



SM&A®

*When You Must Win*

## Professional Proposal Management – Is There a Measurable ROI?

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May 2004



Solutions  
For A Highly Competitive  
World

## **PROBLEM STATEMENT**

Competing for new business, especially in structured competitions favored by the government, can be costly. How does a company maximize the return on its business development investment?

## **RECOMMENDATION**

Improving the probability of winning has the most beneficial effect on the business development return on investment (ROI) equation. Take steps to improve the probability of winning by contracting the services of SM&A, a highly effective competition management outsourcing firm.

## **RELEVANT FACTS AND FACTORS**

- Aside from common commodities and simple services, most government contracts require a structured competition before award to a contractor
- Most firms engaged in routinely competing for such contracts maintain a permanent business development staff with production capabilities (word processing and graphics)
- Generally, firms choose their targets carefully, determining which contracts are in their interest to pursue
- Being more selective in pursuing targets may increase the probability of winning, but at the loss of revenue
- Significantly increasing the number of contracts upon which to bid as prime contractor usually entails bidding on jobs beyond the firm's capabilities or outside of its strategic plan
- The timing and frequency of structured competitions emanating from the government is subject to significant variations, leading most firms to size their business development staff to a sustainment level
- The simpler the procurement, the more likely cost is the prime driver. As the complexity of the procurement increases, past performance, technical capability, management and risk become key factors in determining the award

Given these factors, most firms cannot bid on more work but must attempt to win a higher percentage of the work they decide to pursue.

## **ALTERNATIVE COURSES OF ACTION**

A firm must choose between to alternatives to increase its probability of winning:

1. Increase staff, improve training, process and tools and increase salary levels for internal business development personnel

2. Outsource a portion of the business development effort to essentially buy the attributes of #1 above

Alternative #1 is a long-term process with no guarantee of success. Most firms have biases that prevent them from paying and retaining high-value business development personnel. Many organizations consider proposal generation as something of a clerical and administrative function, not a complex, systems engineering challenge that it most often is.

Alternative #2 can be immediately enacted, producing rapid and measurable results while leaving in place the permanent internal organization needed to produce most routine bids. The primary concern surrounding alternative #2 is its cost-effectiveness. Figure 1, below, examines two cases where SM&A is brought in to lead a series of small proposals, one group worth \$10 million each, and the other group worth \$3 million each. In both cases, the gross margin generated is 25%. Costs to engage SM&A are \$250,000 per engagement for the \$10 million procurements and \$150,000 per engagement for the \$3 million procurements with internal business development costs being constant. Figure 1 shows where the breakeven point is in cash spent on SM&A versus additional margin generated through an increased probability of win on the series of submitted bids. This breakeven point does not consider that bid and proposal (B&P) costs are often reimbursable within DoD and NASA procurements, companies can recover 50% of B&P costs.

