined the potential contribution, the prospect can better establish and justify a purchasing budget, and you can establish your should-cost target or cost bogey.

A common and poor approach to pricing and costing is to give the design team a description of the prospect's needs and ask your team to create a best solution or at least a good solution.

Usually, about half way through the proposal process, the first cost roll-up reveals your solution far exceeds the prospect's budget.

A best-practice approach to pricing and costing is to use both top-down and bottom-up costing approaches until they converge.

- Top-down costing begins with each prospect's perception of value, the prospect's budget, and comparisons with other similar projects, adjusted as appropriate. The overall price is broken into target cost or bogeys by task, service, and hardware.

Early development of should-costs that sets cost bogeys for estimators reduces the number of cost and design iterations. Accurate top-down estimates require similar methods, materials, and processes.

- Bottom-up costing is simply a cost roll-up of time and material estimates with appropriate overheads added.

Because bottom-up estimators are criticized for under-costing and are often commended for over costing, bottom-up estimates tend to incorporate various safety factors at each cost level that result in high estimates.

## 3

### Define a pricing strategy that supports your sales strategy.

A sales strategy that emphasizes leading-edge performance is inconsistent with a pricing strategy that emphasizes selecting the lowest cost component, method, supplier, or subcontractor. Similarly, a sales strategy that emphasizes the efficiency and productivity of the seller is inconsistent with a high price.

When your technical and cost teams are physically separately without an agreed pricing strategy, you usually arrive at a technically superior, high-cost solution. First, try to influence, or at minimum determine, whether the prospect is driven by total added value, maximum technical performance, market image, acquisition cost, or total cost of ownership. Next, try to determine the probable approach of your competitors. Finally, adopt a discriminating position that best matches the prospect's needs.

Early in the competition, use your knowledge of the prospect's issues to estimate the value the prospect attaches to your offer. Then adjust your features to improve your profit. The strategy is simple:

- Add features that cost you little and the prospect perceives as delivering benefits of high value.

- Drop features that cost you a lot but the prospect perceives as offering little value.

Try to persuade the prospect to require a solution that is better matched to your capabilities than your competitors. The key is influencing the bid request early. Your aim is to establish requirements that are expensive for competitors to meet.

If you are late in the game and trying to find a solution for a bid request influenced by a competitor, you must try to re-engineer the prospect's vision. Specifically, you must persuade the prospect to highly value your discriminators to the detriment of the competitor's discriminators. The success of this strategy hinges on whether the prospect has the latitude to change the requirements or to select a non-compliant solution.

Do all you can to favorably influence the requirements and define your solution, then brainstorm ways to improve your solution. For example, when competing for a cost driven services contract, brainstorming ways to improve the solution might generate the following list of questions:

- How can you reduce management layers?
- Can management's span of control be increased?
- Where should people be placed within grades?

NOTE: Incumbents often have less latitude to suggest changes in how services are delivered. Prospects wonder why the incumbent's cost-saving proposals haven't already been implemented.

- Can you redefine grades, cross-train, change work hours, or change work locations?
- How can headcount be reduced?
- Can the cost of fringe benefits be reduced, or can anticipated increases of these costs be reduced?
- What incentive programs could increase productivity?
- Are all current overhead allocations appropriate?
- Could some services be outsourced?
- Can outsourced services be reduced or be delivered by a lower cost vendor?

**Whatever your strategy, brainstorm ways to increase your competitiveness, then select the most valid ideas and implement them in your proposal.**

## 4

**Base all cost estimating rationale on the assumption that nothing is new; everything has been done before.**

Cost analysts in the government sector assume everything has been done before. Base your estimating rationale on the same assumption.

Given this advice, a medical researcher asked, "How do I know what it will cost to cure cancer?" The reply, "That is not what you are proposing to do. That's the prospect's goal. You are proposing to do a literature search, conduct certain tests, ana-

lyze the results, and prepare draft and final reports." All of these tasks were ones they had done before.

In the commercial sector, few prospects want to purchase serial # 001. The risk of being the first is often too great. Similarly, base all estimates on the most similar historic tasks. Breakdown the project until you can identify subtasks that are similar to subtasks from previous projects.

## 5

**Prepare or tailor written estimating guidelines for each competition.**

Unique, complex programs require new estimating guidelines for each competition. For services or products that are similar from bid to bid, consider whether your current guidelines warrant tailoring.

Estimating guidelines cover the following types of assumptions:

- Program schedule and milestones to determine when costs occur
- Work Breakdown Structure (WBS) to indicate what work will be done by which cost centers
- A make versus buy subcontracting determination
- A Statement of Work (SOW) and WBS dictionary to define the services and products to be delivered
- A deliverables list, including all hardware, services, and data
- Relevant financial ground rules regarding escala-

tion, facility capitalization, facilities and locations of work, direct labor and overhead rates, pre-approved rates, etc.

- The level at which costs will be estimated, disclosed, and reported, if required

**Estimating ground rules should be written for the following reasons:**

- Only written ground rules are auditable and defensible, both externally and internally.
- Estimators working in teams must be consistent.
- When costs must be disclosed, include the ground rules in the cost volume introduction to increase your credibility.
- Partners, vendors, and subcontractors need ground rules to give accurate and competitive estimates.
- Written ground rules reduce both schedule and cost risk.

## 6

**Minimize negotiated price decrements by using the most credible rationale.**

Government procurement officials typically require full disclosure of all task descriptions, cost estimates, and rationale. The soundness of the rationale determines their subsequent price negotiating position. Poor rationale leads to larger price decrements during negotiations.

Government auditors rank estimating rationale in the following order, from most to least reliable:

1. Firm, negotiated, forward price agreement
2. Actual historic cost with appropriate escalation
3. Quotation from vendor (internal or external)
4. Engineering estimate

## 7

**Consider not bidding if the primary focus of your sales team is on cutting the price.**

As the deadline nears to submit a proposal, some account teams spend most of their time seeking a further price cut and little time on any aspect of the proposal. Their time allocation suggests they think only the price is important and often reflects their sales strategy.

Anyone can sell the low price. That's done in catalogs and by computer. Sales profes-

sionals sell value early and throughout the sale. If the entire focus is on price, reconsider your positive bid decision.

While price is seldom the primary determining factor in a complex sale, price is always in the top four. Every executive summary should address the prospect's top issues, including price.

## 8

**Disclose your price in the executive summary unless prohibited.**

Of all the guidelines in this Proposal Guide, the overriding one at the proposal submittal stage is: **Do what the prospect asks.** If the rules of the procurement prohibit pricing data outside the cost proposal, follow the prospect's rules.

The other reason cited for not including the price in the executive summary is as follows:

*Our price could turn them off if they see it before they read our proposal. We put it in the back in a separate pricing section so they will have to read our proposal first.*

Evaluators read proposals any way they want to. When they want to see the price, they will find it. The decision maker and the most important influencers often only read the executive summary. Give them the information they need and want.

A successful account executive related this story:

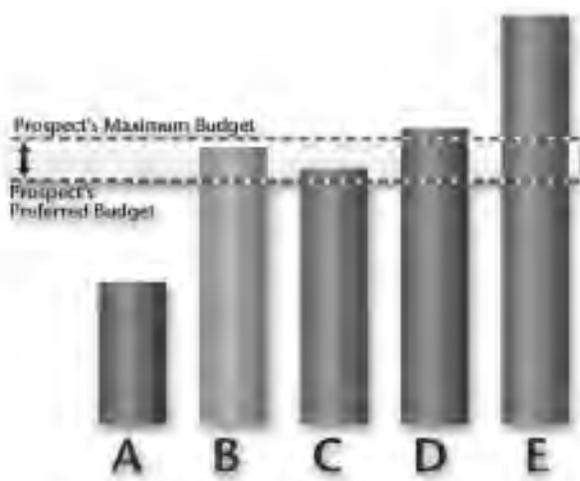
*In our market, I always try to personally deliver our proposal and walk the prospect through the key points. They usually give*

*me about 5 minutes before they tune-out and look for the price. Now I always put the price on the first or second page so I can keep their attention.*

As noted in guideline 1, prospects seldom exceed their budget. The early look at the price is an easy screening method.

Conceptually, prospects often mentally construct a diagram similar to the one in figure 2. Assume five bidders, A through E, with the prospect's budget shown between the dotted lines. Bidder A would be rejected as unrealistically low, probably indicating poor understanding of the requirements. Bidder E would be rejected as over specified, complicated, or not cost competitive and similarly rejected.

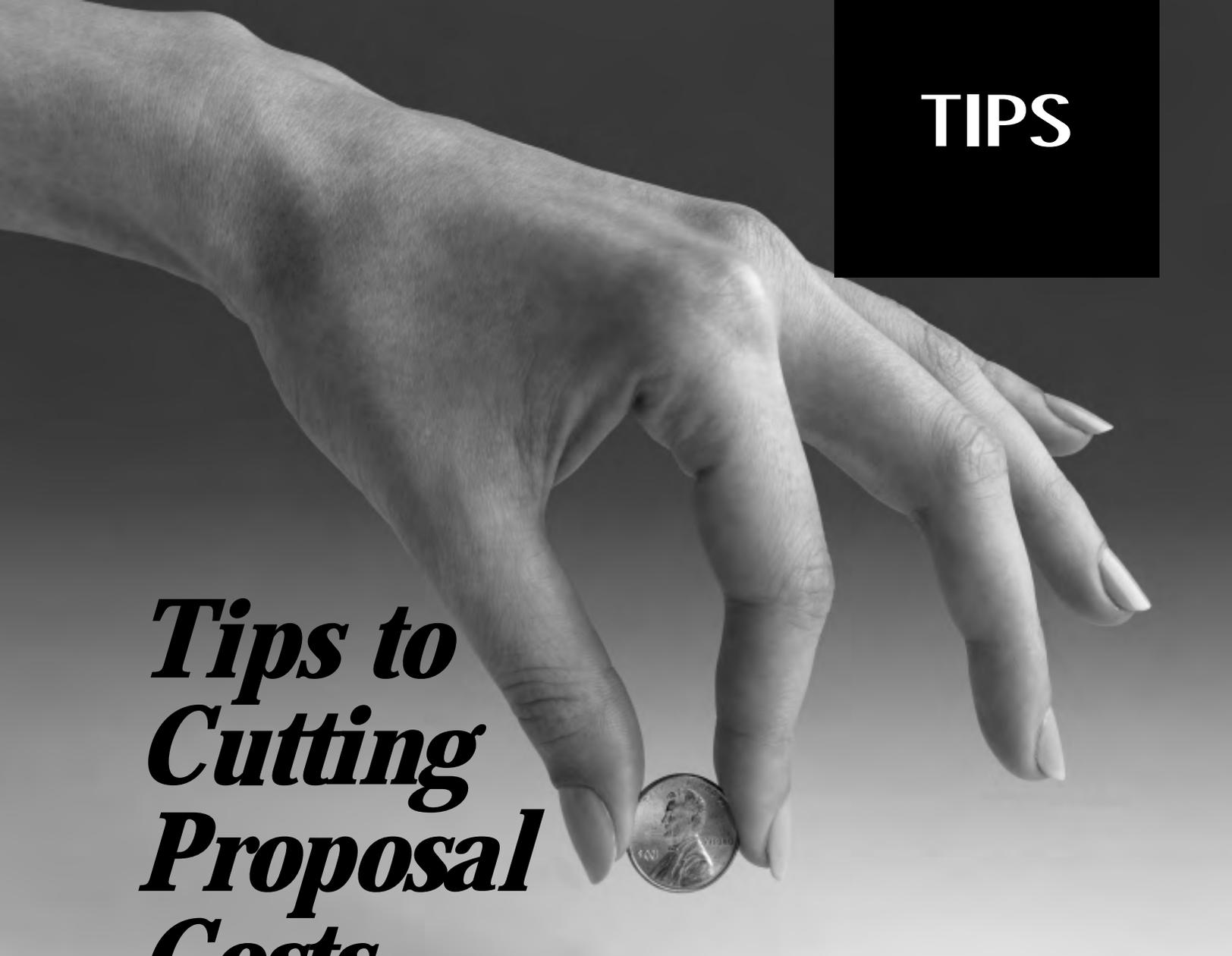
Bidders B, C, and D are all in the competitive range. The winner will be the one perceived to offer the greatest added value. Bidder D, very slightly over the budget, could stay in competition on two conditions: (1) the prospect has some budget flexibility, (2) D is perceived to offer greater added value than B or C.



**Figure 2. Establishing the Competitive Range.** Prospects look for ways or reasons to eliminate uncompetitive bidders to simplify their selection decision. The selection of B, C, or D will depend upon whether the budget is fixed and the perceived added value of each offer.

Shiplely Associates is a full service, proposal consulting, training, and business development process design consulting firm located in Farmington, Utah, near Salt Lake City. Its *Proposal Guide* is protected by copyright and a portion is printed here with permission of Shiplely Associates. One difference, also approved, is that the published guide is being printed in color; the reprint is black and white.

The *Proposal Guide* will be published in 2001.

A black and white photograph of a hand holding a coin between the thumb and index finger. The hand is positioned in the upper right quadrant of the page, with the fingers pointing towards the center. The coin is a US quarter, showing the profile of George Washington. The background is a light, neutral color.

# *Tips to Cutting Proposal Costs*

*By DUANE TURNBULL*

The following cost saving tips are based on more than a decade of experience by DSDJ proposal managers and consultants, and were gathered while supporting more than 500 proposals for federal, state and municipal agencies. They can also serve as easily recognizable indicators of a company's prospect for winning, since there is a direct correlation between the efficiency with which a company develops their proposals and their overall win rate.

- 1** Use your best people. Successive proposal drafts typically increase quality, but unnecessary iterations due to unacceptable work by marginal performers add time and cost.
- 2** Keep your team small. Large standing armies add cost and rarely make the process any faster.

- 3** Train your staff. Provide training in effective proposal writing well in advance of your expected RFP release date. Try to learn and do as much as you can prior to the RFP release. Do not use valuable post-release time as training time.

*more...*

**4** Don't swap people in and out. This adds to confusion, drives cost up, and seldom improves quality.

**5** Keep on schedule. Conduct daily progress meetings and hold people accountable for meeting the schedule.

**6** Don't change review dates because "things aren't finished." You never really finish a proposal — you just run out of time.

**7** Answer the questions posed by the RFP. Don't wait for a Pink, Red or Gold team review to tell you to do this.

**8** Use any idle administration time to do things prior to RFP release. Favorable communications, awards, action photos of accomplishments — keep everything filed and organized. Also, document any performance problems and what you did to correct them.

**9** Establish a format and tailor your resumes to the RFP requirements. Have your employees update their resumes twice each year. Up-to-date resumes can be tuned quickly to most proposal formats. Out-of-date resumes needing revision drive proposal costs up. Do not use your proposal money to learn how to do a resume.

**10** Continuously document and update your corporate experience. This documentation should include the current names, addresses, phone numbers, e-mail addresses, and fax numbers of customer Technical Representatives and Contracting Officers. Keep these items updated and organized to note new assignments, transfers, retirements, and possible replacement references.

**11** Carefully pick your proposal targets, start early, and budget what is necessary to win. This will significantly improve your win rate. Most companies shudder at how much they spent on their last proposal and then forget it. Think of it another way. Assume your win rate is 20 percent.

**BEFORE:** You submit 10 proposals at a cost of \$50 K each. The total proposal cost is \$500 K. Assuming you win 2 your actual proposal cost is \$250 K per win.

However, if you picked your targets more carefully, maintained the same \$500K total B&P budget but doubled your budget for each proposal, you would probably increase your win rate while actually reducing your cost per winning proposal.

**AFTER:** You submit 5 proposals at a cost of \$100 K each. The total proposal cost is \$500 K. Assuming you win 3, your actual proposal cost is \$166 K per win.

**12** Listen to your proposal advisor. Do not let egos get in the way of professionalism. People tend to become "experts"



quickly in the proposal business. You or I would not think of taking over the tasks of a brain surgeon or heart surgeon, but in the highly competitive world of proposals, the advisor's "street smarts" can be subverted by a customer's need to "lead" — leading to a "Custer's last stand" situation. Fight off the Custer mentality.

**13** Use the help of a purposely-designed Proposal Center. Proposal centers are structured to deliver quality proposals efficiently and effectively. Proposals done after hours or on the fly with temporary and part-time office help usually look like their input. Using a center can lower your proposal costs by 30 to 50 percent.

**14** Practice safe proposaling. Bargain consultants with laptops may not be the bargain they appear to be. It never pays to cut corners with proposals worth millions of dollars. Look for consultants and centers that offer 24-hour security, triple redundancy on all systems, and qualified personnel backup for each key advisor or staff member.

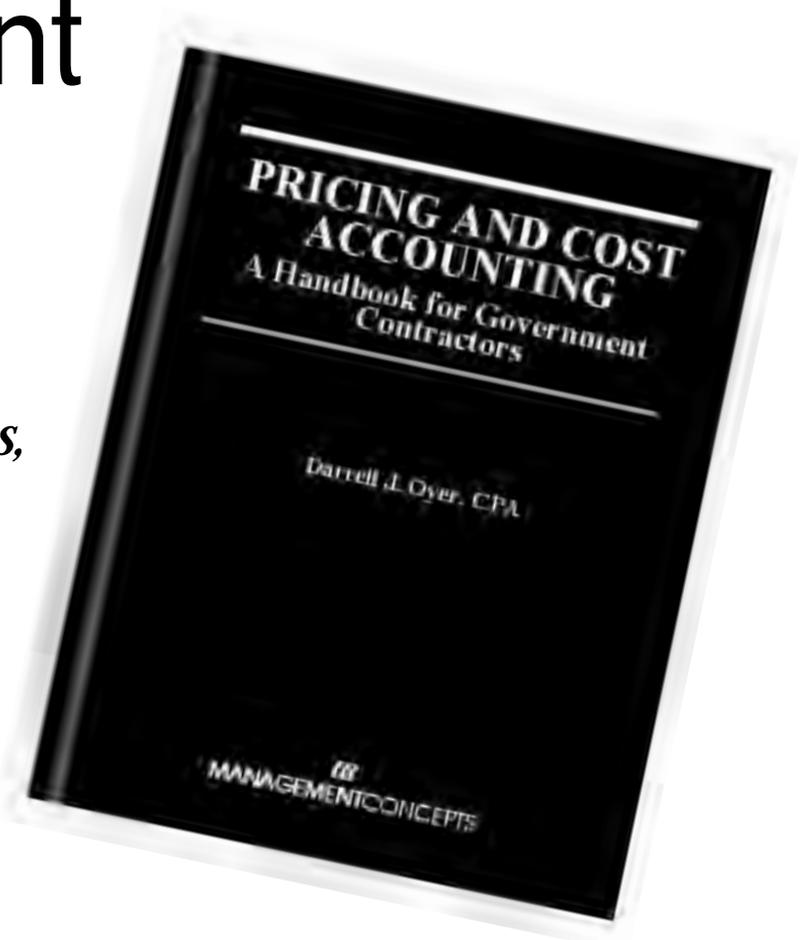
**15** Stick with your game plan. In the frenzy of the proposal development process, brand new strategies have little time to be tested, and add cost without increasing your probability of success. If you started your planning early and thought through your win strategy thoroughly, you are probably going in the right direction.

Duane Turnbull is President of DSDJ, Inc. He has 30 years of proposal management experience supported by hands-on program management, systems engineering, and college-level teaching experience. He has served as Program Manager and Division Vice President for Contel and CACI. To date, he has successfully managed more than 50 major proposals with total contract values exceeding \$4.6 Billion. Mr. Turnbull is a retired Air Force officer with advanced degrees in Business Administration. DSDJ's web address is [www.dsdj.com](http://www.dsdj.com). Phone (304) 263-8140.

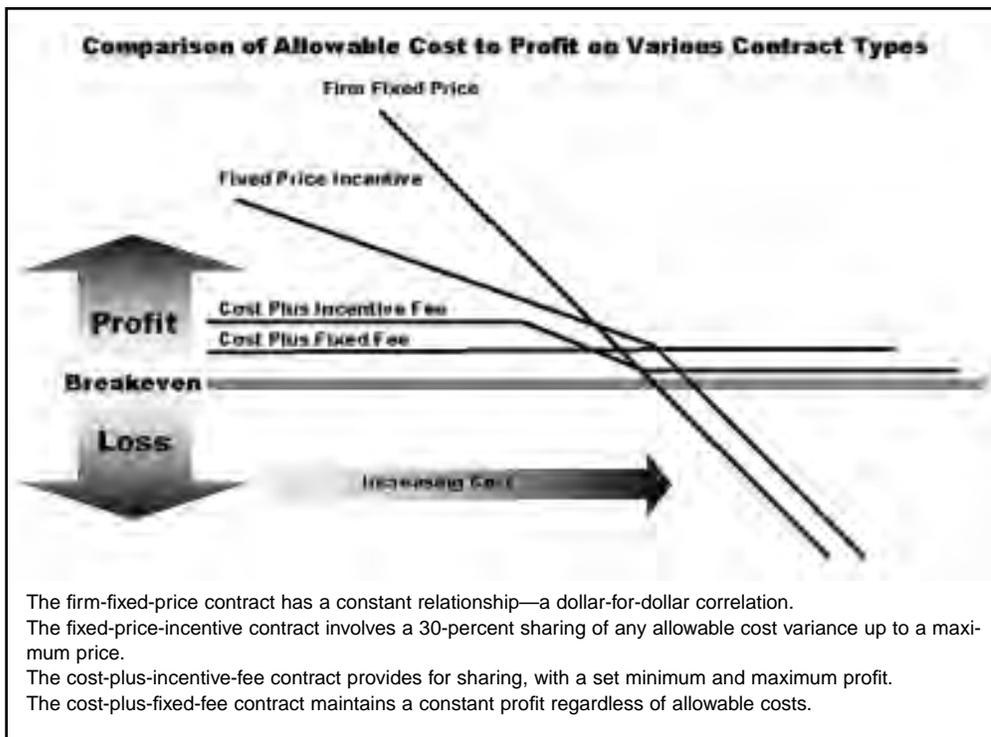
# Developing Cost Estimates For Proposals To The Government

By Darrell J. Oyer, CPA

*In preparing to negotiate reasonable contract prices, contractors will need to estimate costs. These cost estimates must be developed using good techniques and sound historical data. In addition, contractors must comply with unique government rules and regulations.*



Darrell Oyer's article on developing cost estimates for proposals has been adapted and excerpted from his book, *Pricing and Cost Accounting, A Handbook for Government Contractors* (Chapter 7), published by Management Concepts, Inc. (Copyright 2000). His book addresses Federal Government procurement methods, types of government contracts and accounting system requirements. Further, Mr. Oyer speaks to cost allowability, the principles behind selected costs and cost accounting standards. In addition to the chapter on developing costs for proposals (reprinted here) the book provides contract price negotiation and profit guidelines, information on truth in negotiations, contract administration, and government contract audits. *Proposal Management* thanks the author and Management Concepts for permission to excerpt this book.



Development of a cost estimate is a very important and complicated part of the proposal. A contractor must be concerned with maintaining a competitive posture but at the same time realizing a fair profit. A contractor is also concerned with responding to the government in a timely fashion while making sure that the estimate is accurate and well-supported to minimize costs questioned by the auditors. During this process, a contractor must recognize and adhere to applicable government cost regulations.

