

# Cost Proposal Basics: Pricing to Win

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Presented by Tami Mullen, The Intuitive Group

# Our Focus Today

- Basic Terminology
- Contract Types
- Cost & Price
- Elements of Cost
- Sample Exercises
- Questions?



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# Contract Terminology

- Level of Effort (LOE)
- Total Cost
- Total Price
- Sealed Bid
- Basis of Estimate
- Task Order
- Time & Materials
- Fair and Reasonable
- Fee/Profit
- IDIQ
- Ceiling
- Fixed Price
- Cost Reimbursable
- Lowest Price Technically Acceptable (LPTA)



# Contract Types

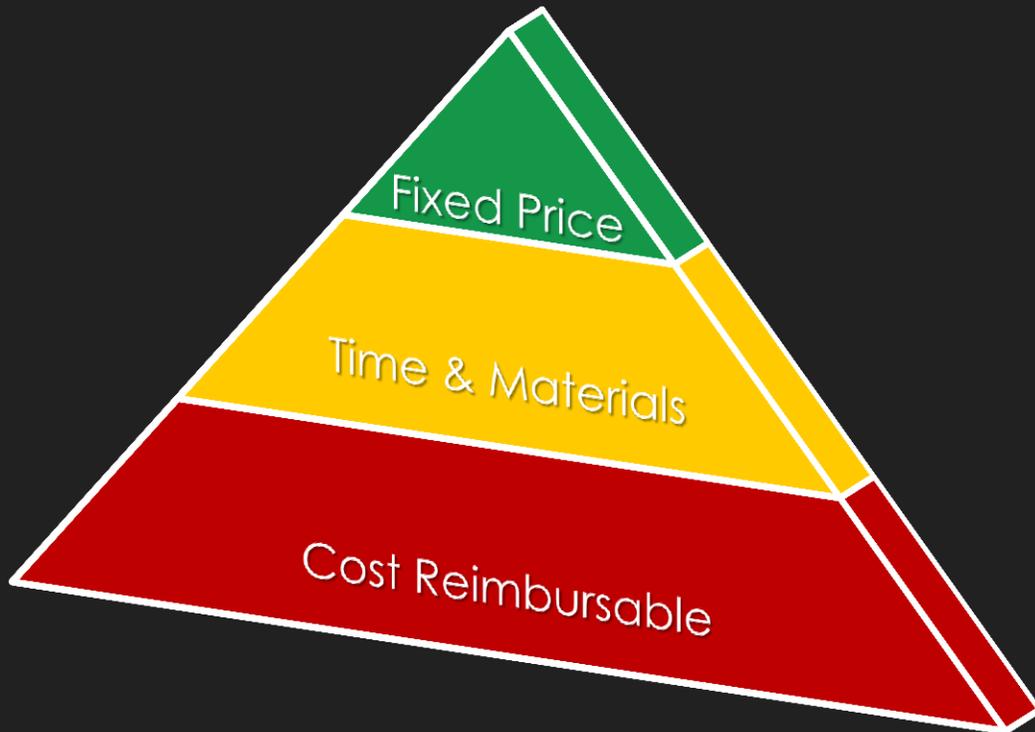
- Time & Materials
- Fixed Price
- Cost Reimbursable
- Blanket Purchase Agreement
- Purchase Order
- Cooperative Agreement