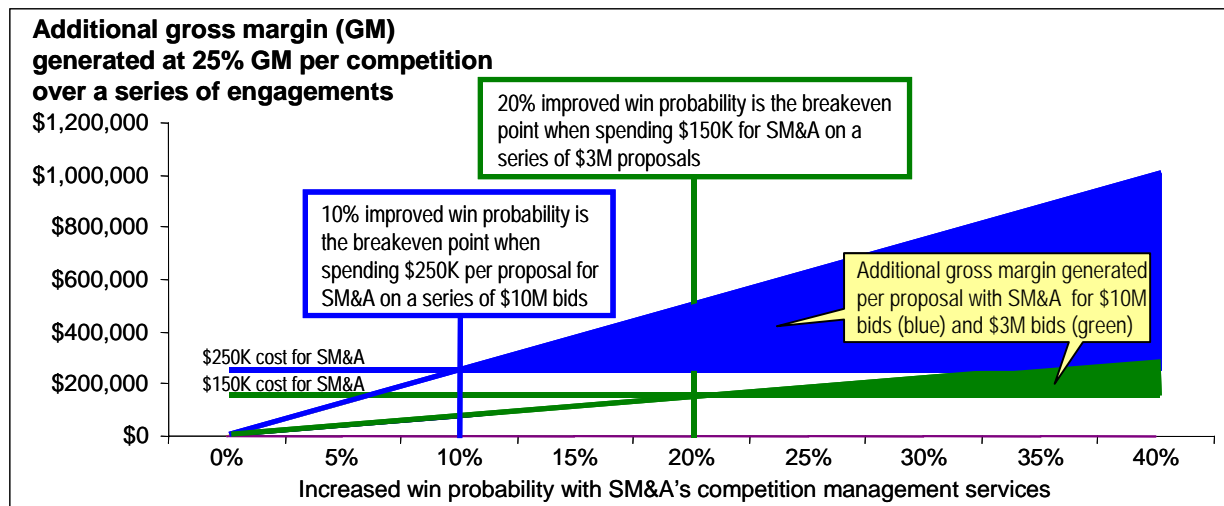


Figure 1. Even while supporting a series of small proposals, a 10% increase in win probability easily pays for itself

## PROBABILITY OF WIN IS THE MOST IMPORTANT MEASURE OF COST EFFECTIVENESS

Since 1982, SM&A has managed more than 1000 proposals worth in excess of \$340 billion for its clients, winning 85% of the awarded contract value. These proposals range in value from \$19 billion for the Joint Strike Fighter for Lockheed

Martin to proposals valued at less than a million dollars. SM&A's detailed records and data support its win rate calculations.

SM&A consistently wins for its clients. However, some variables in this winning record are not readily apparent. SM&A's win rate in support of contracts valued at over one billion dollars is 90%, while our win rate on dollars awarded for contracts valued at less than \$100 million is 60%. Two factors explain this win rate disparity.

Proposals worth more than one billion dollars typically have from two to four competitors while proposals worth under \$100 million often have as many as ten. Winning 90% of the dollars against two competitors is impressive when compared to the 33% numerical odds of winning—an improvement on the spread of 57%. Winning 60% of the dollars with nine other competitors is just as impressive when one has a 10% numerical chance of winning—a 50% improvement over the statistical likelihood.

The second main variable is the amount of time SM&A has to assist its clients. Clients bidding on larger proposals tend to engage SM&A earlier in the process, allowing SM&A more time to affect the offering materially as opposed to simply producing a well-written and compliant proposal with crisp graphics. When called early enough (before the draft Request for Proposal is released), SM&A can help formulate and enforce a more aggressive win strategy to enhance a client's competitive advantage.

Figure 2 illustrates SM&A's win rates over the natural win rate anticipated in a competition as determined by the number of companies submitting proposals. SM&A's solutions increase a client's probability of winning by up to 65%.

The value-added that SM&A brings to even smaller proposal efforts, is further validated by our win rate in support of clients who have engaged us in a proposal development center (PDC) run by SM&A for the client. Whereas our clients have won 60% of the value of 424 awarded programs worth \$100 million or less, they have won 64% of 242 awarded competitions where the proposal was created in a PDC vs. 56% of 182 proposals worth under \$100 million not run in a SM&A-operated PDC. This 8% improvement in win rate can be attributed to the value SM&A adds, as an integral part of a client's proposal development process.