*The value of a comprehensive set of written policies and procedures defining the requirements of cost estimating cannot be overstated.*

Because this important task is so difficult, the value of a comprehensive set of written policies and procedures defining the requirements of cost estimating cannot be overstated. The following considerations should be included in the written procedures:

- Describe the method for developing pricing rates for both direct and indirect costs.
- Base rates on current, accurate, and complete data as developed from the accounting records.
- Anticipate changes in the size and character of the work force.
- Define the method for computing labor rates (e. g., average versus actual rates).
- Provide for periodic review of established bidding rates to compare actual rates and budgeted amounts.
- Define the method used for computing cost escalation.
- Set timelines and number of quotations and subcontracts needed for procuring material and subcontracts.
- Develop support needed for decrement factors (e.g., experienced reductions in price).
- Set basis for source selection.
- Determine emphasis on the use of quantity discounts for purchases of material items.

## The Estimating Process

The development of a cost proposal is usually a team effort, with collaboration among staff from various disciplines such as marketing, engineering, manufacturing, quality control, and finance. If a proposed product or service is similar or identical to other products or services the company has produced, historical cost data may be valuable in developing the proposed cost.

*Forecast data are more relevant than historical data.*

In addition, changes over time in both the nature and amount of costs as well as the method of production should be considered in developing cost estimates. For example, pay rates for direct labor might change, overhead rates might be higher or lower depending on the company's overall business volume, and G&A rates might be substantially different from those actually incurred in performing the prior work. These basic data need to be adjusted and updated to reflect what can reasonably be expected to occur during performance of the contract. An estimate should not be blindly based on historical cost data; in fact, forecast data are more relevant than historical data. On the other hand, for government reviews, historical data are easier to validate than forecasts.

In developing cost estimates for products with which the company has had little experience, individuals in the various functional areas, such as engineering and manufacturing, will usually be responsible for developing estimated hours of production and material as well as subcontractor costs. Estimated hours should be priced at the various labor rates expected to be incurred while working on the contract, and overhead rates should be developed to represent anticipated overhead costs during performance of the contract.

## Quantity Estimates

Several elements need to be established in the written policies and procedures regarding the development of quantity estimates. Important characteristics include:

1. Timeliness of quantitative estimates based on current designs, drawings, and specifications
2. Flexibility of the estimating system to reflect changes (e.g., in manufacturing process and tooling escalation)
3. Definition of the steps necessary to develop a basic unit estimate and application of attrition/scrap factors
4. Identification of sources available for determining basic material type and quantity requirements
5. Application of parametric estimating tools (e.g., learning curve)
6. Application of manufacturing labor standards (e.g., work measurement standards).

## Make-or-Buy Decisions

The determination of whether to make or buy an item is very important within the framework of proposal estimating. A “make” item is an item or work effort to be produced by the prime contractor or its affiliates, subsidiaries, or divisions. A “buy” item is an item or work effort to be produced or performed by a subcontractor.

### Make-or-Buy Exceptions to Federal Acquisition Requirements

The FAR requires prospective contractors to submit make-or-buy programs for all negotiated acquisitions whose estimated value is \$10 million or more except when:

- 1—the proposed contract is for research or development and, if prototypes or hardware are involved, no significant follow-on production is anticipated  
or
- 2—the price is adequately competed or established by catalog or market. The government reserves the right to review and agree on the contractor’s make-or-buy program whenever it deems appropriate to ensure a fair and reasonable contract price.

## Direct Labor Costs and Hours

Direct labor cost estimates may be grouped according to the two methods used in developing the cost estimates:

1. Those developed primarily from the application of technical data
2. Those developed primarily from recorded direct labor costs.

The method used in arriving at an estimate will depend on the nature of the procurement and the extent of the contractor’s experience making the item—and thus the associated labor requirements. When the proposal contemplates a research and development contract or a production contract for which the contractor has had no prior cost experience, the labor estimate should be based on technical data. When the contract is follow-on, the labor estimate should be based on prior labor experience, adjusted for expected changes for future work.

***A direct labor cost projection should not be made on the assumption that the cost pattern or trend will continue unchanged during the period of the proposed contract.***

When historical cost data are available, the estimated direct labor cost probably will be a projection of those data. Such a direct labor cost projection should not be made on the assumption that the cost pattern or trend will continue unchanged during the period of the proposed contract; it should consider other related factors.

Factors that affect the productivity of labor normally will not be the same today as they were last week or last month. Therefore, labor costs accumulated in the past, adjusted only for changes in the labor rate, or labor costs for the last job lots produced, are not sufficient data on which to base an estimate. Rather, current experience, adjusted for anticipated reductions or

other variations, should be used.

An estimate for unusual or “nonrecurring” costs may need to be included. Such costs are not normally disclosed by a routine review of labor because they are usually treated and charged as direct labor costs without further identification or segregation. Nonrecurring costs may be revealed through a review of labor costs for selected tasks, jobs, or cost centers not associated with a normal job or process and a review of job lot records for unusual jobs.

Setup time costs also need to be considered. These are the costs required for changing over a machine or method of production from one job to another; they include the time for tearing down the previous setup and preparing the machine or process for the new operation. Setup may also include the time for the production and inspection of the first acceptable piece or test group of pieces. It does not include the time required to clean up the work area during or at the end of a production period unless regular readjustments need to be made during the production cycle. This readjustment time may be charged either as production or setup time, depending on the contractor’s accounting policy and the extent of the readjustment. When the setup for a process job is recorded as the first operation on an operation sheet, the time and cost may be similarly charged.

Other conditions influencing an estimate for labor hours include:

1. Supplementary assembly lines established to accommodate temporarily accelerated production schedules or other emergency measures
2. The introduction of more efficient and cost-effective material issuing and handling procedures to eliminate or prevent bottlenecks and reduce work stoppage
3. Training of employees
4. Transfers of employees between assembly lines, work areas, departments, shifts, and jobs
5. Special tooling.

To determine whether labor hour estimates reflect recent improved conditions, current labor operation sheets must be compared with those in prior periods and with those reflecting advance production schedules.

In addition to the labor hour estimates, labor rates need to be projected. Direct labor rates used to estimate direct labor costs may be at expected individual rates or expected average rates. The latter rates may be either estimated separately for each proposal or pre-established for pricing many proposals submitted over a given period of time.

Contractors may use a variety of methods to combine the various direct labor grades and functions, and the associated pay rates for estimating costs. Methods should take into account:

1. Differences in the type, size, and importance of labor operations
2. The type and arrangement of production facilities
3. The manner and extent of departmentalization
4. The type and dollar values of government and commercial contracts and products.

Individual employee rates may be used when the persons who will perform the work under the proposed contract are known. A determining factor in the award of a contract may be the “know-how” of specific individuals, and their agreement to

*more...*



perform the work under the contract. In other cases, individual rates may be used when the contract requires a caliber of employees whose pay rates do not represent the average rates paid within their labor classifications.

tors such as direct material cost per pound of product and ratios of direct material to direct labor for similar products.

Information on which to base estimates for direct material costs usually may be obtained from one or a combination of nine sources.

A properly prepared bill of material generally will provide a sound basis for estimating direct material cost. The document will contain a detailed listing of the types and quantities required for raw material and for each component and part. It may also include allowances for:

1. Expected losses
2. Defects
3. Spoilage during processing
4. Scrap generated
5. Common supply type items, such as welding rods, nuts, bolts, and washers

### Individual versus Average Rates in Estimating

- ❑ Individual rates in cost estimating will produce precise results.
- ❑ Average rates within labor classifications are more practical.

While the use of individual rates in cost estimating will produce precise results, average rates within labor classifications are generally developed and employed for practical purposes. Either approach may result in reasonable estimates provided that a consistent practice is followed and deviations will not affect the proper recovery of anticipated costs.

The development of average rates may include a single plantwide average or a separate average rate for a function, grade, class of labor, cost center, department, or production process. The use of average rates is generally warranted because within each unit of an operating plant, each production situation and associated group of workers usually has a labor norm and cost pattern. Average rates, properly computed and applied, will express the labor norm and equalize the effect of indeterminable factors usually associated with other methods.

The use of average rates is preferable, for example, when a contractor is unable to project with any degree of reliance the:

1. Identity of those who will perform each operation and, correspondingly, the individual rates of pay
2. Exact production processes to be used, particularly when the contractor has no applicable experience
3. Precise labor requirements.

### Base Estimates for Direct Material Costs — 9 Sources

- Cost records for the last completed contract (appropriately adjusted)
- Cost records for the last lot or a selected number of lots of the last completed contract
- Experienced direct material costs plotted on an improvement curve relating to the same or similar product or components
- Priced bills of material
- A priced bill of material for a related product (appropriately adjusted)
- Direct material costs included in a pilot run of a prototype model
- A prior cost estimate adjusted to reflect current needs
- A budget prepared for the period during which the same or similar item was produced
- Experience factors and ratios established for related or unrelated products of similar size and complexity

### Direct Material Costs

Direct material costs include costs of raw materials, purchased parts, subcontracted parts and components, and other material directly identified with the engineering effort or the manufacture of a product. Costs of spoilage, obsolescence, and similar conditions involving losses of direct material associated with production are generally considered loading factors and may be included in indirect costs.

The method of estimating direct material costs depends on the type of accounting and adjunct statistical data available. The data may include directly applicable experience for an entire product, as in the case of a follow-on procurement, or certain parts and components comprising a product, as in the case of an estimate for an item substantially similar or related to an item previously produced. The data also may include general or indirectly applicable experience for fac-

### Sources for Pricing Components

Sources	Description
Standard costs	Realistic in relation to past, current, and probable future experience
Previous purchase order prices (adjusted for quantity differences)	Prices should be current and appropriate for the estimated quantity required
Current vendor quotations	Sufficient bid solicitations should be obtained
Current order placement prices	Prices should be appropriate for the estimated quantity required

#### 6. Other additives to the basic material requirements.

When the bill of material contains only the basic material requirements, loading factors stated in the form of percentage of material costs may be applied to provide for expected losses of materials and common supply type items.

When the estimate relates to a follow-on procurement and prior experience exists, the bill of material should be current and should reflect all anticipated changes in the unit quantitative requirements. Current and prior bills of material for the same product should be compared. When the estimate relates to a completely new product, only rough sketches or prints of design may be available for a prototype. The types and quantities of required materials may be developed primarily on the basis of personal experience and judgment. Estimates for completely new products usually involve significant technical determinations.

Sources for pricing components include standard costs, previous purchase order prices adjusted for quantity differences, current vendor quotations, and current order placement prices. When the source is standard costs, the variance factor should be realistic in relation to past, current, and probable future experience. When prices are developed from previous purchases, the prices (stock record cards or purchase orders) should be current and appropriate for the estimated quantity required. When prices are developed from current vendor quotations, sufficient bid solicitations should be obtained.

Contractors may use prices paid for the same items in previous purchases in estimating the material cost of follow-on procurement when current vendor bids have not been obtained. However, they must make sure that:

1. Recent purchase orders were selected to obtain applicable prices and adjusted, where necessary, to reflect current and future price trends
2. Prices for purchase orders selected are for comparable quantities required in the follow-on procurement
3. Quantity discounts were taken into consideration when increased quantities are to be purchased
4. Consideration has been given to reduction in vendors' prices when follow-on purchases reflect the elimination of high start-up costs.

When pricing a follow-on contract, contractors should consider the ownership and value of materials that are residual from a preceding government contract and usable on the proposed contract.

Where the preceding contract is cost-type, the residual materials normally will be government-owned; accordingly, if those materials can be used, the contractor should include them in the proposal at no cost. Where the preceding contract was of a fixed-price type subject to price adjustment, the contractor should review the terms of the settlement to determine ownership. If the materials are government-owned, the contractor should include them in the proposal at no cost. If the materials are contractor-owned, the contractor should include them at their original cost, the market price, or the value assigned in negotiating the price of the preceding contract.

The estimated cost of scrap and spoilage may be included in proposals as direct cost, as a percentage factor applied to some other base cost, or as part of indirect cost. However, the method of estimating such cost must be consistent with the accounting method for the proposed contract and the accounting procedures should give proper recognition to any salvageable material generated. When previous procurements for the same or related products are available, these estimates can be based on historical data.

Graphic analyses can be very useful for this purpose. A time series chart can be used to plot the movement of these costs or the percentage relationship to a volume base, such as direct material

cost, on a monthly or less frequent interval. A scatter chart can likewise show groups of units produced. Since scrap, spoilage, and rework costs generally are higher during the early stages of a contract and diminish progressively as production techniques improve, plot points that indicate abnormally high costs should be highlighted. The reasons for high costs should then be analyzed, and the likelihood of their recurrence should be assessed.

Provisions for obsolescence and inventory adjustments may be included in cost estimates as percentage factors applied to a cost base or as a part of indirect cost. Percentage factors derived from past experience should be considered. Adjustments for the exclusion of nonrecurring and abnormal write-off and transfers-back of obsolete material to productive inventory should be made.

### Other Direct Costs

Other direct costs are costs that by their nature can be considered indirect costs but that, under some circumstances, can be identified specifically with a particular cost objective such as a product, service, program, function, or project. Costs classified as other direct costs vary in accordance with the treatment prescribed by the accounting system and estimating procedures, and often include overtime premium, special tooling, travel and subsistence, computer services, reproduction, and overnight mailings. Various types of other direct costs may be estimated by applying percentage or conversion factors (such as number of staff hours per month) to some other basic cost or to basic estimates of required staff months of effort.

Data accumulated in the accounting system or adjunct statistical records that may be helpful in estimating design engineering include:

1. The total number of basic design hours expended on previous contracts of similar complexity
2. The number of various types of drawings required and the average number of hours expended by type of drawing for prior contracts of varying degrees of complexity
3. The percentage factors for support engineering (the direct engineering effort other than that expended by detailed designers working the design department)
4. Percentage factors for engineering effort incidental to changes made during production that represent refinements of the product to attain improved performance.

Production engineering generally represents engineering effort expended during the life of a contract and commences with the completion of the initial design. Initial design is usually segregated from other engineering effort in the accounting or statistical records.

Special tooling is designed to reduce the requirements for direct labor hours and costs, speed production, and improve techniques, tolerances, and finished parts. The term includes jigs, dies, fixtures, molds, patterns, special gauges, and special test equipment used in the production of end items. The term does not include general purpose tools, capital equipment, expendable tools, small hand tools, tools acquired before the contract, replacement tools, and items of tooling that are usable for the production of items not required under the contract.

Special test equipment includes either single or multipurpose integrated test units engineered, designed, fabricated, or modified to accomplish special purpose testing in the performance of the contract. Such testing units comprise electrical, electronic, hydraulic, pneumatic, mechanical, or other items or assemblies of equipment that are mechanically, electrically, or electronically interconnected so as to become a new functional entity, causing

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the individual item or items to become interdependent and essential for testing the development or production of particular supplies or services. The term "special test equipment" does not include material, special tooling, buildings, and non-severable structures (except foundations and similar improvements necessary for the installation of special test equipment), and plant equipment items used for general plant testing purposes.

Travel and subsistence costs usually include the costs of transportation, lodging, meals, and incidental expenses incurred by personnel while in travel status. When included as other direct costs, the estimate usually is based on the contemplated number of trips, places to be visited, length of stay, transportation costs, and estimated per diem allowance. Estimates for this cost should consider government Joint Travel Regulation (JTR) per diem rates, transportation rates based on the use of less than first class service, projected transportation costs for personnel, mileage allowances, and a comparison of the current estimate with experienced costs of prior procurements of a similar nature.

The cost for provisions requiring contractor engineering personnel to service delivered equipment, usually referred to as field service expense, may be included in the estimate as a separately identifiable item under other direct costs or as a part of indirect cost. It must comply, however, with the proposed accounting system to be used in costing the contract as well as all applicable CAS.

The cost of installation, maintenance, and repair, and the development of operating instructions may be identified in the records as field service expense, guarantee expense, warranty expense, or reserve for guarantee. The cost estimate may include provision for royalties as a separate identifiable item under other direct costs or as part of indirect costs. Proposals that include such costs should identify pre-production, start-up, and other nonrecurring costs, including such elements as pre-production engineering, special tooling, special plant rearrangement, training programs, initial rework or spoilage, and pilot runs.

### Indirect Costs

The estimation of indirect costs and rates requires an understanding of evaluation techniques and insight into to what reasonably may be expected to occur in future operations. The impact of these occurrences and their influence on projected indirect costs and overhead rates must be projected. Knowledge of the accounting policies, particularly those for distinguishing direct costs from indirect costs and the basis for allocating indirect costs to contracts, is necessary for to the development of accurate expense forecasts.

Graphic analyses and statistical techniques can be helpful in evaluating estimated indirect costs. While these techniques alone do not provide a basis for firm forecasts of costs, in appropriate circumstances, they can provide a basis for ascertaining whether estimated costs are within a cost range of what can reasonably be expected in the future.

Indirect cost estimates require consideration of anticipated future operations. They can be based on analyses and projections of historical cost patterns and related data, but they must contemplate changes that may influence the projections.

For example, the accounting policies governing the treatment of certain indirect expenses may change. Such policies may reclassify an expense from direct to indirect or introduce a new method of accumulating and allocating indirect cost. Changes of this nature may affect the estimates for indirect costs and the computation of indirect cost rates.

Management objectives may change as a result of economic conditions and increased competition. For example, in the past

management may have emphasized a program to increase sales, while now management is emphasizing a program to reduce costs.

Indirect labor usually represents a substantial portion of indirect costs. Estimates for indirect labor should include analyses of variable, semi-variable, and non-variable classifications in a current representative period. The ratios of each category to direct labor should be computed and compared with similar ratios for estimated cost. Projections of indirect labor requirements and the related costs can also be compared with manpower budgets. Indirect labor wage rates can be determined by reviewing personnel or payroll records. When projected costs include wage increases, the proposed increases must have been approved by management and be in accordance with applicable agreements.

Differentiation should be made in the treatment of the non-variable, semi-variable, and variable components of indirect material cost. Ratios of these expense classifications to appropriate bases should be computed and compared with similar ratios for estimated cost. Projections of indirect labor requirements and the related costs also can be compared with manpower budgets. Indirect labor wage rates can be determined by reviewing personnel or payroll records. Again, when projected costs include wage increases, the proposed increases must have been approved by management and be in accordance with applicable agreements.

Overhead rates can be very difficult to estimate for future periods because a number of factors can influence either the base or overhead pool, both of which influence the rate. As noted, the rate is determined by dividing the overhead cost pool by the base costs, such as direct labor, over which overhead costs are to be allocated.

An overhead pool can consist of a variety of costs incurred by the company to support direct labor actually performing work under the contract. Some overhead costs, such as rent, depreciation, and supervision, are relatively fixed and will continue at substantially the same level regardless of whether direct labor increases or decreases. Other overhead costs, such as supplies, tooling, and fringe benefits of direct labor personnel, tend to vary somewhat in proportion to the amount of direct labor.

As the contractor's direct labor rises and falls in relation to business volume, the overhead rate will change, but not necessarily in the same magnitude. For example, assume that a contractor has sales of \$100 million a year and is operating at only 70 percent of capacity with an overhead rate of 200 percent. If sales increase by 25 percent, to \$125 million, the overhead rate will probably decrease, for example, to 175 percent because certain fixed costs will not go up proportionately to the higher sales.

### ***Determine the level of sales volume as well as the level of production volume to forecast the labor base.***

In developing cost proposals, the contractor needs to determine, prospectively, the level of sales volume as well as the level of production volume to be able to forecast the labor base. Since prices are based heavily on estimated costs, a lower cost structure will produce lower prices, and vice versa. The contractor should, of course, always project realistic forecasts for overhead rates.

How important is the accuracy of overhead rate forecasts? The answer varies depending on the nature of the contracts. If the contractor is overly optimistic in forecasting overhead rates in an FFP contract, the result may be lower profits or even a loss on the contract if higher overhead rates are incurred when the contract is being performed. Conversely, in a cost-reimbursement contract,

the contractor is not nearly as financially exposed by an inaccurate forecasting of overhead rates (or any other cost for that matter) since the contractor is entitled to be reimbursed for actual costs incurred up to the ceiling in the contract (or any ceiling rates specified in the contract). For example, a contractor may forecast a 150 percent overhead rate during contract negotiations and incur a 200 percent overhead rate during contract performance. Under these circumstances, the contractor is entitled to reimbursement of actual costs, which reflect the 200 percent overhead rate.

The same principle applies to G&A expenses. A contractor must look into the future period of contract performance and:

1. Forecast, as accurately as possible, the costs that will be included in the G&A pool
2. Properly relate the G&A cost pool to the base costs estimated to be incurred during that period
3. Develop a rate that will be applied to the estimated costs of the base.

## Submitting Price Proposals

The instructions for submitting price proposals when cost or pricing data are required are contained in FAR Table 15-2, and are essentially carryovers from those formerly used in conjunction with the Standard Form 1411, Price Proposal Cover Sheet, which is now obsolete.



### General Instructions

**Note 1 to FAR Table 15-2** describes the requirement for submitting cost or pricing data that are derived from FAR Part 15 and the Truth in Negotiations Act. Offerors are reminded that a distinction exists between submitting cost or pricing data and merely making available books, records, and other documents without identification or elaboration. The offeror's requirement for submission of cost or pricing data is met when all accurate cost or pricing data reasonably available to the offeror have been submitted, either actually or by specific identification, to the contracting officer or an authorized representative of the contracting officer.

Data not reasonably available are not required to be submitted and an offeror is not obligated to recast existing data into any particular format to meet this disclosure requirement. The reference to "actual submission or specific identification" is an option. An offeror's obligation is not to submit and specifically identify cost or pricing data. The purpose of this optional means of compliance is to accommodate situations where voluminous data make it impractical to actually submit all cost and pricing data. However, the ability to satisfy the requirements by specific identification is not a license to simply list data without explaining their relevance to the price proposal.

Offerors are further reminded that any subsequently obtained relevant cost or pricing data should be submitted promptly to the contracting officer in a manner that clearly shows how the information relates to the offeror's price proposal. These data should be

submitted directly to the contracting officer, not to the government auditor. The requirement for submission of cost or pricing data continues up to the time of agreement on price, or an earlier date agreed upon between the parties if applicable. In practice, the contracting officer seldom agrees to an earlier cutoff date.

**Note 2 to Table 15-2** informs offerors that by submitting the proposal, the offeror grants the contracting officer or an authorized representative the right to examine the records that formed the basis for the pricing proposal. The authorized representative is generally a contract auditor, but may also be a contract administrator or price analyst. The government examination can take place at any time before award and in some rare instances has actually occurred after contract award. The examination may include review of those books, records, documents, and other types of factual information (regardless of form or whether the information is specifically referenced or included in the proposal as the basis for pricing) that will permit an adequate evaluation of the proposed price. This is an open-ended and extremely subjective condition.

The more mundane items required by *Table 15-2* include:

1. Solicitation, contract, and/or modification number
  2. Name and address of offeror
  3. Name and telephone number of point of contact
  4. Name of contract administration office if available
  5. Type of contract action i.e., new contract, change order, price revision/re-determination, letter contract, un-priced order, or other
  6. Proposed cost, profit or fee, and total
  7. Whether the use of government property will be required in the performance of the contract, and, if so, what property
  8. Date of submission
  9. Name, title, and signature of authorized representative.
- Other questions to be answered include whether:
- The offeror's organization is subject to the CAS
  - The offeror's organization has submitted a CAS Board disclosure statement
  - The offeror's disclosure statement has been determined to be adequate
  - The offeror has been notified that it is or may be in noncompliance with the disclosure statement or the CAS, and, if so, an explanation
  - Any aspect of this proposal is inconsistent with the offeror's disclosed practices or applicable CAS, and, if so, an explanation
  - The proposal is consistent with established estimating and accounting principles and procedures and *FAR Part 31, Cost Principles*, and, if not, an explanation.

