Developing the Price-to-Win

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"Pricing is the moment of truth -- all marketing comes into focus in the pricing decision."

E. Raymond Corey
Harvard Business School
1962

Common Pricing Shortfalls

- Allowing costs to set pricing and not the market
- No cost targets are set, or they are ignored
- Engineers and support groups "over scope" the work or bid costly features the customer does not really want
- Disconnect between technical team and estimators
- Costs are not worked early enough -- forcing tough investments decisions late in the capture effort
- Management fails to make timely decisions on pricing strategy
- Baseline is not frozen until late

Failure to Manage Cost Leads to Losing or a Problematic Program

What is a Price-to-Win (PTW)?

- A market derived price based on how the customer selects and what the competition will offer?
- *The highest possible price you can bid with which you win*
- When a PTW is done early and drives the Design-to-Cost, maximizing win probability and financial returns

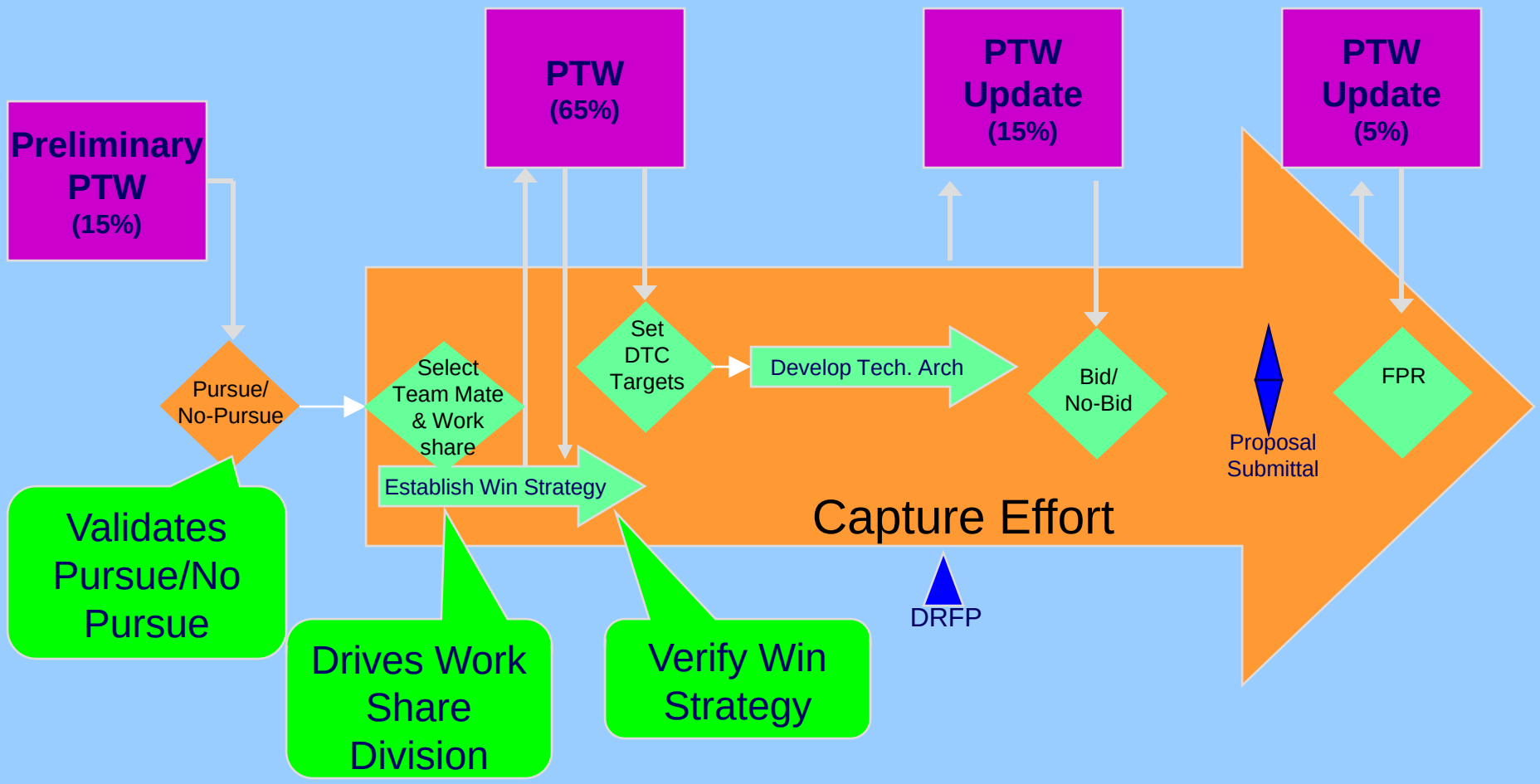
Not: Cost + Fee = Price
But: PTW - Profit = Cost