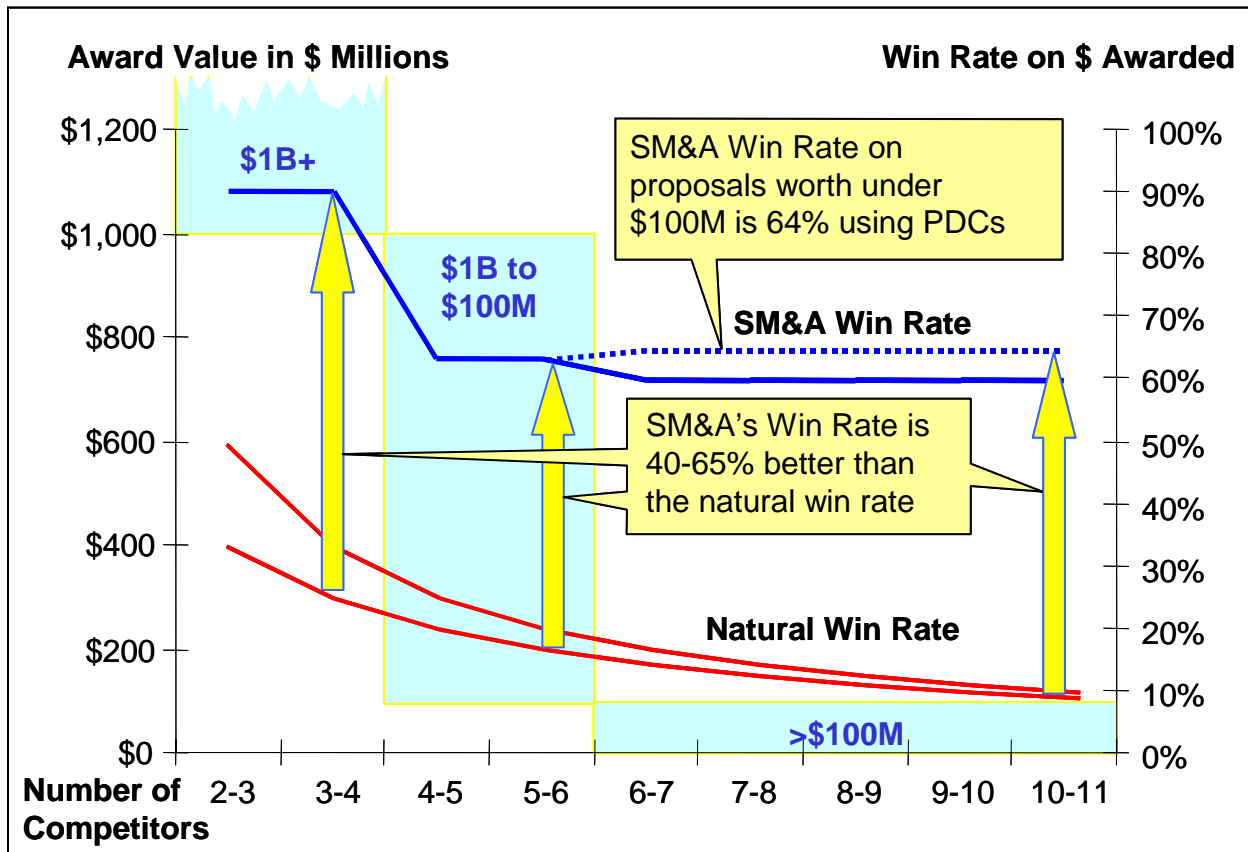


Figure 2. SM&A's clients improve their win rate from 40% to 65% above the natural win rate as determined by the number of companies competing for any given contract

Notable SM&A managed PDCs include locations at Lockheed's Research and Development Division in Palo Alto, CA from 1992 to 1994, General Dynamics (formerly Motorola) in Scottsdale, AZ from 1995 to 1998 and Accenture in Reston, VA from 2000 to present.

Many clients experience win rates of 10% to 20% on their smaller proposals without the help of SM&A. SM&A's probability of winning on contracts of less than \$100 million is 60% whereas its PDC win rate is 64% for bids worth under \$100 million. Thus, a client using SM&A for smaller jobs increases their win rate by between 40% and 50% with SM&A-managed PDCs. This is an improvement of 44% to 54% above the natural win rate.

## CONCLUSION

When clients hire SM&A they improve their probability of winning competitive procurements by 40 to 65%. Even with only a 10% improvement in the win probability over a series of engagements as small as \$10 million with 25% gross margin, SM&A's services pay for themselves.