The answers to these questions are crucial. If an offeror is not subject to the CAS because it is a small business (or any other exemption), this fact should be included in the response to the questions. An offeror should also indicate whether or not it is subject to full or modified CAS coverage. If no disclosure statement has been submitted, the offeror should either: (1) state that no disclosure statement is required; or (2) indicate the status of any disclosure statement submission. If any aspect of the price proposal is not consistent with the CAS or *FAR Part 31*, an offeror should review the circumstances carefully to determine if the proposal should be revised to be consistent. An

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answer that the proposal is not consistent with either regulation will undoubtedly cause potential significant problems in obtaining contract award or in negotiating a price.

The instructions require the following statement: "This proposal reflects our estimates and/or actual costs as of this date and conforms with the instructions in FAR 15.403-5 (b)(1) and Table 15-2. By submitting this proposal, we grant the contracting officer and authorized representative(s) the right to examine, at any time before award, those records, which include books, documents, accounting procedures and practices, and other data, regardless of type and form or whether such supporting information is specifically referenced or included in the proposal as the basis for pricing, that will permit an adequate evaluation of the proposed price."

This statement is the certification that appeared on the now defunct SF 1411. The reference to FAR provisions obligates the offeror to be responsive to any requirements in that portion of the FAR. Finally, the provision regarding access to records is necessary because of the absence of a contract clause (and contract) providing for any access to the offeror's books and records.

The instructions further request the offeror to include an index, appropriately referenced, of all the cost or pricing data and information accompanying or identified in the proposal. The format provided by offerors and accepted by the government is not fixed and in practice may vary substantially. In addition, an offeror should annotate any future additions and/or revisions on a supplemental index. This requirement is a good idea from a contractor perspective because documentation of what data have been submitted to the government could be a critical issue in any allegation of violations of the *Truth in Negotiations Act*.

The instructions state that an "...offeror must clearly identify that cost or pricing data are included as part of the proposal." The need for the statement is questionable because the instructions are only applicable where cost or pricing data are required and the offeror is responding to this requirement.

In addition, the offeror must submit with the proposal any information reasonably required to explain its estimating process, including the judgmental factors applied and the mathematical or other methods used in the estimate, including those used in projecting from known data and the nature and amount of any contingencies included in the proposed price. Judgmental factors include describing what or how specific historical data were selected for estimating purposes. This might include describing learning curve applications, average hour calculations based on selected historical data, etc. For materials, this might involve describing how material prices were estimated—recent prices (and how recent), quotes, moving average of recent prices, etc.

***The government seeks to ensure that contingencies are considered only once in any price negotiation.***

Contingencies must be identified—not because contingencies are unallowable, but because the government seeks to ensure that contingencies are considered only once in any price negotiation. If contingencies are specifically priced in the proposal, then the risk (and thus margin or profit) might be less.

Offerors must show the relationship between contract line item prices and the total contract price. Offerors must attach cost element breakdowns for each proposed line item, using the

appropriate format prescribed in the "Formats for Submission of Line Item Summaries" section of Table 15-2. Supporting breakdowns for each cost element, consistent with the offeror's cost accounting system, must be provided. The cost elements are essentially direct labor, materials and subcontracts, other direct costs, overhead, and G&A expense plus cost of money.

When more than one contract line item is proposed, a summary total amount covering all line items for each cost element must be included in the proposal support. Whenever an offeror has incurred costs for work performed before submission of a proposal, the offeror must identify those costs in the price proposal. If the offeror has reached an agreement with government representatives on use of forward pricing rates and factors, the agreement should be identified, a copy included, and its nature described.

Offerors are informed that as soon as practicable after final agreement on price or an earlier date agreed to by the parties, but before the award resulting from the proposal, the offeror must, under the conditions stated in FAR 15.406-2, submit a *Certificate of Current Cost or Pricing Data*. In practice, this date could be as long as several months after completion of negotiations.

**Required Breakdowns**

Depending on an offeror's accounting system, an offeror must provide breakdowns for the following basic cost elements, if applicable:

- Materials and services
- Direct labor
- Indirect costs
- Other costs
- Royalties
- Facilities capital cost of money
- Profit
- Materials and Services

Offerors should provide a consolidated, priced summary of individual material quantities included in the various tasks, orders, or contract line items being proposed and the basis for pricing (e.g., vendor quotes, invoice prices). Not only must each contract line item be priced, but a summary of materials for all items in the proposal must be provided. The purpose of this summary is to assist in the evaluation of material unit prices based on quantities expected to be used for the entire contract.

***For all items proposed show the source, quantity, and price.***

An offeror is to include raw materials, parts, components, assemblies, and services to be produced or performed by others. The specific contractor terminology is not important; the items to be included are any direct costs incurred by others. For all items proposed, the offeror should identify the item and show the source, quantity, and price. If these three factors cannot be determined, they must be estimated. For example, the planned source may be known, but this could change by the time the materials are actually purchased. The quantity should be known—including an estimate for material attrition. The price will most likely have to be based on an estimate. It is often difficult to obtain quotes unless the supplier is assured of the possibility of a subsequent order. All this assumes that the product is sufficiently designed to permit development of a bill of material.

Offerors are expected to conduct price analyses of all subcontractor proposals. This may involve a variety of techniques, including comparison of prior prices, prices from competitors, and in-house cost estimates.

## *A cost analysis cannot be conducted unless the potential subcontractor has submitted cost or pricing data.*

In addition, offerors should conduct cost analyses for all subcontracts when cost or pricing data are submitted by the subcontractor. *A cost analysis cannot be conducted unless the potential subcontractor has submitted cost or pricing data.* When these cost or pricing data and analyses exist, an offeror is expected to include these analyses as part of its own cost or pricing data submissions for subcontracts expected to exceed \$500,000. The subcontractor's cost or pricing data should be submitted as part of the offeror's cost or pricing data. These requirements also apply to all subcontractors who are required to submit cost or pricing data.

Regarding materials, offerors are expected to provide data showing the degree of competition and the basis for establishing the source and reasonableness of price for those acquisitions exceeding, or expected to exceed, \$500,000 that are priced on the basis of adequate price competition. For inter-organizational transfers priced at other than the cost of comparable competitive commercial work of the division, subsidiary, or affiliate of the contractor, an offeror must explain the pricing method.

Offerors should obtain cost or pricing data from prospective sources for those acquisitions exceeding \$500,000 and not otherwise exempt (i.e., adequate price competition, commercial items, prices set by law or regulation, or waiver). An offeror must provide data showing the basis for establishing source and reasonableness of price. These requirements mean that the source selection should be described in terms of competitive prices, market prices, catalog prices, commercial items, inter-company transfers, unique technical capabilities, sole source, direct source, etc., and whether reasonableness was established by competition, market conditions, price analysis, or cost analysis.

In addition, an offeror is requested to provide a summary of its cost analysis and a copy of cost or pricing data submitted by a prospective source in support of each subcontract, or purchase order that is the lower of either:

1—\$10,000,000 or more

or

2—both more than \$500,000 and more than 10 percent of the offeror's proposed price.

The contracting officer may require cost or pricing data in support of proposals in lower amounts. Remember, if no cost or pricing data have been submitted to the offeror, none can be submitted to the government. Offerors may have little leverage to demand cost or pricing data from a potential subcontractor who does not think it has a chance for subcontract award or who simply declines to provide any data until an actual prime contract exists.

Subcontractor cost or pricing data must be accurate, complete, and current as of the date of final price agreement on the subcontract (not the date of price agreement on the prime contract), or an earlier date agreed upon by the parties. The prime contractor is responsible for updating a prospective subcontractor's data. In recent years, court decisions have made this a more proactive requirement on the part of a prime contractor. Specifically, recent decisions have suggested that prime contractors should actively seek updated data rather than merely ensure that subcontractor cost or pricing data are current, accurate, and complete as of the date of the subcontract price agreement.

For standard commercial items fabricated by the offeror that are generally stocked in inventory, the offeror should provide a separate cost breakdown, if priced based on cost. For inter-organizational transfers priced at cost, an offeror must provide a separate breakdown of cost elements. In other words, for transfers at cost, the same data are required as if the offeror's organization were proposing to perform the work. Providing these data can be difficult for decentralized organizations that do not normally provide each other with cost data.

An offeror is requested to analyze the cost or pricing data and submit the results of its analysis of a prospective source's proposal. When submission of a prospective source's cost or pricing data is required, it must be included along with the offeror's cost or pricing data submission. An offeror must also submit any other cost or pricing data obtained from a subcontractor, either actually or by specific identification, along with the results of any analysis performed on those data. These stated requirements are frequently not achieved in practice. If prospective subcontractors refuse to submit such data before assurances of award or a perception of reasonable award potential, there may be no subcontractor information to provide to the government. What does not exist cannot be provided!

Finally, the basis for the hours and rates should be provided. Typical bases for hours include historical average hours, application of learning curves, work measurement standards, and engineering estimates. Typical bases for rates include historical rates adjusted for various escalation factors, area/industry rates, and letters documenting offers of employment.

### Direct Labor

An offeror is to provide a time-phased breakdown of labor hours, rates, and cost by appropriate category, and furnish bases for estimates. The time-phased requirement means that direct labor hours should be estimated by month, quarter, or year. Direct labor rates should likewise be identified by time period. Labor categories are those established by the offeror. However, an offeror should use categories that exist in its cost accounting system. Frequently, a request for proposals may require categories that are not consistent with the offeror's accounting system. Care needs to be taken to ensure that a reconciliation of the categories is documented.

Finally, the basis for the hours and rates should be provided. Typical bases for hours include historical average hours, application of learning curves, work measurement standards, and engineering estimates. Typical bases for rates include historical rates adjusted for various escalation factors, area/industry rates, and letters documenting offers of employment.

### Indirect Costs

An offeror should indicate how it computed and applied indirect costs, including cost breakdowns. This includes showing trends and budgetary data to provide a basis for government evaluation of the reasonableness of proposed rates. Offerors should indicate the rates used and provide an appropriate explanation. This means that historical data and/or budgets should be used to support proposed rates. Elimination of any unallowable costs from historical data or budgets should be evident in the supporting data.

### Other Costs

An offeror must list all other costs not otherwise included in the categories described above. These might include special tooling, travel, computer and consultant services, preservation, packaging and packing, spoilage and rework, and federal excise tax on finished articles. The basis for pricing these items should be provided.

### Royalties

At one time, royalties were a significant cost element. The FAR instructions require that if royalties exceed \$1,500, an offeror must provide the following information on a separate page for

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# CAIV

## Cost As an Independent Variable

### ***‘Variable’ But Not Really ‘Independent’***

*by ALAN SNODGRASS  
(With contributions from David Weimer and  
other Shipley Associates)*

Cost As an Independent Variable (CAIV) may be the most enigmatic term in today’s Department of Defense (DoD) procurement lexicon. We all understand the words indi-

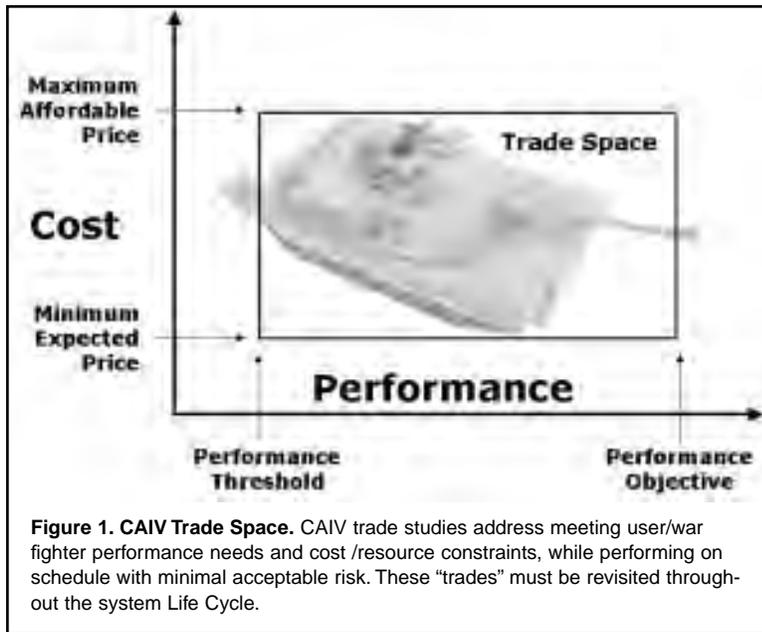
vidually, but comprehending their collective meaning is elusive. In particular, the concept of cost being “an independent variable” is difficult to understand, since even government proponents disclaim that cost can genuinely be “independent,” and few would argue with the idea that cost is “variable.” Actually, it is more simple than we think.

The goal of CAIV is to establish achievable, affordable Life Cycle Costs and quantified price requirements. CAIV treats cost as an input rather than an output.

Fortunately, proposal professionals do not have to be CAIV experts. That can (and perhaps should) be left to the skilled practitioners in the field. However, we do need to appreciate CAIV’s complexity and its impact on solution planning and proposal development. Accordingly, this article will attempt to answer the following questions:

- What is CAIV and how does it work?
- Why has CAIV been initiated and in what sense does it make cost an “independent variable”?
- Is CAIV here to stay, and what can proposal professionals do to meet its objectives?

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area between cost objectives and cost ceilings, and threshold performance and desired performance, as shown in Figure 1. CAIV constantly reviews a system’s needs, risks, and cost constraints throughout the life of the system, including upgrades, operations, and sustainment. CAIV is the early and ongoing use of Trade Space by the user/buyer/supplier partnership.

CAIV is founded on two primary principles:

- Total Systems Costs Are Capped. To preclude sacrificing force modernization to pay operational and support costs of current systems, near-term costs must be reduced and out-year costs must be contained.
  - Trade Space is the Foundation for Informed Decisions. Trade Space defines a range of alternatives available to decision-makers that directly influence costs, e.g., performance, schedule, and risk.
- CAIV works in three fundamental ways:
- CAIV gives government and industry a process that provides the customer/warfighter with superior systems that are affordable over the life of the system.

- CAIV provides a planning methodology to establish and adjust program performance and cost objectives using cost-performance analyses and trade-offs (Trade Space). Integrated Product Teams (IPTs) facilitate this planning activity during all acquisition phases.
- CAIV defines cost objectives and Key Performance Parameters (KPPs) before the development of the Request for Proposal (RFP). Industry and government are given incentives to meet or better the cost objectives without sacrificing KPPs.

## What is CAIV and How Does it Work?

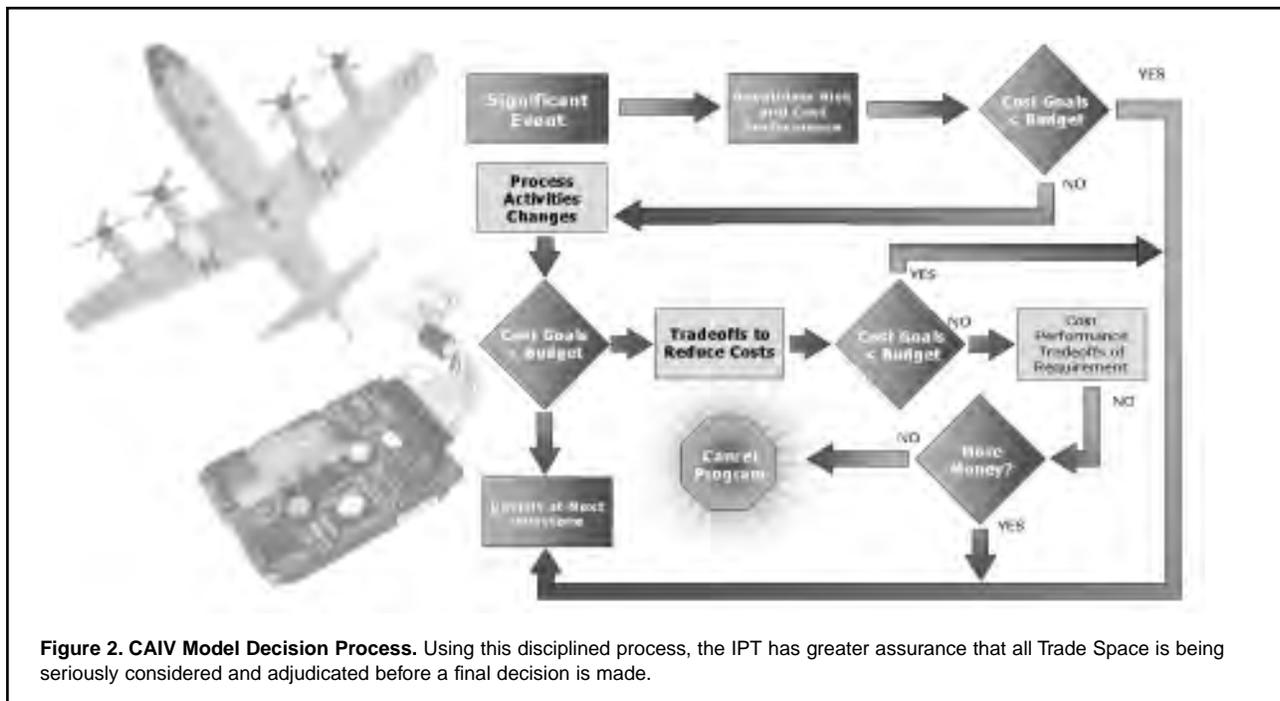
CAIV has been defined as “the process of using better business practices, allowing Trade Space for industry to meet user requirements, and considering operations and maintenance costs early in requirements definition in order to procure systems smarter and more efficiently.”

CAIV’s most important objective is to reduce costs for the total life of a new system, not just cost reduction of design or production.

“Trade Space” is a CAIV term that establishes the trade-off

In Figure 2, note that there can be up to four yes/no decision points. Because these decisions may apply to each KPP and major schedule milestone, the CAIV effort can be intense.

Each bidder must conduct as many cost/performance



trades as needed to produce a system that meets minimum KPPs at less cost. In every case, design-to-cost suggested changes are reviewed by the IPT before approval.

To be effective, all trades must be started as early in the acquisition cycle as possible. Recognizing that CAIV is an iterative process between the DoD and the winning contractor(s), all of the following five elements must be considered:

1. **Capabilities-Based Requirements**—The DoD customer must define requirements through KPP by stating what is wanted from a system, not how to build the system. This gives competitors the flexibility to design a “best value system” that achieves the minimum KPPs, saves money, meets the schedule, and has minimal acceptable risk.
2. **Partnering and Incentives**—Trust within the DoD/industry team is essential to ensure the development of an optimum system consistent with CAIV savings. The contractor’s IPT and the DoD must agree on final thresholds; define objective values for cost, schedule and performance; and ensure that risks are acceptable. Collaboration between the DoD user and the contractor’s IPT must achieve Life Cycle Cost reduction targets, not just near-term cost objectives.
3. **Total Ownership Cost/Life Cycle Cost Focus**—Both DoD and the contractor’s total ownership cost determine targets for the system. At each DoD acquisition milestone, targets and progress toward them are reviewed to determine if they are being met. Remedial action is required if a target is not being met but the target is still realistic. Typical targets for procurement and “sustainment” (operational and support costs after system deployment) are called Average Unit Procurement Cost (procurement funding/total quantity) and Average Unit O & S Cost (unit cost per flight hour).
4. **Risk-based Management**—Risk management must be an overriding consideration for the IPTs when determining cost reductions versus performance and schedule trades. Risk-based management includes four key elements:
  - Planning—Strategies and methods for identifying and

tracking risk areas, developing risk mitigation plans, performing risk assessments, and planning adequate labor and material resources.

- Analysis—A process for examining each program and process risk, isolating the cause, and determining impact. Risk must be analyzed, assessed, and managed in the four distinct, yet interrelated areas of cost, performance, schedule, and requirements (threat-based risk).
  - Handling—A process for identifying, evaluating, selecting, and implementing options so that risks can be set at acceptable levels consistent with program objectives. Documented in a risk-handling plan.
  - Monitoring—A process to systematically track and evaluate risk handling actions against metrics throughout the total acquisition process.
- Unfortunately, setting aggressive cost objectives increases the risk that performance and schedule might be compromised. Because this could negatively affect the user, Trade Space must be “discounted” for risk, thus highlighting the importance of maintaining KPPs.
5. **Measurement**—Metrics must be continuously used to address CAIV cost reduction throughout the life of the program. Figure 3 shows samples of metrics and indices that are used.

## Why Has CAIV Been Initiated?

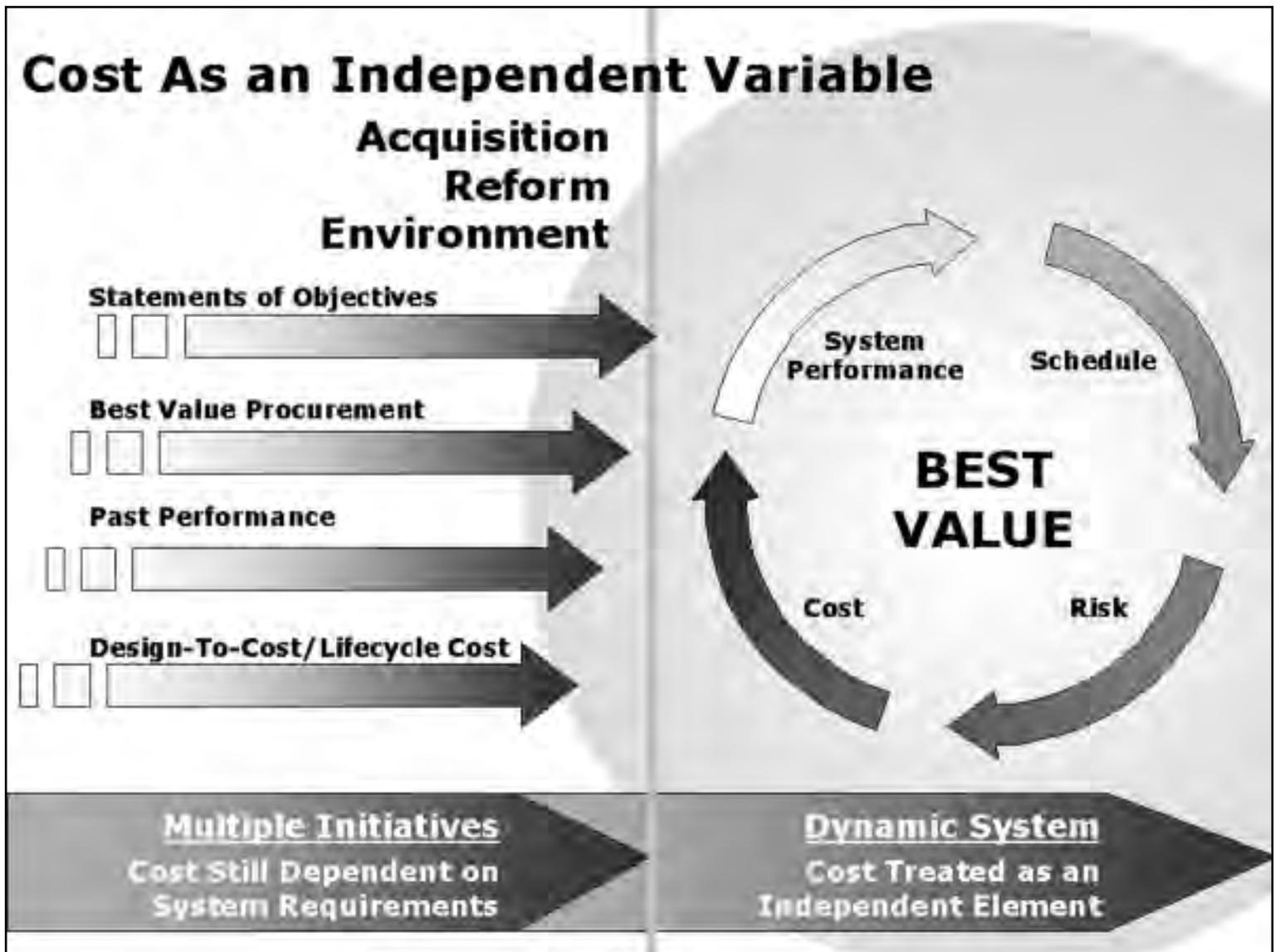
...and in what sense does it make cost an “independent variable”?