Price-to-Win

- Get externally focused… price wins
- Respond to customer demands in competitive market
- Step up to the leadership required to drive PTW
- Cost becomes a major design parameter
- Provide foundation for Design-to-Cost process (or CAIV)

Significantly Raises Probability of Win

The Price-to-Win Is Evolved Across the Pursuit



Effective Price-to-Win

We are going to make our numbers on this one

Finance

We'll win this as long as we give a good (low) price

Business Development

We need a win for our company and it must be executable

Program Management

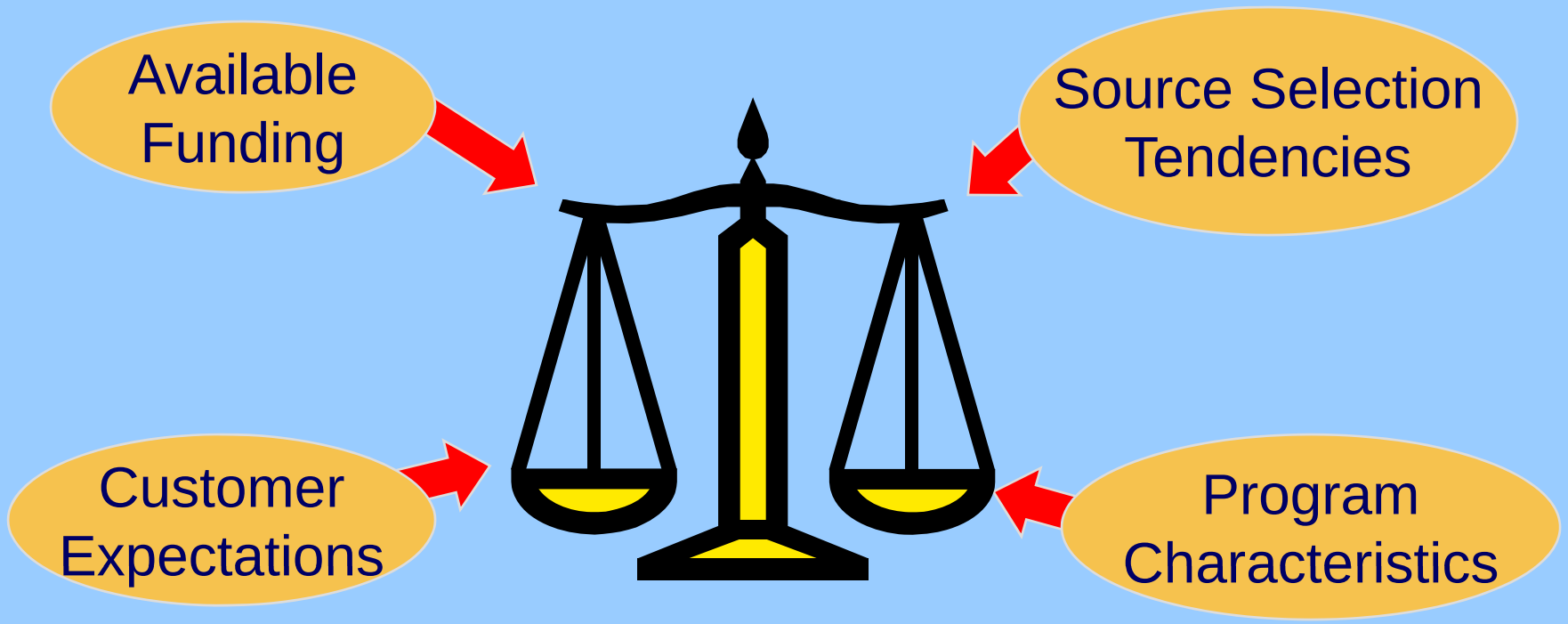
PTW Must Reconcile Different Perspectives