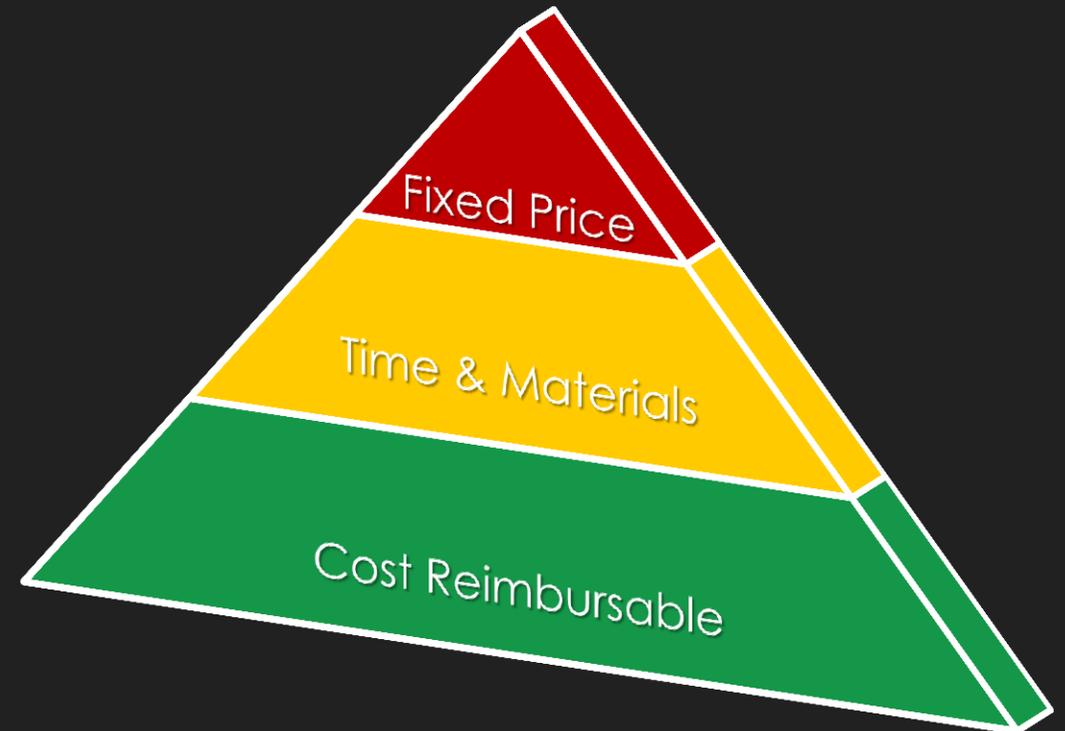
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# Degree of Risk

Buyer's Risk



Seller's Risk



# Fixed Price vs. Cost Reimbursable

## THE DIFFERENCE

### FIXED PRICE

- Most desirable type
- Minimum risk and burden to govt.
- Defined requirements
- Risk performance on contractor
- Contractor paid upon acceptance of tendered items/service

### COST REIMBURSABLE

- Least desirable type
- Maximum risk and burden to govt.
- Unknown requirements
- Risk performance on govt.
- Contractor paid for best effort



# “What is a Fair and Reasonable Price?”

Fair Price: Fair to both parties under market conditions.

Reasonable Price: A price a prudent buyer would be willing to pay, given:

- Market/economic conditions
- Supply and Demand
- Competition
- Relative pricing



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# Cost vs. Price

## COST

- Outlay (as of effort or sacrifice) made to achieve an objective. "Expenditure"

## PRICE

- The amount of money given or set consideration for the sales of a specified thing. Cost plus any fee/profit/perceived value.



# Cost Basics

- Direct Labor
- Other Direct Costs
- Indirect Labor
- Indirect Costs
- Market Conditions - Supply & Demand
- Risk

Understanding your costs determines a BETTER price



# What is a Basis of Estimate

Justification for arriving at a particular cost estimate

Should include:

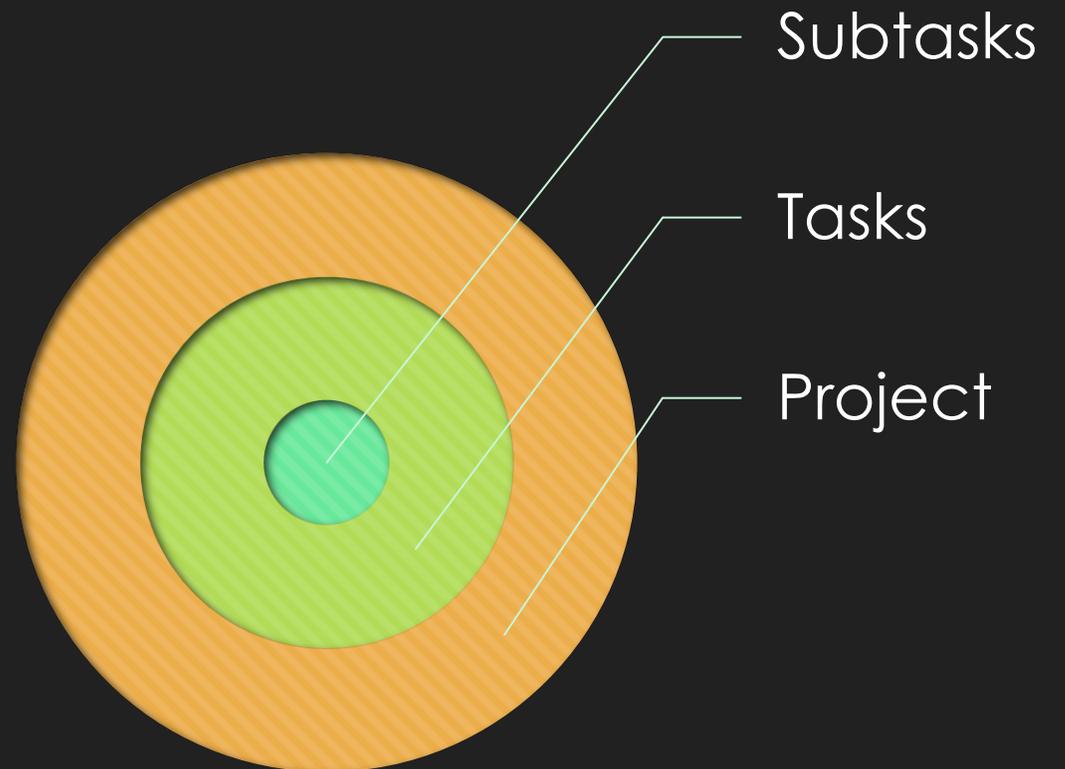
- ✓ Background on project scope
- ✓ Rules, assumptions, schedules
- ✓ Estimate description based on WBS elements
- ✓ Cost estimates summary cost modules, risks and methodology