CAIV represents a critical progression from such past initiatives as Systems Engineering Management Plans (SEMPs), Value Engineering (VE), Design-to-Cost (DTC), and Life Cycle Cost (LCC) analysis. CAIV does not supplant these earlier

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METRICS	INDICES
Defined Cost Objectives (COs) are consistent with requirements and fiscal resources	Production and O&S cost objectives are in the RFP  Key trade-off issues are addressed  The RFP contains strict KPPs  Trade-Off space is identified  Risks to achieve CO are identified
The Government manages CO achievement	Contractor incentives to achieve LCC CO
The contractors manage CO achievement	Appropriate tools for cost-performance trade-offs  New cost-reducing technologies and manufacturing processes  Strong relationships and incentives with/for vendor base

**Figure 3. CAIV Metrics and Indices.** The use of metrics and indices ensures that objective decisions are made based on analytical trade-offs of cost vs. performance vs. schedule vs. risk.



**Figure 4. Independent Variability.** CAIV fundamentally redefines the relationship of cost to other critical constraints. It frees cost from subordination to technical performance and allows it to independently influence the solution in the same way that schedule and risk considerations have come to exert influence.

attempts to inject cost objectives into the system design, development, production, and operations cycle. Rather, it places them into a new model. This model is designed to address both technical performance and costs, to ensure that major systems perform adequately, with minimal acceptable risk, and at affordable cost.

This historic perspective clarifies the claim that cost may now be seen as an “independent variable” (See Figure 4). The over-riding issue over the last 20 years has become affordability. The increasing sophistication of military threats and the systems necessary to counter new threats have resulted in ever-increasing expenditures to design, develop, and field those systems. At the same time, other national priorities have resulted in lower Congressional funding for the defense budget.

CAIV is the next logical step to mitigate the trend toward runaway system costs. It applies better commercial business practices to trade off such areas as performance, schedule, and

risk against short- and long-term cost savings.

For example, CAIV proponents envision the government system manager emulating the manager of a commercial truck fleet, who trades-off V-8 engines, luxury entertainment centers, and heated, automatic leather seats against V-6 engines with less accessory weight. This trade-off results in the same acceleration with longer range, and saves \$1,000 per vehicle in procurement while also decreasing operating and support costs.

In thousands of businesses that have nothing to do with government business, a similar approach is used many times every day. To stay competitive in the marketplace, these businesses must constantly trade-off the price the market will bear with the latest state-of-the-art, and must also get the product to the customer before the competition does. They have to assess the risk of multiple decisions. Commercial firms thus use a CAIV-like process every day to meet the commercial marketplace’s competitive pressures. With CAIV, the government has now institu-

tionalized this common business practice for major federal procurements.

## IS CAIV Here To Stay?

...and what can proposal professionals do to meet its objectives?

The DoD appears committed to CAIV, and early results suggest that the approach is meeting its primary objective. As an example, the Defense Acquisition Deskbook (DAD) provides an account of the AIM-9X MIDS program, which is summarized below.

CAIV APPLICABILITY
DoD requires that CAIV be applied to Major Defense Acquisition Programs (MDAPs) meeting certain criteria defined in DoD Instruction 5000-2R. Applicable RFPs will define when CAIV studies are required and the Trade Space.
For MDAPs, CAIV must be used for those programs that are estimated to have: <ul style="list-style-type: none"> <li>• Research and development cost of \$365 million or more, and/or</li> <li>• Estimated costs totaling \$2.19 billion or more.</li> </ul>
For Major Acquisition of Information Systems (MAISs), CAIV is required if: <ul style="list-style-type: none"> <li>• Estimated expenditures in one year would be \$32 million, or</li> <li>• Total estimated program costs are \$126 million, and/or</li> <li>• Anticipated LCC will be \$328 million.</li> </ul>
Note: Estimated amounts are in FY 2000 dollars.

## Procurement Issues You Can Help Manage

Such results suggest that CAIV is here to stay. Proposal professionals need to work diligently to address procurement issues raised by CAIV and to leverage the CAIV approach for its inherent competitive potential. We must be able to help proposal teams cope effectively with the following issues:

- **Ambiguity**—It is not always clear that government cus-

tomers mean the same thing when they invoke CAIV. Since CAIV is as much an approach to program development as it is a process, it is important for us to understand specifically what our customers are including in their definition of CAIV.

- **Terminology**—Some customers do not invoke CAIV requirements by name. In recent RFPs, customers have used such terms as “design sensitivities to cost” and “affordability”

*more...*

### AIM-9X Air-to-Air Missile

Frames to the right are photo stills taken from a Quicktime Movie of the first AIM-9X test. The movie shows a Navy FA 18, firing the test missile and hitting an F-4 Phantom.

You can access the Quicktime movie at the Naval Air Warfare Center, Weapons Division Web site:  
<http://www.nawcwpns.navy.mil>



“The US Navy’s CAIV flagship program, the AIM-9X Air-to-Air Missile, is a joint USN/USAF Engineering and Manufacturing Demonstration (EMD) effort CAIV application that involves Integrated Production and Process Development (IPPD) teams, minimum Key Performance Parameters, cost-performance trades (Trade Space), aggressive price targets, and a procurement price commitment curve. The contract was awarded in November 2000 and is scheduled to continue through year 2018.

In the middle of the EMD phase, the program was modified because of an eight-month schedule delay. Modifications enabled the program to reduce missile quantity in near-term Low Rate Initial Production (LRIP) years, and included needed Research and Development (R&D) funds to finance the schedule extension. The program handled its own funding issues within the authorized budget without seeking additional funding.

The result was encouraging. At EMD award, \$117M of Research Development Test and Evaluation (RDT&E) was turned back to the DOD and \$75M was given back for procurement. This represented a net savings of \$42M.

CAIV will continue throughout the life of the program and is being used to look internally at the AIM-9X program for cost savings using CAIV before asking for additional funding from the US Navy or the US Air Force. Monthly meetings are held, called “Kick-The-CAM” (Cost Account Manager), where responsible IPT members address cost, risk, schedule, and Key Performance Parameters to assess remedial actions and possible cost savings.

The US Navy/US Air Force conclusion has been very positive: “Depends on phase of the program, but CAIV principles always have some cost-saving potential.”

to refer to CAIV tenets.

- **Flexibility**—Depending upon where a program is in its life cycle and what type of program is involved, CAIV may imply different objectives and require various approaches to trades and Trade Space. For example, during the design phase, CAIV calls for broad Trade Space focused on all aspects of cost. Programs with less of their life cycle ahead of them may envision CAIV contributions in a much more limited way.
- **Judgment**—It may be difficult to judge what constitutes an adequate Trade Space for meeting a given customer's objectives. For example, in one program, a major defense contractor conducted what it considered a reasonable number of trade studies to support a particular design decision, only to discover that the customer really wanted to do something else. What started as exploration of three or four options ended in 12 iterations that dramatically expanded the Trade Space.
- **Readiness**—Engineers often do not understand how to estimate the cost of requirements. They may not recognize that working the Trade Space is more like "brainstorming" than "design," and that not having rapid estimating can cause major delays and minimize responsiveness to customer desires.

- Even if CAIV is not specified, make sure the team knows it must offer at least a simplified CAIV approach as a competitive discriminator.

**Employ CAIV Tenets, Even When Not Specified**—Always employ all the CAIV tenets in the proposal. You cannot go wrong with CAIV if you remember to:

- Make decisions based on a consideration of the system's total life cycle.
- Determine requirements with a balance of performance, schedule, risk, and cost considerations (i.e., keep the system dynamic).
- Make sure that you have a plan to manage risks throughout the proposed program.

Even when a customer only implies CAIV, learning to spot his indications can make the difference between being responsive or non-responsive. Help your proposal team:

**Define an Achievable Methodology**—Be sure to address how decisions will be made and how requirements will be settled. Without well-defined methodologies in the proposal, there can be major "requirements creep" surrounding trade studies during program execution.

**Do Not Underestimate the Customer's Desire for Trades**—The appropriate amount of Trade Space is a function of the customer's aggressiveness, the phase of the program, and agency constraints. Only by proactively seeking concurrence on Trade Space can the proposal team be prepared to respond correctly.

**Keep Your Methods and Trade-offs Simple**—Do not be overly creative or get carried away with elaborate processes. It is easy to become embroiled in the complexity of how trades could be performed. Seasoned professionals emphasize that treating CAIV less like a stand-alone process and more like a rule-based approach can keep things in perspective.

## Advice To Proposal Professionals

**Help Your Proposal Team to Competitively Exploit the Benefits of CAIV**—Because CAIV is ultimately about applying good commercial practices and best management practices to major government programs, its application to a program is inherently worthwhile. To creatively exploit CAIV to your benefit:

- Make sure the team understands any CAIV goals that have been included in the Request for Proposal, and addresses each of these goals in the proposal.
- Make sure that the proposal team understands the IPT concept and its importance in CAIV, and addresses how the company will use IPTs to support CAIV.

## Sources

*Defense Acquisition Deskbook (DAD)* CD-ROM from the Joint Program Office.

Figure 1: Source: Major Casey Blake, "HQ AFMC — CAIV The Air Force Way." Presentation to the Southern California Chapter of the American Society of Cost Estimating and Analysis, March 18-19, 1998.

## For Additional Information

You can order the Defense Acquisition Deskbook (DAD) CD-ROM from the Joint Program Office, 2275 D Street, Bldg. 16, WPAFB, OH 45433-7233. The phone number is 937-255-0423 and the e-mail address is [deskbook@deskbook.osd.mil](mailto:deskbook@deskbook.osd.mil). The Web site is [www.deskbook.mil](http://www.deskbook.mil).

**TYPICAL  
INDUSTRY  
EXPERIENCE**

In an early experience with CAIV requirements, a leading aerospace firm formed two teams - one "to work CAIV" and the other focused on the standard cost/price volume. As the proposal effort neared completion, company management decided to reduce price. Because the teams were separate, there was no ability to coordinate CAIV trades with proposed price, and this was one reason why they did not have a winning proposal.

**What did they learn and what are they now doing differently?**

- CAIV must be an integral part of both the solution design and the cost/price development. It can't be a separate effort.
- CAIV's major thrust must be up front to help both the company and the customer "triangulate" on a cost/price approach that delivers a technical solution with acceptable performance and minimal acceptable risk.
- CAIV must be a fundamental part of price-to-win analyses and the allocation both technical and cost targets.

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### Acknowledgments

Mr. Snodgrass gratefully acknowledges the contribution of Shiple consultant Dr. David Weimer for his contribution in the preparation of this article as one who personally assisted DoD in developing guidelines for the CAIV process. In addition, many thanks to members of the DoD, valuable clients, fellow Shiple Associates, and Proposal Management's Jayme A. Sokolow.

## Best Value Proposals Under OMB



*Within the past twelve months, several significant developments have occurred within the A-76 sector of the “public-private competition” arena. These developments in the case law and changes to the Revised Supplemental Handbook will surely influence those who support the private contractor side as well as those supporting the government side. It appears that all the changes have resulted from the “best value” approach to federal contracting.*

## Circular A-76

by **DAVID B. DEMPSEY**

To put the past year's changes in perspective, this article begins with the history of OMB Circular A-76, its Supplemental Handbook and revisions thereto, the Federal Activities Inventory Reform Act (see 31 U.S.C. § 501 Note, Pub. L. 105-270), and decisions from the Comptroller General.

### The History of Circular A-76

OMB Circular No. A-76 was established in 1966 as a method for reducing the cost of services purchased by the federal government. After 30 years of relative dormancy, OMB Circular No. A-76 took on new life when the original “Cost Comparison

Handbook” was substantially revised in March 1996. In addition to identifying how specific costs were to be handled for an A-76 cost comparison, the newly-named Revised Supplemental Handbook (hereinafter “RSH”) permitted the use of “best value” procurement methods in selecting the industry offeror whose “best value” offer would be compared to the cost of the competing government “Most Efficient Organization (MEO) Study.” See Handbook, Ch. 1, ¶ H.3.

Passage of the FAIR Act in 1998 and its implementation in the Circular and the RSH in June 1999 (see 64 Fed. Reg. 33927) should result in an increase of A-76 procurements because the FAIR Act requires federal agencies to identify commercial activities that “are not inherently governmental functions,” as probable subjects for A-76 procurements. Once a specific activity is listed as one of the agency's commercial activities, the agency is obligated

*more...*

to conduct a cost comparison. 31 U.S.C. § 501 Note, § 3(a)-(b). Section 2 (e) FAIR Act essentially requires public-private competitions. According to its legislative history, the purpose of a “public-private” competition is to provide the “best value to the American taxpayer.” See 144 Cong. Rec. at S9104.<sup>1</sup> The FAIR Act’s legislative history is consistent with the elements underlying “performance based contracting,” which focus on:

1. The statement of work
2. Quality assurance
3. Competitive negotiations as the preferred source selection procedure. See FAR 37.602.

Given the legislative history to the FAIR Act, and the policy of performance-based service contracting, the service contract community should anticipate *only* FAR 15’s “best value” procurement process will govern during the “private-private” competition as the prelude to the “public-private” competition.

### The A-76 “Best Value” Process

An A-76 “best value” procurement is a multi-step process generally performed as follows:

1. The agency identifies a commercial-type function currently performed in-house by the government that could be performed by the private sector;
2. Through the efforts of an agency Commercial Activities Team, a Performance Work Statement (“PWS”) and Quality Assurance Surveillance Plan are drafted and included as the major elements of a solicitation to private sector offerors;
3. The agency conducts a management study to determine the agency’s MEO;
4. A solicitation is issued that states the agency will select the offer that represents the best value or is the “most advantageous to the government, price and other factors considered;”
5. The private best value offeror is selected from the private/private competition and is compared to the agency MEO on the basis of the same level of performance and the same level of performance quality; and
6. Any administrative appeals are processed to confirm that the agency included all costs and that such costs are realistic and fair.<sup>2</sup>

The private sector proposals compete against each other on the understanding that the “best value” offer will be selected. Following selection of the best value offer, the government must compare the MEO to the winning private sector proposal to insure that the MEO (also prepared on the basis of the PWS), meets the same level of performance and performance quality as that selected from the private/private competition. See Supplemental



Handbook, Ch. 3, ¶ H.3.d. and e. This is referred to as the “leveling” or “true up” process. The significance of the “leveling” or “true up” is that the government must make any changes to the MEO that are necessary to bring the MEO’s performance level and performance quality level up to the standards offered by the selected “best value” private sector proposal. Contractors must confirm that the true up has been done and been done correctly.<sup>3</sup>

### The “Leveling” or “True-Up” Process

When comparing the MEO to the selected best value offer (which should be completed *before* the advent of an Administrative Appeal), the agency’s Independent Review Officer (“IRO”) must confirm that the MEO offers at least the same level of performance and of performance quality that is being offered by the private sector proposal. If the MEO-proposed level of performance and performance quality is considered not equal to the best value proposal, the agency *must* (1) revise its Technical Performance Plan to include the missing performance levels and quality levels to the MEO and (2) reprice the MEO (including all fair and realistic costs) before conducting the cost comparison. This “leveling” or “true-up” is to ensure the cost comparison is conducted on an “apples to apples” basis between the private sector proposal and the MEO. See *NWT, Inc., PharmChem Laboratories, Inc.*, B-280988, B-280988.2, Dec. 17, 1998, 98-2 CPD ¶ 158 at 669 (“apples to apples and not apples to oranges and [must ensure] that they were the same grade of apples.”).<sup>4</sup>

Some agencies provide explicit guidance to their contracting personnel. For example, the Navy Commercial Activities Program Manual explains as follows:

To make this a fair comparison, the scope of work and performance level of *both* the best value proposal and the Government’s proposal *must be the same*. Accordingly, it may be necessary to perform technical leveling (adjustment of the scope of work or the Government’s technical performance plan) to *match work* contained in the proposal presented by the selected commercial offeror. *After adjustment*, the Government’s proposal *will be re-priced* as necessary *before being compared* with that of the selected commercial offer.<sup>5</sup>

The problem, as articulated in recent Comptroller General decisions, is that agencies fail to conduct, or properly conduct, the leveling of the performance levels and the performance quality standards of the selected best value offer versus the MEO.

## Comptroller General Decisions

Significant decisions within the last year emphasize that the government must compare the MEO *directly* to the winning private sector proposal. As stated in *Aberdeen Technical Services*, B-283727.2, Feb. 22, 2000, 00-1 CPD T 46 at 8:

To preserve the integrity of the cost comparison, private-sector offerors and the government must compete on the basis of the same scope of work. See Supplemental Handbook, Part 1, Ch. 3, ¶ H.3.e. See also *DynCorp*, B-233727.2, June 9, 1989, 89-1 CPD ¶ 543 at 4; *Aspen Sys. Corp.*, B-228590, Feb. 18, 1988, 88-1 CPD ¶ 166 at 3; *EC Servs. Co.*, B-218202, May 23, 1985, 95-1 CPD ¶ 594 at 3.

The GAO concluded that when a private sector winner is chosen on some basis other than cost (i.e., the best value trade-off), the government must determine that the MEO equals or exceeds the performance requirements established by the private sector winner. Therefore, a comparison that simply determines that *both* the MEO and the private sector proposal satisfy some minimum level of performance (presumably taken from the PWS) is *insufficient*.

In *Rice Services Ltd.*, B-284997 (Jun. 29, 2000), 00-1 CPD ¶ 113, the lesson from *Trajen* was confirmed and further refined. Through *Rice Services*, the GAO instructed that once the private sector proposal is chosen, that proposal becomes the “benchmark” which the MEO *must* satisfy. *Rice Services*, *id.*, at 8. The “benchmark” approach means that the MEO’s service levels and quality of service must be compared in *detail* to the service levels and quality of service level that were accepted by selection of the best value offer. To make such a detailed comparison, agencies must compare the MEO *directly* to the selected best value proposal. Harking back to *Trajen*, if an IRO assumes that the PWS is the standard for comparison, this assumption is incorrect because the government would no longer be pursuing the best value service that succeeded in the “private-private” competition.

## 10 U.S.C. § 2462 – Realistic and Fair Cost Comparisons

The most recent Comptroller decision of significance to the A-76 world is *Imaging Systems Technology*, B-283817.3, Dec. 19, 2000, 00-2 CPD. Significantly, this decision used 10 U.S.C. § 2462, a 1989 statute that requires Defense agencies to:

(a) procure each supply and service [for the Department of Defense] from a source in the private sector if such a source can provide such supply or service to the [Defense] Department at a cost that is lower ... than the costs at which the Department can provide the same supply or service. *Imaging Systems*, *id.* at 4.

In addition, this statute states:

(b) The Secretary of Defense shall ensure that all costs considered (including costs of quality assurance, technical monitoring of the performance of such function, liability insurance, employee retirement and disability benefits, and all other overhead costs) are realistic and fair. *Id.* at 5.<sup>6</sup>

Following its detailed analysis, the Comptroller General essentially *combined* the government’s *procedural* defects that occurred in *Trajen* and *Rice Services* (failure to conduct any leveling or failure to conduct a “benchmark” leveling) with the statutory mandate for realism and fairness of the competing *costs* and the cost comparison. The Comptroller General concluded:

[t]he Air Force has (1) failed to realistically determine the cost of in-house performance ... and (2) failed to reasonably calculate the cost of contractor performance. In addition, the comparison between in-house and contractor performance was unfair, because the Air Force failed to compare the costs on the basis of a similar level of effort.

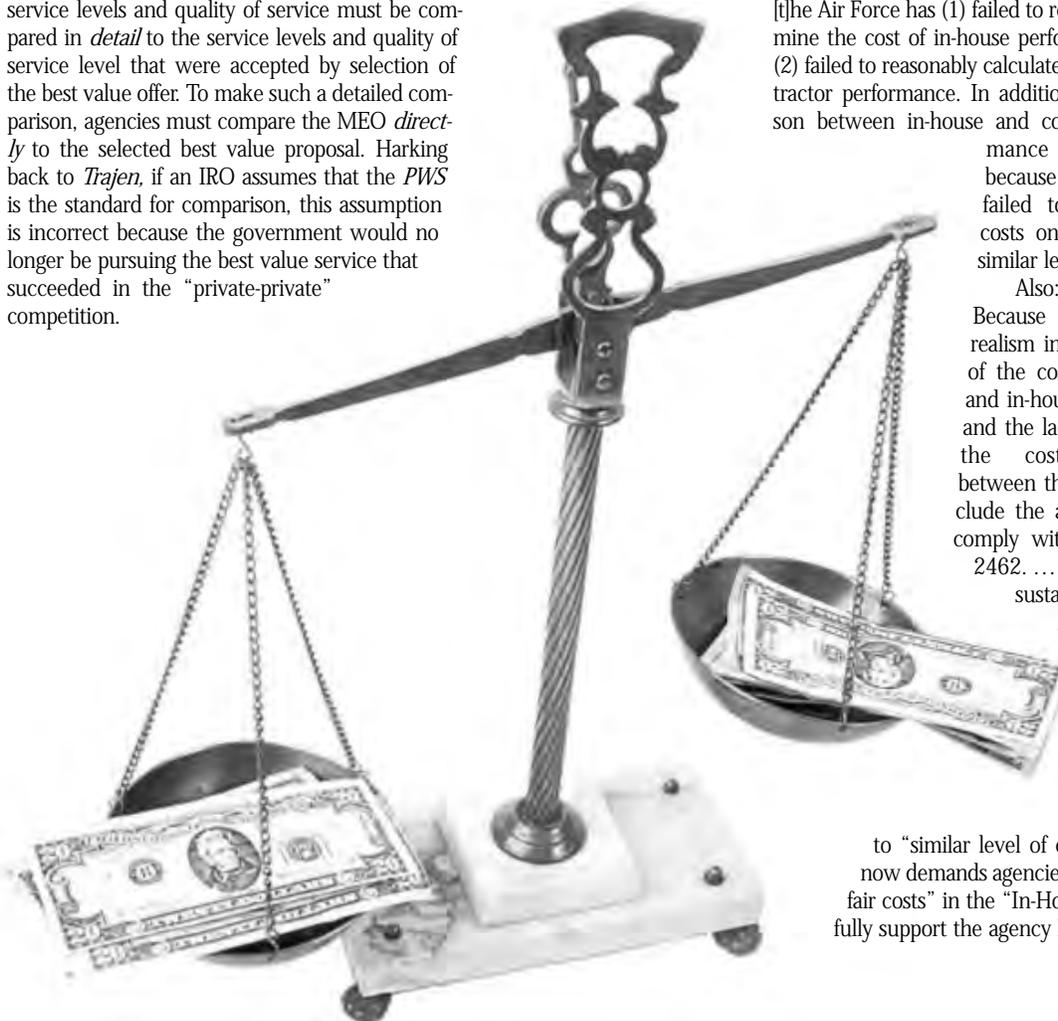
Also:

Because of the lack of realism in the calculation of the cost of contractor and in-house performance and the lack of fairness in the cost comparison between the two, we conclude the agency failed to comply with 10 U.S.C. § 2462. ... Accordingly, we sustain the protest.

*Imaging Systems*, *id.* at 10.

As seen from the above, the lessons of *Trajen* and *Rice Services* are present with the reference to “similar level of effort.” *Imaging Systems* now demands agencies to include “realistic and fair costs” in the “In-House Cost Estimates” that fully support the agency MEO.