Setting the PTW

- Structured/repeatable process
- Many factors to consider
- The importance and impact of these factors changes from procurement to procurement

Combination of Art and Science -- Judgement Using Facts & Data

Customer Buying Analysis



How to “Correctly” Balance Evaluation Score and Price

First Identify What “Price” is!

- What will the customer evaluate quantitatively and qualitatively? (non-recurring, Production unit cost, O&S, etc.)
- Programs are lost because not all of the scope of work is fully analyzed, i.e., Small Diameter Bomb Program and the bomb carriage

Understand What Costs to Focus On and Set Targets

Other Results From Customer Buying Analysis

- How much funding is available for the contractor?
- What is the acceptable price range and profile?
- What “price” is most important? (i.e., life cycle, unit production cost)
- To what extent does this customer adjust a bid price?
- How much weighing will price get vs. performance?

You Must Get "Inside" The Customer’s Head And Understand How They Will Evaluate Each Competitor

To Set the PTW You Must Understand the Competition

- Offering, including:
  - Teammates
  - Technical approach
  - Past Performance
- Win strategies
- Key Discriminators -- strengths and weaknesses
- How the competitor is spending their money across the WBS – what are they focused on
- Typical bidding strategies
- How important is this opportunity -- bid aggressiveness
- Bid price

Deducing the Competitor's Price

Cost
(technical approach)

+

Bid Aggressiveness
(profit & investment)

=

Competitor's Price

Identify Differences With the Competition

- Team makeup and structure
- Baseline architecture
  - Component costs
  - Software lines of code
  - Etc.
- Labor and overhead costs
- Fee structure
- Productivity rates
- Bill of material

Identify Differences With the Competition

- Likely investments
- Likely product's they will use and their cost
- What's their work breakdown structure -- how many hours per WBS element
- What innovative bidding practices