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# Work Breakdown Structure (WBS)

- Assist to define project scope
- Define tasks, subtasks, resources, dependencies, relationships, cost elements, risk and time
- Identify details; parts of a whole



“Loaded/Unloaded”

## Cost Proposal Elements

“Burdened/Unburdened”

- ✓ **Direct Labor** - Salary, Subs, Consultants
- ✓ **ODC's** – Materials, Suppliers, Equipment, Travel
- ✓ **Overhead** – Indirect Materials, Indirect Labor, Fringe Benefits, G&A
- ✓ **Profit** – Fee based on risk



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# What is Overhead? (Indirect Costs)

Those costs which do not tend to directly lead to the generation of profits.

- Rent
- Computers
- Office Supplies
- Utilities
- Depreciation



# Indirect Cost Details

## General & Administrative (G&A)

- Human Resource Staff
- Accounting Staff
- Administration Staff
- Consulting Expenses

## Fringe Benefits

- Vacation
- Medical Expenditures
- Paid Holiday
- 401K/Retirement Plans
- Short/Long Term Disability Insurance
- Unemployment Taxes
- Medicaid



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# Unallowable Overhead

- Advertising
- Bad debts
- Bonding and guaranty
- Commissions
- Compensation distributions outside of normal compensation
- Contributions/donations
- Entertainment costs
- Fires and penalties
- Interest and other financial costs
- Lobbying costs
- Losses on other contracts, contract overruns
- Business structure costs and reorgs.
- Bid and preparation costs
- Retainer fees



<u>Cost Category</u>	<u>OH Rate</u>	<u>Cost Total</u>
Project Labor \$		\$400,000
Direct Labor Overhead	40%	\$160,000
Subcontractor \$		\$ 50,000
Subcontract Handling Fee	5%	\$ 2,500
		<b>Subtotal</b> <u>\$612,500</u>
G&A	8%	\$ 49,000
Total Estimated Costs		\$661,500
Profit	10%	\$ 66,150
		<b>Total Proposed Price</b> <u><b>\$727,650</b></u>



# Cost Proposal Example

## Calculate Direct Costs

Labor: Program Team raw salary rates multiplied by Level of Effort  
(plus) Direct Materials costs  
(plus) Direct Equipment costs  
(plus) Direct Subcontractor costs



# Calculate Indirect Costs

Fringe + Overhead + G&A

OH Rate:  $\frac{\text{Total Indirect Costs}}{\text{Direct Labor Costs}}$

Fringe Rate:  $\frac{\text{Total Fringe Costs}}{\text{Direct Labor Costs}}$

G&A Rate:  $\frac{\text{Total G\&A Costs}}{\text{Direct/Indirect Costs}}$



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# Calculate Fully Burdened Rate "Loaded"

## Example

Labor Rate: \$25/hr

OH Rate: 33%

Fringe: 15%

G&A: 7%

Profit: 12%

Calculation:	OH	\$25(.33)	\$8.25
	Fringe	\$25(.15)	\$3.75
	Subtotal		\$37.00
G&A		\$37(.07)	\$ 2.59
	Subtotal		\$39.59
Profit		\$39.59(.12)	<u>\$4.75</u>
	Fully Burdened Rate		\$44.34



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# Cost Area that Impact Pricing

- Period of performance
- Contractor Site or Government Site
- Labor Mix
- Contract Type
- Other Direct Costs
- Hours
- Project Locations
- Escalations



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# Pricing to Win Tips

- Establish ceiling budgets for consultant costs early-on
- Cost reflect technical strategy
- State ALL assumptions
- Know your organizations costs
- State realized savings to customer
- Debrief, debrief, debrief



# Questions?

# Thank You

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