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## Changes and Clarifications to the Revised Supplemental Handbook

Since May 1996, OMB has issued 23 changes to the Supplemental Handbook using the vehicle of a Transmittal Memorandum.<sup>7</sup> Many of these changes publicize new figures regarding federal pay raise assumptions and inflation factors necessary to the IHCE element of the MEO (*e.g.*, Transmittal Memorandum No. 21, Transmittal Memorandum No. 23). The longest Transmittal Memorandum in recent memory is Transmittal Memorandum No. 20, which focused on OMB's FAIR Act implementing regulations that became effective June 24, 1999. *See* 64 Fed. Reg. 33927.

The September 8, 2000 Transmittal Memorandum No. 22 (*see* 65 Fed. Reg. 54568) circulated one of the more subtle changes to the RSH.

Prior to September 8, 2000, an eligible appellant was required, pursuant to RSH Part 1, Ch. 3, ¶ K.1.3.k, to construct its Appeal to the Administrative Appeal Authority in a manner that would show "that the items appealed (in an A-76 cost comparison) individually or in the aggregate would reverse the tentative decision." 65 Fed. Reg. 54568. The subparagraph of the RSH was specifically deleted. The language was deleted because OMB believed "that all concerns regarding the conduct of a cost comparison should be brought forward to the designated administrative appeal authority within the single appeal period." 65 Fed. Reg. 54570.

The deletion of RSH Part 1, Ch. 3, ¶ K.1.3.k. affects the content and dynamics of an appeal because the appellant is no longer restricted to an attack on the calculation of the numbers on the Cost Comparison Form.<sup>8</sup> For example, an appellant can assert allegations related to a government conflict of interest, failure to conduct the appropriate leveling as required by the Comptroller General, and (in the opinion of the author) the government's management decisions involving the MEO.<sup>9</sup> An appellant can use the line items on the Cost Comparison Form and relate those cost figures and the supporting details to show how the allegations affect the CCF.

More importantly, the Administrative Appeal Authority can no longer confine its review to ensuring "that the cost items challenged in the appeal are properly accounted for ..." RSH, Part 1, C. 3, ¶ K.4. Consequently, an appellant should expect a complete

and thorough analysis of each element to its appeal.

As noted, OMB has issued 19 OMB A-76 Circular Updates that discuss, or explain, in detail various elements of the line items in the Cost Comparison Form. These Updates began May 1996 with the latest issued December 13, 2000. Familiarity with these Updates is a *must* for anyone involved in preparing the agency's MEO, and is highly recommended for anyone involved in preparing a contractor's proposal.<sup>10</sup>

## Preparing the Proposal or the MEO

Whether preparing the contractor's proposal or the government's MEO, the following must be foremost in mind:

1. Performance-based service contracting is the foundation for a Performance Work Statement (*see e.g.*, OFPP Policy Letter 93-1, "Management Oversight of Service Contracting," (May 18, 1994) and "A Guide to Best Practices for Performance-Based Service Contracting" (October 1998) and FAR 37.4 – indicating that most (if not all) private-private competitions will be conducted under the best value process in FAR Part 15;
2. Congress has explained that the FAIR Act (and by implication 10 U.S.C. § 2462) mandates that A-76 procurements must obtain the best value by conducting a realistic and fair cost comparison (an especially important mandate for with respect to the Defense Department, the budget savings from public-private competitions have already been included and accounted for in the FY 2002-5 DOD budgets);
3. Participants must consult such Comptroller General decisions as *Rice Services*, *Trajen* and *Imaging Systems* because these decisions clearly identify and explain the government's responsibilities and obligations when an A-76 competition is preceded by the "best value" approach in the private-private competition – meaning that agencies must insure that the MEO and the selected best value offer are equivalent in performance levels and performance quality and that the costs of the MEO are realistic and fair; and
4. Participants should be familiar with the current Transmittal Memorandums and the OMB Circular A-76 Updates.

When government personnel prepare an MEO, they should do so with the understanding that:

- All competitors are competing on the identical Performance Work Statement so that if the requirement changes or the workload data is updated, then the private sector competitors must be so notified;
- The A-76 / public-private competition process is not intended to preserve employment for government employees or union employees, rather the process is intended to identify the government's most efficient organization;
- Realistic government employee compensation, whether General Schedule or Wage Schedule employee, includes the compensation figures and Locality Wage percentage increases issued by the Office of Personnel Management for *the year of performance*, and should include the federal pay raise assumptions contained in the most recent and relevant Transmittal Memorandum;
- Realistic overhead for other personnel that are indirectly associated with the commercial activity under study must be included in the IHCE's personnel costs;
- All non-personnel costs need to be accurate for *the year of performance* and must reflect the inflation factor from the most recent and relevant Transmittal Memorandum;



- Realistic MEOs proposing liberal use of “seasonal employees,” “part-time full time employees,” or “interim employees” or the like, must carefully explain and justify how a government employee working part-time reflects an equal level of performance as a private sector employee working full-time;
- Realistic MEOs proposing extensive use of “seasonal employees,” “part-time full time employees,” or “interim employees” or the like, must identify in their costs (1) how the MEO’s administration will recruit, train, and retain these part-time employees *and* (2) other costs associated with continued recruitment and training of new part-time employees hired because the previously-hired part-time fail to perform (or appear) at the job site at the levels necessary to match the levels of performance by the selected best value offeror;
- The MEO in part or in its entirety will need to be redone if the Administrative Appeal Authority or the Comptroller General find that the Independent Review Officer failed to conduct an appropriate leveling and subsequent repricing; and
- All recent and relevant guidance pertaining to the MEO then under review.<sup>11</sup>

of performance and quality of performance to be virtually equivalent to that of the selected best value offer. Again, the significance of *Rice Services* is that the selected best value offer is now *the benchmark* for the MEO, not the PWS.

These two elements (benchmark and realistic and fair costing) are now the foundation to any public-private competition. Supplementing these legal considerations is the government’s policy in favor of performance-based service contracting. This policy emphasizes the need for the PWS to both identify and articulate the agency requirement.

Furthermore, agencies must now operate under the reality where their budgets were projected (or substantially forecast) *before* the FAIR Act was passed and before the Comptroller General decisions cited above were issued. It may be that agency managers are operating under the same pressures that private sector managers operate under – the former has a budget to meet, the latter has a profit to make. Ironically, and in contrast to general perceptions surrounding public-private competitions, it appears that agencies and the private sector need each other to achieve their respective and similar objectives.

## CONCLUSION

The changes and decisions outlined above appear to favor the private sector. Agencies must now employ and implement the A-76 procurement process in accordance with 10 U.S.C. § 2462, the FAIR Act and the *Rice Services* and *Imaging Systems* decisions. The statutes require fair and realistic costs in the IHCE as the result of a accurate MEO. The decisions require the MEO levels

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1. The Court of Federal Claims has noted that the purpose of the FAIR Act is “not to support continued employment by federal workers.” *American Federation of Government Employees, AFL-CIO v. United States*, 46 Fed. Cl. 587, 599 (2000) (“AFGE”). The AFGE decision cited a 7th Circuit decision that specifically stated “the interests of federal employment, and the goal of private procurement are inconsistent.” *American Federation of Government Employees v. Cohen*, 171 F.3d 460, 471 (7th Cir. 1999) citing *National Federation of Federal Employees v. Cheney*, 883 F.2d 1038, 1051 (D.C. Cir. 1989). It appears then that all A-76 procurements should be conducted under FAR Part 15, Contracting by Negotiation. Under these circumstances, federal agencies are required to compare the selected best value proposal against the proposed government MEO in accordance with the Supplemental Handbook, Ch. 1, ¶ H.3.
2. See “DOD Competitive Sourcing, Some Progress, but Continuing Challenges Remain in Meeting Program Goals,” App. 11, The A-76 Process, NSIAD 00- 1 06, August 2000; “DOD Competitive Sourcing, Savings Are Occurring, but Actions Are Needed to Improve Accuracy of Savings Estimates, NSIAD 00- 1 07, August 2000;” “DOD Competitive Sourcing, “Potential Impact on the Emergency Response Operations at Chemical Storage Facilities is Minimal,” App. 1, The A-76 Process, NSIAD-00-88, March 2000.
3. The GAO has called this the “leveling of the playing field,” which is “necessary because a ‘best value’ solicitation may result in submission of proposals which exceed the PWS requirements.” *Rice Services Ltd*, B-284997, Jun. 29, 2000, 00-1 CPD ¶113 at 7, n. 13.
4. The GAO has been quite clear in its explanation of how the “true up” (or leveling of the playing field) is to be conducted: [A]fter selecting the “best value” private-sector offer, the CO is to submit to a reviewing authority the government’s in-house management plan, which must comply with the requirements of the solicitation. The reviewing authority then evaluates the in-house offer and assesses whether or not the private-sector offer’s level of performance and performance quality will be achieved under the in-house plan. The government then makes changes if necessary to ensure that the in-house plan meets the performance standards of the selected private-sector offer, revises its in-house cost estimates, and submits the revised estimates to an “independent review officer” for acceptance. This process is designed to ensure that the government’s in-house cost estimate is based upon the same scope of work and performance levels as the private-sector “best value” offer. *NWT, Inc., PharmChem Laboratories, Inc., id.* (citations omitted) (emphasis supplied).
5. See, Commercial Activities (CA) Program Manual, OPNAVINST 4860.7C (7 June 1999), Ch. 3, ¶ H.4.b. (emphasis supplied).
6. The Federal Activities Inventory Reform Act of 1998, Pub. L. 105-270 (e)(2), contains the identical language of 10 U.S.C. § 2462 (b) except that it governs “executive agency activity on the [FAIR Act] list.”
7. The most recent is OMB Circular A-76 Transmittal Memorandum No. 23 issued on March 14, 2001. See 66 Fed. Reg. 14943. Transmittal Memorandum No. 23 changes the federal pay raise assumptions and the inflation factors.
8. OMB somewhat clarified the significance of this change in OMB Circular A-76 Update XVI dated September 7, 2000. OMB stated: “To ensure that all relevant concerns of the affected parties are brought forward to the designated Administrative Appeal Authority, the requirement that an appeal demonstrate that the decision should be reversed is being deleted from the Handbook.”
9. The text of the RSH specifically states that the Administrative Appeal procedures do not apply to questions relating to “Government management decisions involving the Government’s certified in-house MEO. RSH, Part 1, Ch. 3, ¶ K.6.c. However, this restriction appears to have been overruled by OMB and the Comptroller General. When the Comptroller General rulings in *Rice Services* and *Imaging Systems* (concerning realistic and fair pricing obligations of the government) are combined with the requirement in Transmittal Memorandum No. 22 that all concerns be brought forward, it does not appear cogent for a Administrative Appeal Authority to fail to respond to elements of an appeal that raise such issues.
10. The Updates can be downloaded from the Army’s Commercial Activities Program site at [www.hqda.army.mil/acsimweb/ca/regs/htm](http://www.hqda.army.mil/acsimweb/ca/regs/htm), the Office of the Secretary of Defense’s “Share A-76” at [www.emissary.acq.osd.mil/inst/share.nsf](http://www.emissary.acq.osd.mil/inst/share.nsf), and OMB’s Memorandum Page at <http://gravity.lmi.org/ec003/websites/web/ombmemos.html>.
11. For example, on March 14, 2001, the Defense Department announced that it’s a-76 Costing Manual is in effect as interim guidance *and* that the Costing Manual shall be used in conjunction with *win.Compare2*, an update of the standard “Compare” software program developed by the Air Force for the IHCE.

**Article**

# Best Value Contracting: Selection By Perception

*By MICHAEL J. MICKALIGER, CPCM, SAS*

The skepticism associated with the federal government's Best Value procurement process has led some companies to question whether they will receive fair evaluations during source selection. The Best Value process has also caused them to revisit bid decisions in the context of return-on-investment and risk. Author Michael Mickaliger takes the mystery out of this government process, shares insights gained from prior award protests, and gives us a very useful list of offeror risk mitigation techniques.

Best Value contracting has become synonymous with procuring government services from other than the low-cost vendor, but there are other reasons why the federal government will procure services using Best Value contracting. Most are variations of flexibility. Awards can be made to other than the highest technically rated contractor, the contractor with the best performance history, or to the contractor with the least amount of risk. The government has the right to select a contractor that it perceives will benefit the organization and whose proposal merits the additional cost. Best Value contracting is one source selection technique that has acquired the pejorative connotation of being subjective and many times less than fair. Thus, Best Value contracting is open to wide criticism by contracting firms that are competing for federal contracts and by government contracting specialists who believe the process is used with broad discretion to award a government contract.

The skepticism associated with the federal government's Best Value procurement process has led some companies to question whether they will receive fair evaluations during the source selection. It has also caused them to revisit bid decisions in the context of return-on-investment and risk. By carefully studying the Best Value concept and FAR regulations, proposal professionals can take some of the mystery out of the Best Value process, better understand the importance of prior award protests, and learn useful offeror risk mitigation techniques.



## The Concept Of Best Value Contracting

The Federal Acquisition Regulation (FAR) Part 15.101 states that a government agency can obtain Best Value in negotiated acquisitions by using any one or a combination of source selection approaches. In different types of acquisitions, the relative importance of cost or price may vary. For example, in acquisitions where the requirement is clearly definable and the risk of unsuccessful contract performance is minimal, cost or price may play a dominant role in source selection. The less definitive the requirement, the more development work required, or the greater the performance risk, the more technical or past performance considerations may play a dominant role in source selection (*Federal Acquisition Regulation, paragraph 15.101-1*).

The FAR provides the government with a roadmap on how to conduct a source selection and evaluate proposals. In a Best Value source selection, the government reserves the right to trade off cost and technical considerations in selecting the successful offeror, according to specific evaluation factors and subfactors as stated in Section M, Evaluation Factors for Award.

This process permits tradeoffs among cost or price and non-cost factors and allows the government to accept other than the lowest priced proposal. The perceived benefits of the higher priced proposal should merit the additional cost, and the rationale for tradeoffs must be documented in the file in accordance with 15.406 (*Federal Acquisition Regulation, paragraph 15.101-1(c)*).

"Perceived" is the operative word that should draw your attention. The government only needs to comprehend, envision, or understand the benefits of the higher priced proposal. This is particularly important when the government states in the solicitation that all evaluation factors other than cost or price, when combined, are significantly more important than, approximately equal to, or significantly less important than cost or price (*Federal Acquisition Regulation 15.101-(b)(2)*). The perception, however, must be thoroughly documented.

The government is required to document all analytical processes and the cost/technical tradeoff process used to calculate the dollar value of the quantified proposal discriminators and the relative value of the proposal by considering the nonquantified discriminators. The government is also required to document its comparison assessment of proposal discriminators and organizational impact. If the Best Value report answers the question "Is the difference in value worth the difference in cost?" the government has most likely determined the proposal that provides the Best Value.

## Best Value Survives The Legal Test

If you have experienced some level of disappointment when the government agency announced the results of a Best Value source selection, you may have considered the possibility of protesting the agency decision to the General Accounting Office. This protest would be based on how the contracting agency improperly distorted the solicitation's evaluation scheme during the Best Value process. Thus, in your opinion, the government made an irrational award decision.

How has the General Accounting Office addressed protests related to the Best Value analysis? This critically important question can be answered in five ways.

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**1** How has the General Accounting Office addressed the issue of Prior Disclosure?

Since the Request for Proposal (RFP) states that an award will be made to the offeror whose proposal is determined to be the Best Value to the government considering price and other factors, the agency has the discretion to determine whether the technical advantages associated with the proposal warrant payment of a higher price. Contrary to belief, the agency is not required to make award to the firm offering the highest-ranked technical proposal (*National Systems Management Corporation, B-286112.2*).



**2** How has the General Accounting Office addressed the discretion of Source Selection officials?

Source selection officials in negotiated procurements have broad discretion in determining the manner and extent to which they will make use of technical and cost evaluation results (*Roy F. Weston Inc., B-274945*). Source selection officials, which include officials at an immediate level, are not bound by the recommendations or evaluation judgments of lower-level evaluators, even though the working level evaluators are normally expected to have the technical expertise required for such evaluations (*PRC, Inc., B-274698.2, B-274698.3*). Source selection officials have broad discretion in determining the manner and extent to which they will make use of the technical and cost evaluation results, and their judgments are governed only by the test of rationality and consistency with the stated evaluation criteria (*Chemical Demilitarization Associates, B-277700*).

**3** How has the General Accounting Office addressed adjectival ratings and their meaning in a Source Selection?

In a negotiated procurement with a Best Value evaluation plan, adjectival ratings are only guides to assist contracting agencies in evaluating proposals. They do not mandate automatic selection of particular proposals (*Chemical Demilitarization Associates, B-277700*).

**4** How has the General Accounting Office addressed the use of discriminators in a Best Value evaluation?

There is no requirement to have a discriminator for each evaluation factor, or to have an equivalent number of discriminators for equally important evaluation factors (*Computer System Development Corp., B-275356*). Moreover, whenever equal factors are considered, the fact that one is chosen as more valuable does not mean that the relative weights of the evaluation factors have been abandoned. It simply means that one has become the discriminator between competing proposals (*Calspan Corp., B-258441*).

There is also no requirement that award discriminators be the most heavily weighted factors (*Research for*

*Better Schools, Inc., B-270774.3*). So long as the less heavily weighted criteria have been disclosed to the offerors in the RFP, there is nothing improper in the lightly weighted criteria becoming the discriminator where competing proposals are evaluated as equal in the more heavily weighted ones (*Duke/Jones Hanford, Inc., B-249367.10*).

**5** How has the General Accounting Office addressed the documentation of analytical processes and the cost/technical tradeoff process used to calculate the dollar value of the quantified proposal discriminators and the relative value of the proposal by considering the non-quantified discriminators?

Records show that government agencies do not modify the relative importance of the evaluation factors. Rather, as permitted under the Best Value evaluation scheme, the evaluators rate each proposal on each of the stated evaluation criteria and compare the offerors on each of the technical evaluation factors. The government specifically notes cases where an offeror received higher ratings under certain factors, but may determine that this technical advantage did not warrant payment of the price premium associated with the offeror's proposal. The government's comparison and balancing of the cost/technical benefits reflects the proper use of an agency's discretion in making the Best Value determination. Under these circumstances, there is nothing improper about the selection decision as it reflects an appropriate comparison of competing proposals and a reasoned determination to select the lower-cost proposal (*National Systems Management Corporation, B-286112.2*).

## A Best Value Methodology

It is extremely important to understand the government's discretion in source selections, the court's opinions related to Best Value analysis, and the necessity of having supporting documentation to prove that the Best Value decision is reasonable. However, you must also understand the steps associated with the Best Value approach to effectively develop competitive proposals. A Best Value analysis approach is made up of six steps.

### Step 1 – Identify Technical Differences Between Proposals

In the first step, the government compares the proposal's strengths, weaknesses, and risks as determined by a factor-by-factor, subfactor-by-subfactor, and element-by-element analysis of how each proposal measured up against the criteria established in the RFP (Mickaliger, *Understanding Source Selections: A Best-Value Methodology*, p. 43).

## Step 2 - Identify the Potential Impact of Each Technical Difference

The second step is used when the government assesses the technical differences as to the significance relative to agency operations. The government assigns a positive or negative impact statement on economic benefits clearly attributable to increased productivity, service delivery to the public, mission effectiveness, and/or other unique approaches (Mickaliger, *Understanding Source Selections: A Best-Value Methodology*, p. 45).

## Step 3 – Define Proposal Discriminators

During the third step, the government consolidates similar technical differences and eliminates technical differences that will most likely have only a small impact on the source selection. The government will also document why the proposal discriminator did, or did not, add value to the proposal .

## Step 4 – Prepare a Non-quantified Analysis of Proposal Discriminators

The fourth step requires the government to consider the proposal discriminators on a relative scale as to their favorable, neutral, or unfavorable influence on the impact areas.

## Step 5 – Prepare a Quantified Analysis of Proposal Discriminators

The fifth step allows the government to fully document the rationale for any analytical methodology that was applied, ensuring that it has the required data for the required calculations, and develop reasonable assumptions. Quantified analysis may be used when the cost analysis uncovers differences in proposal related to Defense Contract Audit Agency recommendations, independent salary and wage assessments, salary and wage escalations, independent government cost efforts, and the use of uncompensated overtime.

## Step 6 – Prepare a Report and Make a Source Selection Decision

The sixth and final step documents all analytical processes and the cost/technical tradeoff process that an agency used to calculate the dollar value of the quantified proposal discriminators and the relative value of the proposal by considering the non-quantified discriminators (Mickaliger, *Understanding Source Selections: A Best-Value Methodology*, p. 45).

## The Best Value Dilemmas

All companies seeking business in the federal sector struggle with government best-value source selection decisions at one time or another. A majority of the companies will wonder how the government derived its decision based on the technical scores received during the technical evaluation and the submitted costs. Companies want to know the discriminators that led to their non-selection, for example

- How the government determined that the value perceived was worth the cost difference between the source selection finalists
- If the government used the best value technique to ensure the contractor of choice received the business
- If the government conducted a thorough analysis and fully documented the source selection decision

- If a small business is competitive when the government uses the Best Value approach.

The answers to these dilemmas will determine whether a company will invest in future proposal developments to obtain business with a particular government agency.

## Risk Mitigation Techniques For Offerors

There are several mitigation techniques that may be useful in breaking through the Best Value "nut" in a more efficient and effective manner. The recommended techniques are:

- 1 Meet with the Government to exchange information before the receipt of proposals—*FAR Part 15.201* encourages exchanges of information among interested parties. Interested parties include potential offerors, end users, government acquisition and supporting personnel, and others involved in the conduct or outcome of the acquisition (*Federal Acquisition Regulation, paragraph 15.201(a)*). The purpose of exchanging information is to improve the understanding of government requirements and industry capabilities, thereby allowing potential offerors to judge whether or how they can satisfy the government's requirements and increase efficiency in proposal preparation, proposal evaluation, negotiation, and contract award (*Federal Acquisition Regulation, paragraph 15.211(b)*). One technique that can be used to promote early exchanges of information is the one-on-one meeting that can occur between the government and the potential offeror. Use this technique to your advantage.

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- 2 Form partnerships with experienced companies—Form those strategic alliances or partnerships with companies that have a history of performing well in a particular government agency. Open the doors to future opportunities by establishing yourself as a reputable company that offers superior customer service. This reputation can have a significant impact on creating a demand for your service in the future and establishing a lasting partnership with the government agency.
- 3 Write “plain English” proposals that provide “added value” and understandable costing data—Each activity has an associated cost. Determine the optimum service level that will maximize the profit to the company and draw the interest of the government customer. In essence, you are establishing the discriminators for the government and providing the “added value” associated with the discriminator in your proposal. The goal should be to establish your proposal as the superior proposal based on the content of the original submission. Do not merely feedback information contained in the government solicitation and expect a second chance to clarify issues or discrepancies – these are major mistakes that have serious consequences for a company during a Best Value source selection.
- 4 Obtain a better understanding of the Government agency’s culture and programmatic problems—An adequate information base is needed for several reasons. To obtain a contract with the government, it is beneficial to obtain knowledge of the agency’s culture and way of doing business. If you have a basic understanding of the agency’s systemic problems, you can reduce the uncertainties about your company among the source selection members by assuring adequate and accurate information is provided in your proposal. Start your research on the government agency by reviewing their “balanced scorecard.” Many of the strengths and weaknesses of a government organization will be identified in this report. Failure to understand the culture and the needs of a government agency will result in a risk that will be difficult to overcome during a Best Value source selection.
- 5 Outsource the Proposal Preparation—A third party with extensive proposal preparation experience, a history of successful source selections, and a professional proposal management staff will most likely be more efficient because proposal preparation is its primary business and proposal preparation may not be the core competency of the business seeking a government contract. You should thoroughly research the third party, obtain top management commitment, and have partially developed your technical and cost approach before obligating your limited resources. If you’re successful in obtaining the contract, it’s your ability to perform that’s being measured by the government – not the third party’s.
- 6 Establish Performance Measures—Raise the bar – it’s the era of contract performance measurement. Incorporate performance measures that may not be part of the solicitation but are achievable by your company. This is the first step in showing “added value” in the area of customer service. Having the Best Value board recognize a performance trend or variation from the typical proposal will most likely put you in the running for a Best Value source selection.