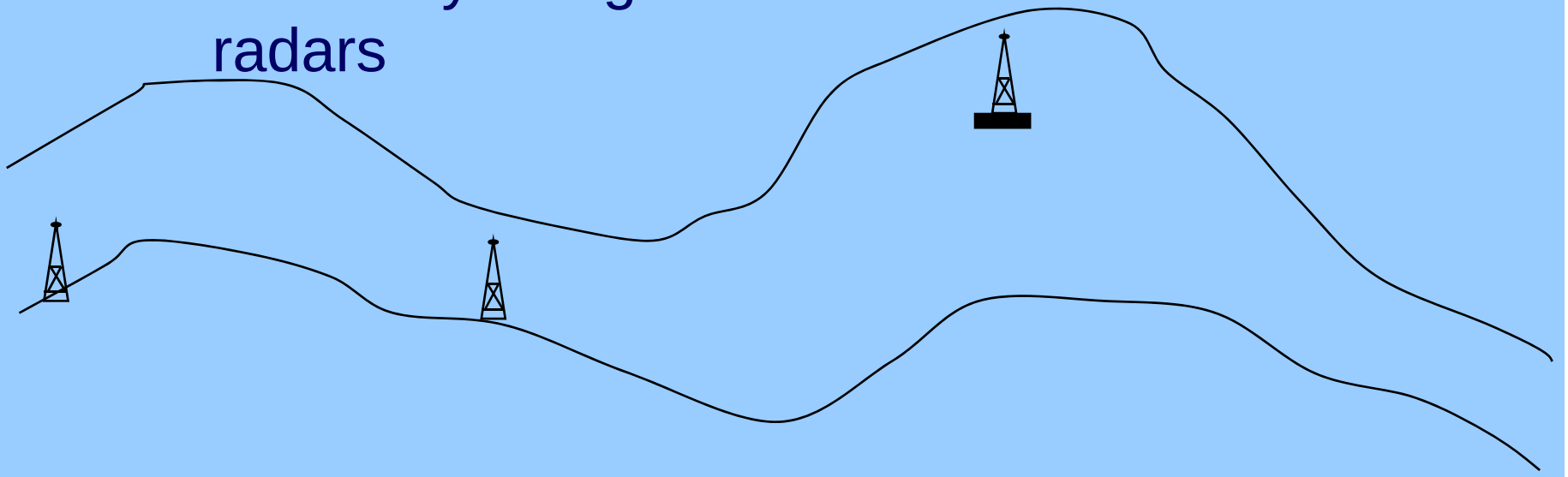
The Bottom Up Competitor Cost Should Be At Least to 3rd WBS Level

Understand The Competitor's Cost Structure

- Estimate their rates & overheads
- Productivity rates
- Team structure and how they burden their subcontractors (based on history and bid aggressiveness)
- What's their compensation structure on service jobs (examine FOIAs)
- What innovative bidding practices do they employ?

Competitive Price Buildup Example

- Vessel tracking system (VTS) for a harbor – tracks ships on a 20 mile waterway using tower mounted radars



VTS Competitive Cost Buildup

	Our Team	Competitor A
Tower Hardware	$960	
Tower Location and Design	$5,850	
Tower Erection	$8,400	
Control Station Equipment & Installation	$120	
Communications	$130	
System Development	$4,800	
Port Specific Software Development	$160	
Other (T&I, PM, G&A etc.)	$10,567	
Profit	$6,197	
Total	**$37,184**	

Competitive Price Buildup Example

- Tower Hardware cost
  - Calculated – number of sites X the cost of the radar
  - Number of sites is determined by capability of radar and interpretation of spec
  - Competitor A has 30% more expensive radar but requires 20 towers versus 30

Competitive Price Buildup Example

- Tower Location and Design
  - Consists of site surveys
  - Radar sighting analysis
  - Cost directly proportional to number of towers
  - Using same set of local contractors

Competitive Price Buildup Example

- Tower Erection Costs
  - Limited number of tower builders in this geography – all bid similar costs
  - Erection cost is function of number of sites required (30 vs. 20)

Competitive Price Buildup Example

- Communications
  - Consists of communications at towers and control station
  - Competitor A uses radios, while we use phone lines

VTS Competitive Cost Buildup

	Our Team	Competitor A
Tower Hardware	$960	$832
Tower Location and Design	$5,850	$3,900
Tower Erection	$8,400	$5,600
Control Station Equipment & Installation	$120	$165
Communications	$130	$240
System Development	$4,800	$5,400
Port Specific Software Development	$160	$171
Other (T&I, PM, G&A etc.)	$10,567	$8,992
Profit	$6,197	$3,795
Total	**$37,184**	**$29,095**

Our Team Must Rethink Their Spec Interpretation

Continue to Monitor and Evolve Your PTW

- Establish an early Price-to-win
- Establish trap lines (watch their signals) to update competitor's moves -- is their strategy changing
- Watch the customer -- budgets, proposal structure and priorities change
- Key customer decision-makers change

PTW is Iterative and Must Be Updated Throughout the Pursuit