WELCOME TO THE
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Maximizing Return on Investment in Business Development

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Maximizing Return on Investment in Business Development

• Connects the dots from expenditures to profits
• Encompasses more than simply increasing win rates
• Emphasizes cradle to grave investments and returns
Presentation Summary

• Role of key executives in developing and implementing strategy
• Establishing goals and objectives in business development
• Proposals – old model vs. new model
• Estimating and pricing – old model vs. new model
• Common mistakes that reduce return on investment in business development
• Award and beyond
• Conclusion
Role of Key Executives in Developing and Implementing Strategy
Role of Key Executives in Developing and Implementing Strategy

• Board of Directors
  – Selection of the Chief Executive Officer
  – Setting hurdle rates of return
  – Allocating capital to the Chief Executive Officer
  – Establishing other objectives for the Chief Executive Officer
Role of Key Executives in Developing and Implementing Strategy

• Chief Executive Officer
  – Develop strategy for the organization
  – Establish business plan to achieve objectives
  – Select key management team
  – Establish objectives for each member of the management team
  – Report to Board of Directors
Role of Key Executives in Developing and Implementing Strategy

- Chief Operating Officer
  - Manage operations
  - Ensure compliance with laws and regulations
  - Deliver operational results that meet budget
  - Provide inputs in business development process
Role of Key Executives in Developing and Implementing Strategy

• Chief Financial Officer
  – Leadership of finance and accounting
  – Oversight of tax and audit
  – Oversight of rate structure
  – Oversight of budget
  – Cash flow and capital expense management
  – Provide inputs in business development process
Role of Key Executives in Developing and Implementing Strategy

• Vice President of Business Development
  – Manage all business development initiatives
  – Manage bid and proposal processes
  – Manage inputs from other key executives in the business development process
  – Ensure that business development process aligns with strategic goals
Role of Key Executives in Developing and Implementing Strategy

As a team, key executives ensure that proposals submitted:

• Include pricing that guarantees that the work can be performed profitably
• Are within the financial capabilities of the company (as both single projects and in the context of other contracts)
• Have competent executives identified for Project Manager(s) and other key positions
• Can be managed within the risk tolerance of the company
Role of Key Executives in Developing and Implementing Strategy

• Can be managed in a manner to achieve acceptable CPARs
• Will be phased in with minimal risk to the company
• Have strong teams of subcontractors and comprehensive teaming agreements
• Have a realistic chance of winning

If a company has high turnover in its executive ranks, a determination should be made as to whether the issue is the actual individuals involved, or the way each executive position is structured
Establishing Goals and Objectives in Business Development
Establishing Goals and Objectives in Business Development

- CEO sets goals for other members of the leadership team
- Goals should be measured and reviewed monthly
- Both goals and estimate to completions (ETCs) should be reviewed
- Book to bill analysis conducted
- Key executives should always know how they, and their functional units, are doing
- Annual review process should be centered on meeting strategic objectives
Establishing Goals and Objectives in Business Development

- Determine if you are measuring return on equity and return on sales
- Align goals for each manager with the level of authority each manager has
- Align goals for each manager with the level of resources that they have to meet their goals
- Establish a cost of capital as well as discount rates and inflation rate projections
- Create a system that is so tightly controlled that it simply cannot fail
Proposals – Old Model vs. New Model
Proposals – Old Model

– Spend a majority of time and money on proposal text, graphics, and production
– Merge text and pricing late in the process
– Small percentage of time and money spent on estimating and pricing
– Bring senior management in for reviews late in the process
Proposals – New Model

• Spend a majority of time and money creating solution/approach to service delivery requirements
• Develop staffing required to deliver a qualified solution
• Bring senior management into the process immediately
• Create simple proposal with emphasis on compliance
Estimating and Pricing – Old Model vs. New Model
Estimating and Pricing – Old Model

– Pricing team focused on G & A and fee
– Estimators perform cost build up and basis of estimate
– COO and CFO not involved until proposal review stage
– Current bid and staffing compared to incumbent contractor
– Estimators viewed as mid to low-level members of the proposal team
Estimating and Pricing – New Model

– Entire senior management team involved at time of target selection
– COO central to service delivery approach
– Bottoms up cost build up without regard to incumbent contractor staffing
– Estimators seen as very important members of the team
Determining Price versus Submitting Price

- Schedule B is a poor tool for a budget
- Better approach is determining total price and then allocating costs to Schedule B
- Game theory is generally unproductive
Common Mistakes that Reduce Return on Investment in Business Development
Mistakes in Teaming and Subcontracting

• Poor teaming and subcontract agreements
• Not discussing subcontract agreement terms and conditions at time of teaming
• Failure to stipulate remedies in teaming and subcontract agreements
• Not specifying contributions of time and money to each proposal effort
• Failure to specify pricing responsibilities in teaming agreements
Mistakes in Evaluation of Past Performance and Gap Analysis

Failure to:

- Properly identify relevant past performance
- Validate quality of past performance from teammates
- Ascertain past performance gaps early in the process
- Identify subcontractors to fill gaps early in the process
Failure to Gain a Comprehensive Understanding of the Complete Requirement

Failure to:

- Aggregate a list of all requirements in a contract early in the process
- Estimate manpower requirements early in the process
- Identify key personnel early in the process
Failure to Determine if a Price will be Competitive Early in the Process

Failure to compare your:

- Rate structure to competitors
- Labor productivity to competitors
- Start up costs to competitors
Failure to Determine if Service can be Delivered at the Price Required to Win

Failure to:

• Identify and quantify contract risk
• Carefully evaluate and quantify contract clauses
• Validate labor productivity rates
• Align collective bargaining agreements with proposed service delivery system
• Review equipment list, other direct expenses, IT implementation costs, and availability of government furnished equipment
Failure to Recruit a Competent Project Manager

Failure to:

• Identify a Project Manager early in the process
• Evaluate the proposed Project Manager’s financial and accounting capabilities
• Validate Project Manager’s profit and loss experience early in the process
• Include adequate funding for the level of Project Manager required
Failure to Immediately Adhere to Budget upon Award of Contract

Failure to:

• Take advantage of entire phase in period
• Negotiate purchase of incumbent equipment early in the process
• Immediately review contract requirements compared to those stated in RFP
• Proactively and instantly address these variances with customer
Award and Beyond
Award and Beyond

• Performance on awarded contracts should immediately be measured for use on future proposals
• Past performance should be updated to reflect capabilities gained on new contract
• Performance should be evaluated in real time to review anticipated scores and comments
• Financial and operational performance should be measured in real time, including EAC analysis
• Lessons learned must be integrated into business development process
Conclusion
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• A company cannot be successful without a competent Chief Executive Officer and other experienced key executives
• Companies must adapt to the new models of estimating, price and proposal development
• Common business development mistakes can be avoided by having proactive conversations with teaming partners during proposal development
• Closely tracking financial and operational performance on current contracts is key to maximizing return on future business development