## Conclusion

Best Value contracting has proven to be a broad source selection technique that allows the government to award a contract to an offeror based on perceived benefits of a higher priced proposal as long as the government documents the rationale for the tradeoffs between cost and non-cost factors. The courts have considered the challenges to the Best Value approach and the legal decisions have upheld the Best Value approach as long as the government documents its reasons for the tradeoff between cost and non-cost factors. During major acquisitions, many government agencies will obtain assistance from outside sources to ensure that the agency’s Best Value award meets the requirements of the solicitation, standards of the legal decisions, and can withstand any protest proceeding after contract award. From this observation point, the cards appear to be stacked in favor of the government.

Proposal Managers must have knowledge of the contracting playing field. They must pay close attention to the Best Value criteria that is written into a government solicitation. They must understand the Best Value approach used by a particular government agency. They must insist on a solicitation from the government that provides the contractor with enough information to formulate a proposal appropriate for the specific solicitation. They must be prepared to utilize some or all of the mitigation techniques. Finally, the proposal management team must be able to walk away after non-selection and the debriefing with lessons learned from the experience. This information must be continuously sought out and updated to win the desired contract at a later date. There is no other recourse in a government contracting environment that is moving closer to the procurement techniques used in the commercial sector.

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# Nonprofit Lessons for the Business World:



*What Proposal Professionals  
in the Private Sector*

*Can  
Learn  
from Nonprofit  
Organizations*

By *DR. JAYME A. SOKOLOW*

Funding in the nonprofit sector comes from a wide variety of sources, including grants from foundations and corporations. Although most proposal professionals work in the private sector, they can learn important lessons about developing successful proposals from their counterparts in the nonprofit world.

## The Nonprofit Sector: An Overview

When the Frenchman Alexis de Tocqueville visited our shores in 1835, he remarked that “whenever at the head of some undertaking you see the government in France, or a man of rank in England, in the United States you will be sure to find an association.” Nonprofit organizations have played a vital role in American life for two centuries.

They include an incredible variety of institutions—soup kitchens and storefront ministries, political organizations and hospitals, museums, synagogues and mosques, public policy organizations, and research institutes where scientists study dolphins. They serve as indispensable vehicles to fulfill many of our greatest cultural, spiritual, and social needs.

US tax laws contain almost 30 separate sections under which organizations can claim exemption as nonprofit organizations from federal income taxes. Despite their great variety, nonprofit

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organizations have six basic characteristics:

- They are private organizations separate from the US government.
- They do not generate profits for their founders or boards of directors.
- They are self-governing.
- They serve a public purpose and claim to contribute to the public good.
- They have legal standing as corporations chartered under state laws with formal recognition by the Internal Revenue Service.

America's dynamic nonprofit sector includes such organizations as Harvard University, the Girl Scouts of America, Catholic Relief Services, the Metropolitan Museum of Art, the American Federation of Teachers, and the National Rifle Association. The nonprofit sector is composed of two very different kinds of organizations: member-serving organizations and public-serving organizations.

In 1998, there were about 400,000 member-serving organizations in the United States. They include social clubs, business and professional associations, labor unions, mutual benefit and cooperative organizations, political advocacy groups, and political organizations. Many of them are small and serve a local constituency.

About 1,200,000 nonprofit organizations are public-serving in character. They account for 90 percent of the nonprofit sector's employment and include religious institutions, educational organizations, service providers, social welfare agencies, and foundations. Some of them are not eligible to receive grants because they carry out lobbying and campaign activities.

Public-serving organizations vary widely in size. While many have a community orientation, others are regional, national, or international in scope.

Public-serving organizations fulfill important community functions as illustrated in the two examples below. They deliver valuable social services, promote the arts and humanities, engage citizens in politics and public policy debates, and help satisfy our spiritual yearnings. They help protect us against economic misfortune and exploitation, secure human rights and civil liberties, and preserve and promote cherished social and cultural values. They are a critically important part of our civil society.

Today, the nonprofit sector includes about 1.6 million identifiable organizations with revenues of about \$700 billion, or about 10 percent of the US gross domestic product. Nearly 12 million people work as employees of nonprofit organizations, or about eight percent of the nation's workforce. About 95 million Americans reported volunteering for nonprofit organizations, almost as many as voted in the last presidential election.

*Despite the national publicity generated by large grants from foundations, over four-fifths of charitable giving in the United States comes from individual contributions.*

## Ripples of Hope— One Nonprofit Organization's Story

Though the Simon Wiesenthal Center is now world famous, its beginnings were modest. Rabbi Marvin Hier's office had no furniture—just a telephone on the floor.

Rabbi Hier started the nonprofit organization in 1977. The name of the fledgling Los Angeles-based human rights organization was a stroke of genius. Simon Wiesenthal, the great Austrian Nazi hunter and passionate advocate of freedom, had given Rabbi Hier permission to use his name.

Under Rabbi Hier's inspiring leadership, today the Wiesenthal Center has become one of the world's leading Jewish human rights organizations. Much its financial support comes from individual donors around the world. It also receives appropriations from the states of California and New York and grants from foundations, corporations, and federal agencies.

With a membership of more than 400,000 families, it maintains offices in New York City, Miami, Toronto, Paris, Jerusalem, and Buenos Aires. The Wiesenthal Center's Museum of Tolerance, opened in 1993 at a cost of \$55 million, is a high-tech, interactive experiential museum that focuses on the Holocaust and the dynamics of racism and prejudice in America. Almost 300,000 visitors flood the museum each year, most of them young people.

The Center's Moriah Films has won two Academy awards for its documentaries on the Holocaust. Its educational programs, which have reached over 30,000 teachers and law enforcement officials around the country, were cited by the President's Initiative on Race as one of many "efforts that are successfully bridging racial divides in communities across America." Now the Center is building a \$100 million Museum of Tolerance in Jerusalem with the help of a \$40 million donation from one of its board members.

## Ripples of Hope— Another Nonprofit Organization's Story

On May 17, 1997, the Coalition for the Capital Crescent Trail won a great victory when Montgomery County, Maryland officials opened an eight-mile paved trail from downtown Bethesda to the Chesapeake and Ohio Canal in Washington, DC.

In 1988, Montgomery County bought the trail right-of-way from CSX Corporation for \$10 million under the Rails to Trails Act, which helps turn abandoned railways into pedestrian paths. One year later, the purchase became embroiled in controversy when the governor offered Montgomery County \$70 million to build a trolley line on the trail from downtown Silver Spring to downtown Bethesda. As costs for the proposed trolley skyrocketed and some residential areas opposed it, the trolley project diminished in popularity.

Meanwhile, local citizens formed a nonprofit organization, the Coalition for the Capital Crescent Trail, to encourage the County to construct a hiker-biker trail on the old CSX tracks. The Coalition is a membership organization that has built many alliances with local, regional, and national groups to become a strong voice in Montgomery County. After petitions, rallies and plenty of political pressure, the Coalition helped convince Montgomery County officials to build a trail.

Since then, the Coalition has continued to promote extending the trail, which now goes 11 miles from the edge of Rock Creek Park in Chevy Chase, Maryland to Fletcher's Boathouse on the Chesapeake and Ohio Canal, only two miles from Georgetown. Currently, the Coalition wants County officials to complete the 4.5 mile section from downtown Silver Spring to Rock Creek Park.

Although local businesses and homeowners were once a little wary about the trail, today everyone seems to think the Capital Crescent Trail is a gem. On a nice day, the beautiful, well-shaded trail attracts many enthusiasts from happy toddlers in baby carriages to energetic senior citizens walking their dogs.

### The Nation's Ten Wealthiest Foundations

FOUNDATION	ASSETS IN 2000
Bill & Melinda Gates Foundation (Seattle, WA)	\$21,124,000,000
Lilly Endowment (Indianapolis, IN)	15,241,442,000
Ford Foundation (New York, NY)	14,212,000,000
David and Lucile Packard Foundation (Los Altos, CA)	9,800,000,000
Robert Wood Johnson Foundation (Princeton, NJ)	8,700,000,000
W.K. Kellogg Foundation (Battle Creek, MI)	5,018,000,000
Pew Charitable Trusts (Philadelphia, PA)	4,800,776,253
Andrew W. Mellon Foundation (New York City, NY)	4,750,000,000
John D. and Catherine T. MacArthur Foundation (Chicago, IL)	4,500,000,000
Rockefeller Foundation (New York City, NY)	3,674,000,000

Source: The Chronicle of Philanthropy XIII (February 22, 2001)

Last year, eligible nonprofit organizations received about \$175 billion in contributions. About 85 percent of this amount came from individuals, about 10 percent from foundations, and about five percent from corporations. Despite the national publicity generated by large grants from foundations, over four-fifths of charitable giving in the United States comes from individual contributions.

Almost half of America's charitable giving went to support religious organizations. About \$13 billion went to educational institutions, especially colleges and universities, and about \$46 billion was given to private, nonprofit service organizations like the Simon Wiesenthal Center.

While these figures increased greatly during the economic boom of the 1990s, the percentage of average income donated by Americans—about two percent—has remained steady. Utah leads the nation in its generosity, while residents of New England on average donate the lowest percentage of their income to charitable causes.

One of the most dramatic changes in America's nonprofit sector has been the growth of foundations. In 1975, there were about 22,000 foundations in the United States, with total assets of \$30 billion. Today, there are almost 50,000 foundations, and their total assets are almost \$400 billion.

Most foundation grants are awarded to support projects in human services, education, arts and culture, and community development. These grants often are designed to benefit children and youth, the economically disadvantaged, and minorities.

## The Role of Proposals in the Nonprofit Sector

Funding in the nonprofit sector comes from a wide variety of sources. Member-serving organizations and religious institutions depend heavily on dues and individual contributions.

Service providers and action agencies—which include hospitals, museums, zoos, and providers of education, health care, and social services—may rely on a combination of fees, investments and endowments, direct government support, individual contributions, and grants.

For some nonprofit institutions, especially institutions of higher education, grants can be a major source of support. Most nonprofit organizations, however, are not as fortunate as Johns Hopkins University, recipient of \$45 M in grants in 1998 (see insert, below). Foundation grants are often modest in size and limited to certain localities and areas of interest.

To receive grant support from foundations, corporations, and government agencies, nonprofit organizations must submit proposals. Grant guidelines from government agencies, especially federal agencies such as the National Institutes of Health or the Department of Education, often resemble typical Requests for Proposals in their length, requirements, and specificity.

Grant proposals to foundations and corporations, however, are very different in size and content from RFP responses. In many ways, they more closely resemble the brief, tightly focused commercial proposals that businesses submit to provide products and services to other businesses.

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### The Top 15 Nonprofit Institutions that Received Grants (1998)

Organization	State	Dollars	No. of Grants
Washington University	MO	\$98,526,964	58
Harvard University	MA	81,033,820	379
United Way of Central Indiana	IN	63,487,632	30
Columbia University	NY	60,583,560	268
United Negro College Fund	VA	55,059,637	88
Johns Hopkins University	MD	45,171,906	161
University of Michigan	MI	43,036,967	155
Northwestern University	IL	42,989,723	100
Duke University	NC	37,735,041	94
Freedom Forum Newseum	VA	37,305,666	10
Georgia O'Keeffe Museum	NM	34,508,798	6
University of California	CA	34,219,500	195
Monterey Bay Aquarium Research Institute	CA	33,642,978	1
Stanford University	CA	33,176,478	182
University of Pennsylvania	PA	32,341,228	196

Source: The Foundation Center, Foundation Giving, 2000 (2001)

# Foundation and Corporate Grant Proposals

Although foundations and corporations provide only about 15 percent of private support to nonprofit institutions, they are extremely powerful and important components of the nonprofit sector. Their grants help provide visibility, support new initiatives and programs, and leverage other grants and individual gifts.

As in the commercial and government sectors, submitting proposals is only one part of a long process that is designed to build a mutually beneficial partnership between a nonprofit organization and a source of funding. Nonprofit organizations and their funders are natural partners.

Nonprofit organizations have the capacity to address important problems but usually lack the money to implement them. Foundations and corporations, on the other hand, have the financial resources to support nonprofit organizations but do not have the resources or the professional staff to create programs.

Successful nonprofit organizations often focus their efforts on building a network of foundation and corporate funders to support their efforts. Frequently, a proposal is not submitted until a relationship with the funder has been established.

To build partnerships, nonprofit organizations usually go through a six-step process:

**Step 1: Setting Funding Priorities:** Before seeking support, nonprofit organizations must decide which of their funding priorities will translate into competitive proposals. Although a museum may desperately need to remodel its bathrooms, foundations are not likely to fund this type of project.

**Step 2: Drafting a Master Proposal:** Before asking foundations for support, nonprofit organizations usually develop a draft master proposal so they can clearly identify the kinds and amounts of funding requests.

**Step 3: Researching Potential Funders:** Nonprofit organizations must compile detailed information about local, regional, and national funders before they can tailor their proposal to meet specific guidelines.

**Step 4: Contacting and Cultivating Potential Funders:** The most successful nonprofit organizations spend a great deal of time cultivating potential and actual funders. The more a foundation or corporation knows about nonprofit organizations that may apply to them for support, the more they are likely to respond positively to grant applications. Especially on the local level, cultivating relationships with foundations and corporations may be as important as submitting great proposals because funding decisions are often made personally by the foundation Executive Director or corporate Director of Community Relations.

**Step 5: Submitting the Proposal:** Based on the information gained from research and relationship-building, nonprofit organizations tailor their master proposals to reflect the foundation's or corporation's specific guidelines and interests.

**Step 6: Following Up:** If the proposal is approved, successful nonprofit organizations find ways to recognize this support and cement a lasting relationship with the foundation or corporation. If the proposal is turned down, the nonprofit organization evaluates whether cultivation and a stronger proposal would help next time. There may be cases where a rejection indicates that there is not a strong enough basis for a partnership.

Foundation and corporate grant guidelines vary, but usually the required narrative portion of the proposal is between five and ten pages long and includes fairly standard items. The Washington Regional Association of Grantmakers has developed a common grant application format that nicely summarizes the requirements of most foundation and corporate proposals. It includes the components listed at left.

## What Makes Grant Proposals Competitive?

What are the characteristics of competitive proposals to foundations or corporations? Evaluations criteria vary, but there are some commonalities. When seeking grants from foundations and corporations, successful nonprofit organizations take the advice listed below to heart.

### Grant Proposal Component Guidelines (per Washington Regional Association of Grantmakers)

SECTION	CONTENTS
<b>I. Executive Summary</b> (maximum of two pages)	<ul style="list-style-type: none"> <li>• Basic information on applicant</li> </ul>
<b>II. Narrative</b> (maximum of 10 pages, 12-point font, double-spaced, one inch margins)	<ul style="list-style-type: none"> <li>• Organizational background</li> <li>• Goals and outcomes</li> <li>• Organizational capacity</li> <li>• Project</li> <li>• Evaluation plan</li> <li>• Sustainability</li> </ul>
<b>III. Finances</b> (attachment)	<ul style="list-style-type: none"> <li>• Project budget</li> <li>• Applicant's annual budget</li> <li>• Applicant's previous, current, and projected year's revenues and expenses</li> </ul>
<b>IV. Attachments</b>	<ul style="list-style-type: none"> <li>• Internal Revenue Service Determination Letter</li> <li>• Resumes of key project staff</li> <li>• List and description of board of directors</li> <li>• Current letters of support</li> </ul>
<b>V. Optional Attachments</b>	<ul style="list-style-type: none"> <li>• Annual Report</li> <li>• Current articles or reviews about applicant's programs</li> <li>• Most recent audited financial statement</li> </ul>

## What Foundation Professionals Say

The following quotations from foundation professionals are found in the *Guide to Proposal Writing* (1993) by Jane Geever and Patricia McNeill. They get to the essence of what constitutes a competitive grant proposal.

*“A good proposal helps us see how our investment in you will have a long-term impact. It indicates to us your plans for future support. It says the board is committed to this project.”*

*“In a good proposal everything is up front and obvious.”*

*“A proposal doesn’t succeed. It’s the project that succeeds.”*

*“A proposal succeeds because there is a congruence of their ideas and our priorities. We are looking for unusual ways to solve problems.”*

*“The proposal should be a microcosm of the project. We are looking for a good project within our guidelines. We are not only looking for vision, but also the leadership to implement it. We are investing in leaders.”*

*“Stick with clarity and no fluff.”*

*“Provide a clear statement of the request, a clear statement of the need, and a clear statement of how the need will be met.”*

*“If it is clear, concise, and to the point, everything should be there without having to look for it. There should be meat on the bones but no fat.”*

*“People give to people. So develop relationships with the foundation’s program staff. This is essential. In a competitive environment we have too little money to fund too many good programs. An organization we know is more likely to get funded.”*

*“We are looking for partners.”*

### Personal Pre-Proposal Presentation(s).

Foundation professionals understand that the most effective fundraising technique is a personal presentation to a potential funder before a written proposal is submitted. If the presentation is effective, the chances of a successful proposal greatly increase.

**Focus on the Funder’s Mission.** Successful fundraisers carefully study foundation and corporate grant guidelines to ensure that they respond very specifically to the potential funder’s initiatives and mission. Successful applicants know that grant applications differ widely in form, style, and content depending on the grant guidelines and the type of project being described.

Large nonprofit organizations such as the Simon Wiesenthal Center have their own development offices and proposal writers. In smaller nonprofit organizations, the president or executive director typically writes the proposals.

**Build Partnerships.** To build lasting, trusting partnerships with foundations and corporations, nonprofit organizations engage their funders in the projects they are supporting. Engagement creates strong and long lasting partnerships that benefit both parties.

**Develop Master Proposals.** To make the proposal development process as efficient as possible, successful nonprofit organizations develop master proposals. These documents can be easily modified to address specific grant guidelines. Despite their variety, winning grant proposals usually answer the following questions clearly, concisely, and persuasively:

- What is the problem you are addressing?
- What is your solution?
- Why is it likely to be a sound and cost-effective solution?
- Why are you qualified to do it?
- How will you sustain your project?
- How will you measure outcomes and success?

## Resources

As the nonprofit sector has blossomed in America, so have grant proposal resources. Today, there are dozens of excellent books and guides to help nonprofit organizations win support from foundations and corporations. There are also many specialized resources to identify potential sources of funding.

The Foundation Center (<http://www.fdncenter.org>) is the best place to begin. Created as an independent, nonprofit information clearinghouse in 1956, the Foundation Center collects and disseminates information on foundations, corporate giving, and related subjects. It also offers a variety of training and educational seminars. Visit the Foundation Center’s excellent Web site or its comprehensive libraries in Washington, DC, Atlanta, Cleveland, New York City, and San Francisco. The Foundation center also has more than 200 Cooperating Collections of nonprofit resources throughout the United States.

*The Chronicle of Philanthropy* (<http://www.philanthropy.com>) is the best periodical publication

*more...*

on the nonprofit sector in the United States. Published bi-weekly, it provides timely information on nonprofit organizations, foundations, and corporate funders. The *Chronicle of Philanthropy* also provides good coverage of trends and challenges facing the nonprofit sector.

The Council on Foundations (<http://www.cof.org>) is a major membership organization of philanthropy. Its Foundation News and Commentary and Web site are excellent resources. The Independent Sector's Web site (<http://www.independentsector.org>) also contains valuable information on the foundation world.

## Proposal Professionals and the Nonprofit World

There are several good reasons proposal professionals working in the private sector should pay close attention to the nonprofit world.

First, the nonprofit sector can be a source of career opportunities for proposal professionals. Every week, *The Chronicle of Philanthropy* (<http://www.philanthropy.com>) advertises development positions at hospitals, museums, service providers, advocacy organizations, and educational institutions, especially colleges and universities.

Larger nonprofit organizations routinely hire proposal professionals. Tired of writing proposals to build the Navy's next generation submarine? If you are ready to turn your idealism into a career, consider employment in America's burgeoning nonprofit sector. You may find organizations like the Center to Prevent Handgun Violence or your local hospital very gratifying places to work. Before you apply, however, you should gain some experience as a volunteer writing nonprofit grant proposals.

And second, many proposal professionals, like many Americans, voluntarily participate in charitable causes.

Harvard University is doing very well without your professional assistance, but the same cannot be said for many small, local nonprofit organizations that depend heavily upon volunteerism. Their professional staff is stretched to the limit and financial resources are modest. These organizations typically must augment their operating budgets with grants.

Some proposal professionals have helped a favorite local charity create a master proposal. As Robert F. Kennedy said, "each time a person stands up for an ideal, or acts to improve the lot of others, they send forth a tiny ripple of hope."

Despite their importance in American life, nonprofit organizations are inherently fragile organisms that must constantly adjust to new circumstances and opportunities in order to survive. By working with the nonprofit sector to develop proposals, proposal professionals can help strengthen our civil society, make their community a better place, and enhance their professional skills.

## Lessons For The Business World

There is another important reason proposal professionals working in the private sector should pay close attention to the nonprofit world. The nonprofit sector can teach proposal professionals at large four important lessons about developing successful business proposals:

- Proposals are part of a larger acquisition process that begins with setting organizational priorities, marketing the organization to prospective funders, and then responding with a written document. The quality of the proposal often depends on the thoroughness of the acquisition process.
- Building a close partnership with a potential client is extremely important. Funders are always looking for organizations they can trust, respect, and rely on to help achieve their missions.
- Proposals, regardless of their size, should be clear, straightforward, and readable. Clarity remains an important element in the art of persuasion.
- Every proposal should identify a problem and demonstrate how its solution will address this problem. Good proposals make compelling arguments.

These points may sound obvious, but too many businesses seem to routinely develop proposals that ignore these tried and true principles from the nonprofit world.

America's most successful nonprofit organizations have developed an impressive ability to generate a wide variety of revenue sources to support their operations and programs. Last year, they received almost \$26 billion from foundations and corporations in the form of grants in addition to billions of dollars in contracts from state and government agencies. With their powerful combination of idealism and hard business sense, nonprofit organizations have important lessons to teach proposal professionals in the private sector.

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## Web Sites

- <http://www.wiesenthal.org>
- <http://www.fdncenter.org>
- <http://www.philanthropy.com>
- <http://www.cof.org>
- <http://www.independentsector.org>

Dr. Jayme A. Sokolow is the founder and president of the Development Source, Inc., a Silver Spring, MD proposal services company that works with both nonprofit organizations and businesses. He also is the president of two nonprofit organizations. You can contact him at [JSoko12481@aol.com](mailto:JSoko12481@aol.com) or <http://www.development-source.com>.

He wishes to thank Laura Savely and Catherine Lerza for indispensable assistance in preparing this article.

# BOOKS

This edition's featured book reviews include *The Strategy and Tactics of Pricing*, by Thomas Nagle and Reed Holden; *The Great Wave: Price Revolutions and the Rhythm of History*, by David Hackett Fischer; and *Writing for a Good Cause: The Complete Guide to Crafting Proposals and Other Persuasive Pieces for Nonprofits*, by Joseph Barbato and Danielle Furlich.

The opinions expressed in these reviews are those of the reviewers and do not necessarily represent the views of the APMP. New book reviewers and book review recommendations are always welcomed. Please send your recommendations or comments to Book Review Editors Amy Bennington and Jennifer Parks.

Also, please see the two book excerpts featured elsewhere in this edition. They include chapters from *The Proposal Guide*, by Shipley Associates, and *Pricing and Cost Accounting*, by Darrell Oyer.

## The Strategy and Tactics of Pricing:

### A Guide to Profitable Decision Making

By Thomas T. Nagle and Reed K. Holden  
New Jersey: Prentice Hall, 1995.  
409pp. \$39.00  
0-13-669376-8

**Reviewed by**  
**ANN MARIE CASEY**  
**Proposal Manager**  
**Infodata Systems, Inc.**

Any proposal professional who has participated in a proposal pricing strategy or helped prepare a "Best and Final Offer" knows the difficulties involved in deciding how much to charge the customer for a product or service. At any pricing meeting, a myriad of pricing philosophies may be present in the room, as may a diverse set of vested interests. These interests include the sales group's commission that may be revenue-based,

so they want to close the sale at almost any price; the operations group that wants to charge enough to cover costs with some built-in buffer/margin for error; and the company wants to expand its market share and increase revenue. Also present in the room are issues that impact the price decision, such as the competitors' price, the customer's budget for the project, and lots of unknowns. On top of all of these influences is the common misconception that lowering or discounting the price is the fastest and easiest way to convince the customer to award their business to your company.

In their book *The Strategy and Tactics of Pricing: A Guide to Profitable Decision Making*, Thomas Nagle and Reed Holden assert that while all of the above factors certainly impact the final price, a company's pricing strategy should ultimately be value-based — how much is your company's solution worth to the customer, and how do you best communicate that value so the customer believes your price is fair.

Focusing on other factors such as cost, market share, or sales numbers can be shortsighted and in the long run will not result in profitability for your company. With value-based pricing, the price is derived by estimating the value of your product or service to the customer, not the actual cost of providing the product or service plus profit. This value-based strategy means that the price drives decisions about what costs to incur, rather than the other way around. According to the authors, "Cost-driven pricing leads to overpricing in weak markets and underpricing in strong ones." The goal should be to "maximize the difference between the value created for the customer and the cost incurred by the company."

One pricing pitfall cited by the authors is targeting market-share as a primary goal. The authors maintain that when you start giving customers ad hoc discounts simply to increase market-share, customers become savvy to the fact that your price list is flexible and they become tough negotiators. Once again, the price is no longer associated with the value to the customer. Rather than attempting to dominate market-share, the authors believe targeting the needs of a market segment and then excelling at providing a solution to those needs is critical to success, and will do more to



increase profitability than market-share.

Also discussed is the importance of providing incentives for the sales group so they make profitable sales, not just sales to meet their revenue numbers. Companies should replace sales goals with profit goals, leaning away from market share to profitability.

*The Strategy and Tactics of Pricing: A Guide to Profitable Decision Making* is clearly

written and well structured, with a summary section at the end of each chapter, and detailed appendices for chapters that involve more complex calculations or concepts (e.g., breakeven analyses and tables). The example scenarios used throughout are extremely well chosen and pertinent; most are accompanied by tables, charts, or some type of graphic to further illustrate the concept. A notes section is included with each chapter to provide outside reference material or amplification of a point made in the chapter.

Chapters 1-8 give an overview of the strategy and tactics of pricing and a basic structure that can be applied to improve pricing decisions. Topics discussed include conducting a financial analysis for pricing decisions while considering what costs are relevant and should impact the decision, and what costs are "simply misleading." Competitors and their role in pricing decisions are also discussed.

Chapters 9-14 delve into pricing-related issues such as law and ethics in more depth.

The book's structure nicely accommodates readers of varying levels of interest. The intended audience ranges from the casual skimmer looking for new ways to approach pricing to a business manager seeking step-by-step formulas for performing a pricing analysis. The aim of the book, according to the authors, is to provide a pricing guide, not a textbook. However, the book is structured and seems amenable to being used in a classroom setting as well as in a business setting.

Both authors are Managing Directors at The Strategic Pricing Group, Inc. and both are Professors of Marketing at Boston University. This book was originally published in 1987 and has been revised and updated for this 1995 publication. This edition does not yet address how the e-business paradigm has impacted "brick and mortar" pricing strategies.

# The Great Wave:

## Price Revolutions and the Rhythm of History

By David Hackett Fischer  
1996 Oxford University Press  
536 pages \$16.95  
ISBN 0-19-512121-X

**Reviewed by  
JENNIFER PARKS  
Proposal Coordinator**

David Hackett Fischer's book *The Great Wave: Price Revolutions and the Rhythm of History* is intimidating at first glance—536 pages with numerous charts and graphs. For someone without a solid background in economics, the thought of trying to make sense of Fischer's book is overwhelming. However, the actual text itself is 258 pages, the remainder being appendices, charts and graphs, notes, and sources. The end result is a very readable text.

Fischer very clearly explains his wave theory of price-revolution in the introduction. The following four chapters are devoted to each of the four price-revolutions Fischer has identified, and in these chapters he discusses the causes and effects of each in great detail.

By examining the price records in numerous nations (primarily Western Europe), Fischer has identified four major price revolutions in history — in the 13th, 16th, 18th, and 20th centuries. Although these price-revolutions are not fixed (some were as short as 80 years, others more than twice that), they have many similarities and seem to follow a clear pattern. These revolutions, which ultimately affected almost every aspect of life in the nations studied, can be tracked and virtually predicted by studying prices of commodities such as food and housing.

Fischer claims that the

first stage of every price-revolution is one of progress, stability, and optimism, followed by an event (such as World Wars I and II in the 20th century price-revolution) that acts as a catalyst to send prices surging. This in turn results in social and political disruption and cultural despair. People and governments begin thinking of price inflation as “an inexorable condition” and prices go still higher. The price-revolution ultimately results in a “cultural crisis” that includes economic collapse, social violence, and international war.

According to Fischer, these events “relieved the pressures that had set the price-revolution in motion” and the results included falling prices, rising wages, and years of stability. “Families grew stronger. Crime rates fell. Consumption of drugs and drink diminished,” Fischer states.

These periods of equilibrium and stability were times of great cultural strides and social and political progress: the “Renaissance Equilibrium” followed



the Medieval price-revolution, the “Enlightenment Equilibrium” followed the 16th century price-revolution, and the “Victorian Equilibrium” came after the 18th century price-revolution.

After a relatively few years of stability and optimism, the next price-revolution wave would begin to swell, and the patterns would repeat themselves with very few variations.

According to the author, we are currently experiencing the late stages of the 20th century price-revolution, but he does not attempt to make any predictions.

Fischer does a wonderful job of transforming centuries worth of information into a highly absorbing analysis that is not only for economists. Although some of the charts Fischer chose to illustrate certain information were difficult to interpret, he laid out the concepts and data so simply and clearly and the prose was so readable that I found myself turning the pages like a novel.

The author states in the preface “If one makes a leap of the imagination, numbers come alive.” This is exactly what Fischer does in *The Great Wave*. Eminently readable, unexpectedly compelling, and – at \$16.95 – an uncommon value, this is a book I would recommend to anyone with an interest in history or economics.

*Fischer claims that the first stage of every price-revolution is one of progress, stability, and optimism, followed by an event (such as World Wars I and II in the 20th century price-revolution) that acts as a catalyst to send prices surging. This in turn results in social and political disruption and cultural despair.*

# Writing for a Good Cause:

## The Complete Guide to Crafting Proposals and Other Persuasive Pieces for Nonprofits

By: Joseph Barbato and Danielle S. Furlich

2000 Simon & Schuster Trade Paperbacks

336pp. Retail: \$15.00 ISBN: 0684857405  
Paperback / Simon & Schuster

**Review by  
JENNIFER C. NAPOLITANO**

In the introduction to *Writing for a Good Cause: The Complete Guide to Crafting Proposals and Other Persuasive Pieces for Nonprofits*, authors Joseph Barbato and Danielle S. Furlich write, "There is no such thing as proposal writing. There are proposals, and there is writing." Their book explains both.

*Writing for A Good Cause* begins with a short history of fundraising in America, from its beginnings when it was simply termed "begging" to the respected multi-million-dollar nonprofit institutions of today such as New York's Museum of Natural History. The authors describe today's typical development office, in which staff researchers clip out newspaper announcements on "job promotions, business earnings and noteworthy marriages" to find potential donors.

The next section focuses on writing a proposal that will bring in the money. One of the first steps is to find out what makes your institution special and then tailor this information to the potential donor. To explain how to write each section of the proposal, Barbato and Furlich include a fictional proposal for building the Brooklyn Bridge. This example makes the process of proposal writing easy to understand. The proposal's executive summary begins:

The noted bridge builder

John Roebling and his nonprofit Bridge Company seek \$500,000 in start-up funding from the Brooklyn Foundation for construction of a Great Brooklyn Bridge across the East River between Manhattan and Brooklyn. The Great Bridge will put Brooklyn on the map. It will stimulate the borough's economic growth, raise property values, and provide a much-needed alternative to the ferries.

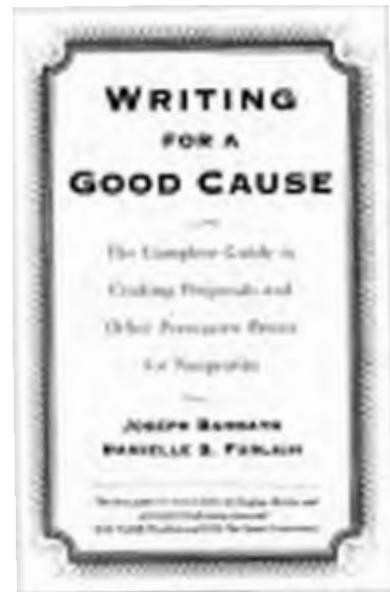
In addition, the book contains many sidebars, Hot Tips and Writer Beware boxes. One Hot Tip reads: "Make sure your methods section matches the budget. If you say you will print brochures but forget to include the expense in the budget, the reader will begin to wonder whether you really know how to run your operation." Another Hot Tip reminds the writer not to forget to ask for money, an egregious error of omission that happens more often than you would think.

The section on "The Writer's Craft" is useful for the beginning writer, offering traditional advice like "use five-cent words" and "choose verbs over nouns." Although most of the advice is not new, the authors put a fresh spin on it, comparing writing the first draft to making a "mud-pie you are not going to bake." In

***Make sure your methods section matches the budget. If you say you will print brochures but forget to include the expense in the budget, the reader will begin to wonder whether you really know how to run your operation.***

urging us to be persuasive, they include a letter that Barbato, as a boy in Brooklyn in 1958, wrote to the New York Daily Mirror defending rock 'n roll against a columnist's harsh attacks.

Barbato and Furlich do not just explain proposal writing. They include chapters on writing case statements,



newsletters, content for Web sites, and other big-money materials. Although proposals are the "push-comes-to-shove moments in fund raising," all the other pieces aimed at potential future donors are the "nudge moments." Such pieces don't ask for money; they "describe your achievements and ambitions, tell your success stories, and provide news and insights aimed at cultivating Mr. Rockefeller's support."

The section of the book called "The Fund-Raising Writer's Survival Kit: What to Do When Stuff Happens" includes advice on how to survive various crises, such as meeting deadlines when handed last minute assignments; remaining composed when the copy you circulated for fact-checking comes back edited on writing style; and developing a "secret writing life" when writing on a committee becomes unbearable.

Although they discuss stress and deadlines, Barbato and Furlich also remind us of the rewards of proposal writing for nonprofits; especially the rewards of a funded project and the knowledge that one's writing skills have helped advance a good cause.

Note: This review first appeared in "The Independent Writer," November 2000, a newsletter published by Washington Independent Writers (WIW). Reprinted by permission.

# Proposal Automation Products

By **GREG WILSON**

Specialized, computer-based proposal automation products were first introduced to the marketplace in the late 1980s. Concurrently, many practitioners began adding proposal management modules to their corporate data base management systems. Both elements continued to evolve, and now it is often possible for the two to be combined.

Our first survey of commercially-available proposal automation products (published in the Spring 1999 edition) proved to be one of the Journal's most popular articles. Quite a few changes have occurred since that survey:

Five vendors have ceased providing proposal tools or withdrawn from active marketing. The seven original vendors returning with this survey have added new versions and capabilities to previous products—including web-enabled product offerings, such as those recently introduced by Sant. One vendor, Deltek, is joining our survey following the introduction of its Deltek Proposals Version 3.0 tool. Thinksmith Corporation is also new.

What can these automation tools do for you?

- If your company responds to large, complex Requests for Proposal (RFPs), there are several products geared towards capturing the RFP, parsing its requirements, allocating them by author and section, and generating a compliance matrix when you are through.
- If your challenge is making intelligent bid-no bid decisions in the face of numerous bid opportunities, there are products that systemize the process of tracking and evaluation.
- If you want to automate your storyboard development process, or simply to manage your proposal text and graphics more efficiently, several of the tools have these capabilities.

In fact, nearly every aspect of technical and cost proposal development can be automated by combinations of the tools we list. The automation level and sophistication of listed tools varies. Not all tools will be suitable to you or to your company's needs. But chances are that one or more of these tools is worth considering.

Vendors and many of their customers speak glowingly of their system's features and benefits. In addition to bringing the normal economies of automation, many products are fully network compatible and Web-based, and can help facilitate the management and coordination of geographically disparate teams. Nearly every

one has access control and security features. Some are considered optimum in engineering environments. Others work best for commercial product sales.

Keep in mind that these products are not a cure-all. Proposal personnel must be diligent and must input concrete, useful data for these products to do their jobs correctly. These products will not "win" the proposal for you, but when used for their intended purpose they can save time, money, and the frustration and the risks associated with an uncoordinated, disorganized proposal effort.

So, how should you use this information?

We recommend you use it as a starting point in your own company's search. Contact the vendors or representatives directly. Take advantage of the demonstration packages that some vendors offer, call vendor references, and make your own judgment about which tools might be most helpful for you.

As we said in our original survey: Knowledge is power, and our list is just the tip of the knowledge iceberg. The data on these vendor products was compiled from questionnaires sent to and answered by vendor representatives. No judgments are made here about a product's performance, efficiency, return on investment, or ease of use. To fit the confines of our presentation matrix, the amount of information we have gathered has been reduced.

*more...*



Greg Wilson is a proposal professional at CACI, Inc. and wrote a review of Knowledge.Works in the previous issue. He can be contacted at [Gwilson@caci.com](mailto:Gwilson@caci.com). If you would like to recommend topics or products for review in a future edition, please contact him or the Managing Editor.

Product Survey

# PROPOSAL AUTOMATION PRODUCTS

PRODUCT NAME	VENDOR (Listed Alphabetically)	PLATFORM/ CONFIGURATION	DESCRIPTION (GENERAL)	INTRODUCTION/ MATURITY	TRAINING AND SUPPORT
RESTRIEVE	Applied Solutions, Inc. 3959 Pender Drive, Suite 306 Fairfax, VA 22030  Voice: 703-691-3004 Fax: 703-691-3006  Email: asi@ appliedsolutions.com Web: www.appliedsolutions.com  Primary Application: government and commercial procurement	Windows 3.1, 95/98/NT  Single and Multi-user  Stand-alone and network  Compatible with MS Word, WordPerfect, Excel	RESTRIEVE is an advanced applicant and skills tracking system combined with resume generation and management capabilities. RESTRIEVE includes a comprehensive data entry system and extensive queries and reports to assist in identifying the most qualified and cost effective team of profession- als to submit with your proposal. RESTRIEVE can generate stan- dard resumes formatted to meet any custom set of specifications.	Product introduced 1994  Current Version 6.1 released 11/00  Current customers: 4	None
WinAward	Bayesian Systems, Inc. Gaithersburg, MD  Marketed by: Advantage Consulting, Inc. 7611 Little River Turnpike, 204W Annandale, VA 22003  Voice: 703-642-5153 Fax: 703-658-0159  Email: JBender@acibiz.com Web: www.acibiz.com  Primary Application: government and commercial procurement	Windows 3.1, 95/98/2000/NT  Single and Multi-user  Standalone or network  Web-enabled  SQL Server available (LAN)	Tracks business opportunities through entire life cycle with continual assessment of busi- ness case and win probability.  Interfaces with Microsoft Outlook Contact Management	Product introduced April 1996.  Current version: 4.1  Current users: over 1,000.  Evaluation CD- ROM available.	<ul style="list-style-type: none"> <li>• Training - Admin (1 day) and user (1/2 day)</li> <li>• Warranty: 6 month support and upgrades</li> <li>• Annual support available at 15% of current price; includes phone support, upgrades, user group and news</li> </ul>
Deltek Proposals Version 3.0  Deltek CRM	Deltek Systems, Inc. 8280 Greensboro Dr. McLean, VA 22102  Voice: 703-734-8606 800-456-2009 Fax: 703-734-1146  Web: www.deltek.com  Primary Application: government and commercial procurement	Windows 95/98/2000/NT  Compatible with MS Word, Adobe Pagemaker, WordPerfect, Quark  Scalable client/ server architecture, WAN, Winframe/ Meta-frame, WTS	Proposal generation and tracking system that enables users to efficiently deliver proposals tailored to customer-unique requirements. Custom Proposals component provides search and retrieval capabilities, customized formats, creation of an unlimited catalog of custom templates, proposal status tracking, data sharing tools, and proposal review tools. The Government Proposals component includes SF255/SF254 generators allow- ing users to retrieve stored infor- mation into government forms.	Originally intro- duced in 1986  Proposal Component Introduced in 2000  Over 675 cus- tomers	<ul style="list-style-type: none"> <li>• Training courses available and listed at www.deltek.com</li> <li>• Training CD, on-site training, portable wireless classroom, training space available at Deltek locations</li> <li>• 60 day money back guarantee</li> </ul>
Virtual Proposal Center  Version 2.48 released December 2000	Intravation, Inc P.O. Box 413 Los Altos, CA 94023  Voice: 847-299-6423 Fax: 847-299-6428  Email: info@intravation.com Web: www.intravation.com  Primary Application: government and commercial procurement	Windows 95/98/NT Unix  Compatible with all desktop application software including graphic packages  Multi-user through browser across an intranet/ Internet network	Collaborative, workflow-enabled intranet/Internet application that helps manage, support, and simplify the proposal development process. Allows user to plan, assemble, review, store, and disseminate proposal information.	Introduced in January 1989  Current number of customers or installations: 12	<ul style="list-style-type: none"> <li>• Training: 1-3 days on customer site included with software license purchase, tailored to customer</li> <li>• Annual technical support (normal business hours) at 17% of license fee</li> <li>• Additional support available on request</li> </ul>



	FEATURES/CAPABILITIES*					PRICING*
	CAPTURE PHASE	PROPOSAL DEVELOPMENT	PROPOSAL DATABASE COMPONENTS	PRICING ACTIVITY	OTHER	
		Capture/maintain proposal text  Allow export to other applications packages	Resume library	Materials/hardware estimating capability		\$2,500 for single user standard addition  \$14,000 for multi-user site license for standard addition.
	Prompt, capture and track: • Opportunities • Win strategy • Response strategy • Competition/risk assessment • Capture plan • Bid/no bid analysis Decision engine and historical data base (DB) for win probability calc				Search/query  Access control (security)  Export to other applications  Links to email  Imports from: GOVCON, Fed Sources (CD), Input, Eagle Eye DBs	Concurrent user pricing on 1 server: 1 \$2,100 5 \$5,000 10 \$8,000 15 \$20,300 50 \$35,000  Multi-server and enterprise pricing available
	Opportunity tracking  Prompt response tactics  Prompt, capture and track competition/risk assessment  Security/controlled access	Import an electronic RFP  Allocate and link RFP requirements  Allocate "win factors" to sections  Capture/maintain proposal text  Capture/maintain proposal graphics  Allow export to other applications packages  Security/controlled access	Resume library  Previous proposal library  Past performance library  Integration with other corporate data bases	Work breakdown structure (WBS) correlation (available in next release)	Core features include: • Custom proposal style sheets • Dynamic section builder • Graphical relational report writer • Build resume by query • Proposal tracking  Deltek Proposals integrates with Deltek CRM (Client Relationship Management) solution	Base price: Deltek Proposals is sold in two Modules, Government and Custom Proposals, on a per user basis and can range from \$3,000 to \$35,000. Bundled together, the price ranges from \$5000 to \$50,000  Add ons: The Import/ Export Utility - \$1,995
	Opportunity tracking  Capture and track win strategy  Capture and track response strategy  Capture and track competition/risk assessment  Capture and track capture plan  Security/controlled access	• Import an electronic RFP • Capture/build proposal outline • Allocate "win factors" to sections • Produce/maintain completed storyboards • Capture/maintain proposal text • Capture/maintain proposal graphics • Allow export to other applications packages • Configuration/ version control (of proposal sections and volumes) • History of document changes • Security/controlled access	• Shared reference document library  • Resume library  • Previous proposal library  • Past performance library  • Integration with other corporate data bases		• Search • Version control with check-in/check-out • Work Plan (status view) • Notification ("due" alerts) • Document viewing in any file format • Proposal metrics	Server license: \$8,000  "Active" user license: \$1,500  Users with "read only" access do not count towards license total

\*NOTE: Information listed is considered reliable but not guaranteed. Pricing current as of February 2001. In most cases, prices subject to change without notice. Other discounts, features and/or options may be available or apply. Please contact vendor for additional information, pricing, and features specific to your need.

PRODUCT NAME	VENDOR (Listed Alphabetically)	PLATFORM/ CONFIGURATION	DESCRIPTION (GENERAL)	INTRODUCTION/ MATURITY	TRAINING AND SUPPORT
<p>Proposal Assembler v4</p> <p>Proposal Express v4</p> <p>Web Publisher</p>	<p>Pragmatech Software, Inc. 4 Limbo Lane Amherst, NH 03031</p> <p>Voice: 603-672-8941 800-401-9580 Fax: 603-673-0687</p> <p>Web: www.pragmatech.com Email: rfpinfo@pragmatech.com</p> <p>Primary Application: government and commercial procurement</p>	<p>Windows 98/2000/NT</p> <p>Single and Multi-user</p> <p>Stand alone or network</p> <p>Compatible with MS Office</p>	<p>Automates the production of RFP responses, proposals, and other sales documents. Simplified DB creation. Provides a non-technical process for bringing knowledge base content to the Web.</p> <p>Ensures consistency of message across the sales force, sales support, marketing channels, and others.</p>	<p>Introduced in 1995</p> <p>Current customers: over 1,500</p> <p>Over 35,000 installations</p>	<ul style="list-style-type: none"> <li>• Proposal Automation Suite: 4-day course</li> <li>• Blueprints and On-Line Form Development: 2-day course</li> <li>• Annual Support and Maintenance: 18%</li> <li>• Includes: unlimited access to Technical Support Center w/ phone support, fax-back service, and access via Web. Includes all upgrades and enhancements for a 1 year period</li> </ul>
<p>RFP Machine v4</p> <p>RFP Tracking System v4</p> <p>RFP Express</p>	<p>Pragmatech Software, Inc. [Same As Above]</p>	<p>Windows 98/2000/NT</p> <p>Single and Multi-user</p> <p>Stand alone or network</p> <p>Compatible with MS Office</p>	<p>[See Above]</p>	<p>[See Above]</p>	<ul style="list-style-type: none"> <li>• RFP Machine: 3-day course</li> <li>• RFP Tracking System: 1-day course</li> <li>• RFP Express – "Train the Trainer": 1-day course</li> <li>• Annual Support and Maintenance: 18%</li> <li>• Includes: unlimited access to Technical Support Center w/ phone support, fax-back service, and access via Web. Includes all upgrades and enhancements for a 1-year period</li> </ul>
<p>Proposals Organized to Win—POW95™ version 1.1</p> <p>POW2000 Version 1.0 estimated shipping late spring 2001</p>	<p>Ransone Associates, Inc. 5320 Jessie Dupont Memorial Highway Wicomico Church, VA 22579</p> <p>Voice: 804-580-5929 Fax: 804-580-4028</p> <p>Email: Ransone@aol.com Web: www.ransone.com</p> <p>Primary Application: government, commercial and international procurement</p>	<p>Windows 95/98/2000/NT</p> <p>Compatible with MS Office 97 Professional, MS Project 98</p> <p>POW2000 compatible with MS Office 2000 Professional and MS Project 2000</p> <p>Multi-user</p> <p>Network or stand-alone</p>	<p>Win Strategy development, proposal scheduling, RFP shredout to proposal, CDRL tracking to proposal, text and illustrations tracking, Integrated Program Management, CWBS, CSOW, IMP/IMS, Cost/Pricing tracking, risk assessment and management planning,</p> <p>Storyboards, Red Team Review, CR/DR response. Also includes a unique "Proposal Running Start" function that provides an online, MS Word-based continuum from RFP requirements to Storyboards/ Instructions to Authors/Proposal Drafting.</p>	<p>Introduced in 1988 (DOS)</p> <p>POW95 v1.0 for Office 95 released 1997</p> <p>POW95 v1.1 released 1999</p> <p>POW2000 scheduled for release late spring 2001</p> <p>Current customers: 9</p>	<ul style="list-style-type: none"> <li>• One-Day Training and OJT on bona fide proposals</li> <li>• 6 months free telephone support</li> <li>• 30-day money back guarantee, 6 month warranty program</li> </ul>
<p>RFP Master 4.1</p>	<p>The Sant Corporation 4950 Franklin Avenue Cincinnati, OH 45212</p> <p>Voice: 888-448-7268 Fax: 513-396-5182</p> <p>Email: info@santcorp.com Web: www.santcorp.com</p> <p>Primary Application: government procurement</p>	<p>OS: Windows 95, 98, 2000, or NT 4.0</p> <p>Compatible with MS Word 97 and 2000</p> <p>Single or Multi-user; stand-alone or network.</p>	<p>Enables responses to complex RFPs by searching a comprehensive library of answers automatically. Shows answers that match criteria and lets user choose best one, or combine several. Allows user to distribute tasks among several people or work alone.</p>	<p>eRFPMaster 4.0 released 1/1/98</p> <p>First introduced in 1994</p> <p>Currently over 10,000 RFP Master users.</p>	<ul style="list-style-type: none"> <li>• Training and workshops available</li> <li>• 30 days free technical support</li> </ul>

	FEATURES/CAPABILITIES*					PRICING*
	CAPTURE PHASE	PROPOSAL DEVELOPMENT	PROPOSAL DATABASE COMPONENTS	PRICING ACTIVITY	OTHER	
		<ul style="list-style-type: none"> <li>• Allocate "win factors" to sections</li> <li>• Allocate "evaluation criteria" to sections</li> <li>• Capture/maintain proposal text and graphics</li> <li>• Configuration/ version control (of proposal sections and volumes)</li> <li>• History of document changes</li> </ul>	<ul style="list-style-type: none"> <li>• Shared reference document library</li> <li>• Previous proposal library</li> <li>• Past performance library</li> <li>• Integration with other corporate data bases</li> </ul>		<ul style="list-style-type: none"> <li>• Template- and forms-based proposals</li> <li>• Publish knowledge base content for Web distribution</li> </ul>	Per named user: Web Server Software: \$9,000 Proposal Assembler: \$5,000 Proposal Express: \$7,500 (per 10 users) Web Publisher: \$60,000 server license
	<ul style="list-style-type: none"> <li>• Opportunity tracking</li> <li>• Capture and track response strategy</li> <li>• Capture and track competition/risk assessment</li> <li>• Capture and track capture plan</li> </ul>	<ul style="list-style-type: none"> <li>• Import an electronic RFP</li> <li>• Capture/build proposal outline</li> <li>• Parse RFP</li> <li>• Allocate and link RFP requirements to/by author and to/by capture requirements</li> <li>• Facilitate amendment/ requirements changes</li> <li>• Allow export to other applications</li> </ul>			<ul style="list-style-type: none"> <li>• Automatically reads RFP questions, presents possible answers from DB and inserts answer (under user control) into document</li> </ul>	Per named user: RFP Machine: \$1,350 RFP Express: \$7,500 (per 10 users) RFP Tracking System: \$495
	<ul style="list-style-type: none"> <li>• Opportunity tracking</li> <li>• Prompt, capture and track win strategy</li> <li>• Prompt, capture and track response strategy</li> <li>• Prompt, capture and track competition/risk assessment</li> <li>• Prompt, capture and track capture plan</li> <li>• Bid/no bid analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Import an electronic RFP</li> <li>• Capture/build proposal online</li> <li>• Parse RFP</li> <li>• Allocate and link RFP requirements to/by author or capture rqmts.</li> <li>• Allocate "win factors" to sections</li> <li>• Allocate "evaluation criteria" to sections</li> <li>• Produce storyboard forms</li> <li>• Produce/maintain completed storyboards</li> <li>• Capture/maintain proposal text</li> <li>• Capture/maintain proposal graphics</li> <li>• Allow export to other applications packages</li> <li>• Facilitate amendment/ requirements changes</li> <li>• Configuration/ version control (of proposal sections and volumes)</li> <li>• History of document changes</li> </ul>		<ul style="list-style-type: none"> <li>• WBS correlation</li> <li>• Correlation/ link to standard application packages (MS Excel, ProCyon)</li> <li>• POW can export the ILS detailed tasks to Excel</li> </ul>		Base price: \$7,500 Corporate discounts Site licensee may load software on all computers at one proposal organization Licensee may load software on teammate computers temporarily for duration of a proposal. CD includes self-training program and user's Tour Guide
	<ul style="list-style-type: none"> <li>• Prompt response tactics, messaging</li> </ul>	<ul style="list-style-type: none"> <li>• Import electronic RFP, or import manually</li> <li>• Capture, build and maintain proposal outline</li> <li>• Parse RFP</li> <li>• Capture/maintain proposal text and graphics</li> <li>• Data base library for:                             <ul style="list-style-type: none"> <li>- reference documents</li> <li>- resumes</li> <li>- previous proposals</li> <li>- past performance</li> </ul> </li> </ul>			<ul style="list-style-type: none"> <li>• Access control (security)</li> <li>• Automatically creates a compliance matrix</li> <li>• Integrates with other corporate data bases</li> <li>• Creates an MS Word document.</li> </ul>	Professional: \$1,250 per user Client: \$595 per user

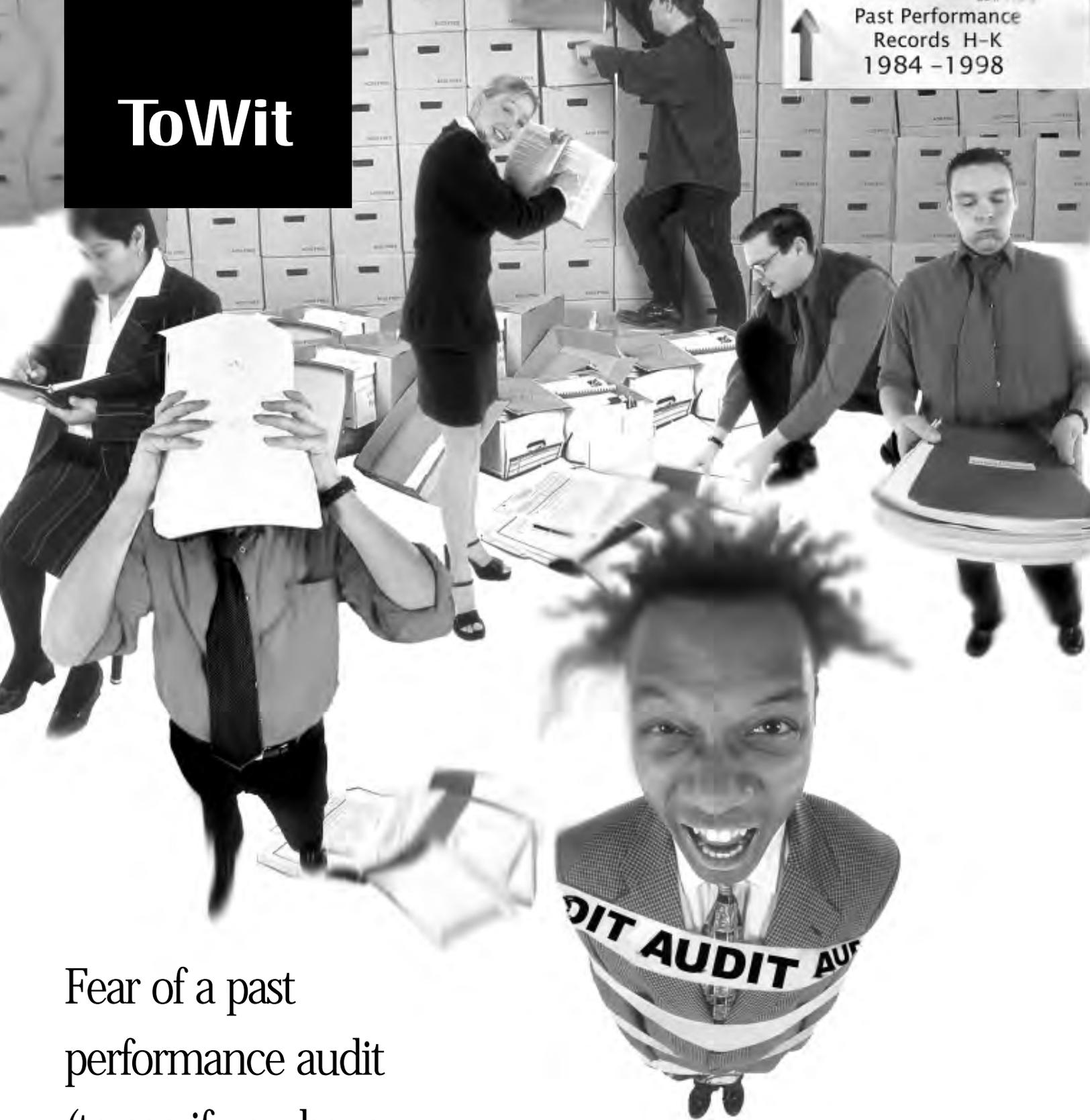
Proposal Automation Products

PRODUCT NAME	VENDOR (Listed Alphabetically)	PLATFORM/ CONFIGURATION	DESCRIPTION (GENERAL)	INTRODUCTION/ MATURITY	TRAINING AND SUPPORT
eRFP Master 4.1	The Sant Corporation [Same As Above]	Server OS: Windows NT 4.0 or Windows 2000  Client OS: Windows 98/2000/NT  Compatible with MS Word 97 and 2000	Web-based version of RFP Master. [Not just "web enabled."] eRFPMaster runs completely through the browser, requiring no special software on the user's computer.	eRFP Master released July 2000	[Same as above.]
ProposalMaster 4.5	The Sant Corporation [Same As Above]	Windows 95/98/2000 or NT 4.0  Single or Multi-user  Stand-alone or network.  Compatible with MS Word 95/97/2000 and PowerPoint 95/97/2000	Allows user to create formal proposals, letter proposals, or sales letters quickly. Asks questions about the opportunity/prospect, then creates a professional proposal (in Microsoft Word) that user can modify.	Introduced in 1993.  Current users: over 40,000	<ul style="list-style-type: none"> <li>• Training and workshops available</li> <li>• 30 days free technical support</li> </ul>
eProposal Master 4.5	The Sant Corporation [Same As Above]	Server OS: Windows NT 4.0 or Windows 2000  Client OS: Windows 98/2000/NT  Compatible with MS Word 97 and 2000 and MS PowerPoint 97/2000	Web-based version of ProposalMaster.  eProposalMaster runs completely through the browser, requiring no special software on user's computer.  [Functions same as above.]	Introduced in November 2000	[Same as above.]
SLATE v5.1 – Sept. 2000	SDRC Slate Solutions Group (formerly TD Technologies) 2425 N. Central Expressway Suite 200 Richardson, TX 75080 Parent Company: SDRC  Voice: 214-570-3000 Fax: 274-570-3001  Email: info@slate.sdrc.com Web: www.sdrc.com/slate  Primary Application: government procurement	OS: Unix and PC platforms. HP/UX, Solaris, Windows 95/98/2000/NT  Compatible with office suites such as MS Office 97, 98, 2000, Visio, Project, and Framemaker  Multi-User groupware accessible via standard clients, "live" desktop integrations (such as Excel-live), and Web  Stand-alone or network	SLATE provides a set of Object Oriented building blocks for capturing proposed systems and relating those systems back to RFP/RFI document elements (providing complete traceability and real-time decision support to entire development/ proposal teams. SLATE captures documents, identifies customer requirements, captures approaches, organizations, processes, etc. and associates quantifiable information (such as cost/time to various approaches) and exports to standard word processors finished proposals with complete traceability.	Introduced July 1994  In use at over 100 organizations  5000 licenses in use	<ul style="list-style-type: none"> <li>• Customer service included in maintenance cost</li> <li>• 90-day warranty</li> </ul>
Thinkwire Version 2.0	Thinksmith Corporation 20 Camden St., Suite 200, Toronto, Ontario Canada, M5V 1V1 Voice: 1-866-504-7007 ext. 224 Fax: 416-504-6696  Email: info@thinksmith.com Web: www.thinksmith.com  Primary Application: Government, Commercial, and International procurement	OS: Windows, Unix and Linux; requires Internet Explorer or Netscape Navigator browser with Java VM enabled.  Multi-user, Network configuration  Compatible with Internet Explorer or Netscape Navigator browser with Java VM enabled	Web-native and client-free document creation tool that enables users to work on-line—at any time—to discuss, research and build RFPs, RFQs, RFIs, plans, budgets, proposals, etc. Includes: graphical organization and navigation of elements/ideas; document assembly; instant updating; fast and easy team evaluations and decision-making; in-line editing of team decisions and responses; HTML output of complete document; automatic storage and archiving of all team comments/decisions/responses; web-native encrypted access from browsers.	First released October, 1999  Version 2.0 to be released April, 2001  Current customers: 10	<ul style="list-style-type: none"> <li>• Customer service available 24x7 via toll free number and e-mail</li> <li>• Product and service 100% guaranteed</li> <li>• Training features "Quickstart Workshop," a three day introductory course</li> </ul>

	FEATURES/CAPABILITIES*					PRICING*
	CAPTURE PHASE	PROPOSAL DEVELOPMENT	PROPOSAL DATABASE COMPONENTS	PRICING ACTIVITY	OTHER	
	[Same as above.]	[Same as above.] Also: • Broadcast email to team members			<ul style="list-style-type: none"> <li>• SQL Server</li> <li>• Automatic compliance matrix</li> <li>• Integrates with other corporate DBs</li> <li>• Creates an MS Word document.</li> </ul>	Server license: \$9,000
	Connects to: ACT!, GoldMine, SalesLogix, Pivotal, and Outlook	<ul style="list-style-type: none"> <li>• Capture/build proposal outline</li> <li>• Capture/maintain proposal text</li> <li>• Data base library for:                             <ul style="list-style-type: none"> <li>• reference. documents</li> <li>• resumes</li> <li>• previous proposals</li> </ul> </li> <li>• Integrates with other corporate databases</li> <li>• Allows export to MS Word</li> <li>• Proposal Tracker maintains separate proposals and revisions</li> </ul>		<ul style="list-style-type: none"> <li>• Correlates / links to standard application packages including MS Excel, Calico, Trilogy, Exactuim</li> </ul>	<ul style="list-style-type: none"> <li>• Architecture includes standard proposal elements:                             <ul style="list-style-type: none"> <li>• Cover letter</li> <li>• Executive summary</li> <li>• Needs analysis</li> <li>• Benefits</li> <li>• ROI graphs</li> <li>• Solution statement</li> <li>• Generates management reports</li> <li>• Configuration control</li> <li>• Presentation Builder module creates PowerPoint presentation.</li> </ul> </li> </ul>	Professional: \$895 per user  Client: \$595 per user  Presentation Builder: \$99 per user
	[Same as above.]	[Same as above.]		[Same as above.]	[Same as above.]	Server license: \$9,000
	<ul style="list-style-type: none"> <li>• Opportunity tracking</li> <li>• Prompt, capture, and track win strategy</li> <li>• Prompt response tactics</li> <li>• Capture and track response strategy</li> <li>• Prompt, capture, and track competition/ risk assessment</li> <li>• Prompt, capture, and track capture plan</li> <li>• Bid/no bid analysis</li> <li>• Security/controlled access</li> </ul>	<ul style="list-style-type: none"> <li>• Import an electronic RFP</li> <li>• Import RFP data through manual means only</li> <li>• Capture/build proposal outline</li> <li>• Parse RFP</li> <li>• Allocate and link RFP requirements to/by author or to/by capture requirements</li> <li>• Allocate "win factors" to sections</li> <li>• Allocate "evaluation criteria" to sections</li> <li>• Produce/maintain completed storyboards</li> <li>• Capture/maintain proposal text</li> <li>• Capture/maintain proposal graphics</li> <li>• Allow export to other applications packages</li> <li>• Facilitate amendment/rqmts. changes</li> <li>• Configuration/ version control</li> <li>• History of document changes</li> <li>• Security/controlled access</li> </ul>	<ul style="list-style-type: none"> <li>• Previous proposal library</li> <li>• Integration with other corporate data bases</li> </ul>	<ul style="list-style-type: none"> <li>• Materials/ hardware estimate capability</li> <li>• Work breakdown structure correlation</li> <li>• Correlation/ link to standard application packages (Word, Excel, Lotus, Visio, Project)</li> </ul>	<ul style="list-style-type: none"> <li>• All documents, decisions, and rationale captured</li> <li>• Automatic generation/ maintenance of traceability matrices</li> </ul>	Based on enabled features (i.e. req. mgmt list price is \$4995)  Price for features enabled - \$12,995  Add-ons are typically \$2,000  Web client access - \$2000  Prices are for simultaneous access, floating licenses
	<ul style="list-style-type: none"> <li>• Opportunity tracking</li> <li>• Prompt, capture, and track win strategies</li> <li>• Prompt response tactics</li> <li>• Capture and track response strategy</li> <li>• Prompt, capture and track capture plan</li> <li>• Bid/no-bid analysis</li> <li>• Security/ controlled access</li> </ul>	<ul style="list-style-type: none"> <li>• Import an electronic RFP</li> <li>• Capture/build proposal outline</li> <li>• Parse RFP • Allocate and link RFP requirements to/by author and capture requirements</li> <li>• Allocate "win factors" to sections</li> <li>• Allocate "evaluation criteria" to sections</li> <li>• Capture/maintain proposal text</li> <li>• Capture/maintain proposal graphics</li> <li>• Allow export to other applications packages</li> <li>• Facilitate amendment/ requirements changes</li> <li>• Configuration/version control (of proposal sections and volumes)</li> <li>• History of document changes</li> <li>• Security/controlled access</li> </ul>	<ul style="list-style-type: none"> <li>• Shared reference document library</li> <li>• Resume library</li> <li>• Previous proposal library</li> <li>• Past performance library</li> <li>• Integration with other corporate data bases</li> </ul>	<ul style="list-style-type: none"> <li>• Work breakdown structure correlation</li> </ul>	<ul style="list-style-type: none"> <li>• Archives information/ process</li> <li>• Web-based researching &amp; filesharing</li> </ul>	Licensing and rental models: based on customer configuration/ requirements. ASP model: 0-15 users: \$150 per month/per user plus set-up ASP model: 16-50 users: \$100 per month/per user plus set-up  *Costs can be configured based on higher volume of users.

# To Wit

Past Performance  
Records H-K  
1984 - 1998



Fear of a past  
performance audit  
(to see if you have  
been truthful):  
pastperformaphobia

To Wit is a new column, designed to celebrate the restorative powers implicit in making fun of ourselves. To that end, we will welcome and consider contributions of all humorous types — from comedy to satire, parody or cartoon. It always helps to laugh! (Special thanks to long-time friend of the Journal, Jen Mar, for contributing this inaugural musing.)

# Proposal Phobias

## Revelations and Cure

By **JEN MAR**

It's not funny when you're the victim of phobias on a proposal. Proposals are a force to be reckoned with. And madness can supplant reasonable thinking under stress. Some of our proposal fears could fall within the domain of known and previously documented phobias (such as those compiled in a recent *Time* magazine, April 2, 2001). If you suffer these phobias, you know what we mean:

### Known Phobias, Manifest in Proposals

[Fear: Manifestion. (Scientific Name)]

Fear of untidiness: I hate this proposal chaos, mayhem, filth! (Ataxophobia)

Fear of being ignored: I was assigned here four months ago—where is everybody? (Athazagoraphobia)

Fear of anger: You deleted my 100-page segment??? (Cholero-phobia)

Fear of locked rooms: I swear the Proposal Manager is going to lock us up in this War Room until it's over! (Clesiophobia)

Fear of making decisions: To bid? Or, not to bid? What is the question? (Decidophobia)

Fear of justice: I really should have been canned two months ago. (Dikephobia)

Fear of vomiting: Have you seen the Executive Summary? (Emetophobia)

Fear of committing an unpardonable sin: Wasn't the deadline five minutes ago? (Enosophobia)

Fear of work: How are they going to know what I'm doing? (Ergophobia)

Fear of responsibility: No! I didn't write that mess.

***Nietzsche-phobia:***  
***Fear of unconsciously***  
***quoting Friedrich Nietzsche***  
***in the Executive Summary***

(Hypegiaphobia)

Fear of ridicule: I know those consultants are going to read my stuff out loud during Happy Hour. (Katagelophobia)

Fear of speed: I cannot work faster without taking something! (Tachophobia)

Fear of words: Passive voice is being used by them. (Verbophobia)

As a proposal management professional, you may have felt compelled, as I was, to offer an addendum to the *Time* Magazine list. *Proposalphobia* could manifest itself in any number of ways. Here are but a few.

### New Proposal Phobias Revealed

Fear of accidentally sending ex-spouse's email to the Vice President (Emixaphobia)

Fear of unconsciously quoting Friedrich Nietzsche in the Executive Summary (Nietzsche-phobia)

Fear of Expiration Dates on food in the War Room refrigerator at 2:00 am (Botchiliphobia)

Fear that a boilerplate you wrote for another bidder and added to this proposal would be detected by an evaluator who thought he was reading another proposal—again (Verboseaphobia)

Fear of working all night under flickering yellow fluorescent lights (Nonincandescentophobia)

Fear of managers who change your action plan like sadistic air controllers (Controllaphobia)

Fear of acronyms that mean something else. e.g., sow, lust, pms (Nymophobia)

Fear of computers and computer networks (Gatesaphobia)

Fear that graphic artists are not telling the truth

(Photoshopaphobia)

Fear of the subject in sentences, or not finding it, or not knowing it (Significantophobia)

Fear of placing all your work into a directory, but which one? (Folderaphobia)

Fear of hardware drives imploding (Datalostaphobia)

Fear of walking down corridors around and around until you find Godot! (Nomaphobia)

There are new cures for phobias. There are drugs. There are therapies. And, there is this conclusion—most phobias lead their sufferers to avoidance, a practice that simply makes the phobia worse. Experts agree that controlled exposure to most phobic fears can slowly strip that fear of its power.

To wit: *the cure for proposalphobia is more proposals.* (What could be funnier than that!)

Jen Mar is a freelance writer, author, and proposal consultant who resides on the Virginia shore of the mighty Potomac River, facing Washington, D.C. Email: zenink@erols.com.