



THREE BASIC ERRORS IN COSTING

 **TRUPREDICT™**



TruPredict™ was created for strategic bidding by experts.

They have seen nearly every kind of cost estimate you can imagine, and some you probably can't imagine. Costing methods vary across different companies, product types, accounting systems, and industries. Despite this wide range of practice, there are three errors which often cause problems when costing is performed during preparation for a bid.



1 Believing “Cost” is a Fixed Quantity.

Cost seems like a tangible thing we should know. Yet costs are surprisingly elusive. This is perhaps the biggest difference between the academic study of business and the reality of business. Books have been filled with many ways which cost can be elusive. Some common issues in competitive bidding are:

- *Suppliers may not charge all the bidders the same price.* Your payment terms and other “ease of doing business” issues may increase or decrease the price you pay. Suppliers may certify they are giving you “most favorable pricing” but it may just mean that’s the best price they offer to someone who behaves the way your company does.
- *Something will change your costs.* It may help you or hurt you. But something will change.
- *Costs need to be understood in terms of their uncertainty.* Too often we see bid teams trying to estimate something within a fraction of a percent when huge uncertainty is the reality.

Taken together, these (and other) facts mean we need to think of costs as somewhat uncertain, and we are even more uncertain about competitor costs than our own. So, we need to think about the span of possibility rather than chase a precise but futile point estimate. We need to do this for our own bid, and for each of our competitors if we plan to make cost comparisons.



② Letting Costs Dominate Bidding.

Of course, cost matters. And many wise customers want to understand how you did your cost assessment, even on a fixed price contract. But it is far too easy to allow costs to dominate our thinking. Very low overhead firms can absorb much greater direct costs, and still generate low prices. For many bids, the direct costs of the contract are less important than overhead.

The most successful bidders spend more time thinking about price. They think about their price. They think about prices which would appeal to the customer. They think about competitors' prices.



3 Counting the Wrong Costs.

Even the most disciplined cost estimators make some predictable mistakes. It's easy to pick up estimates from a prior bid, with out-of-date cost quotes, or estimates for something similar, but not quite right.

When wrong costs creep in, we can be too high, threatening our competitiveness. Or, we can be too low, threatening our credibility and profit margin.

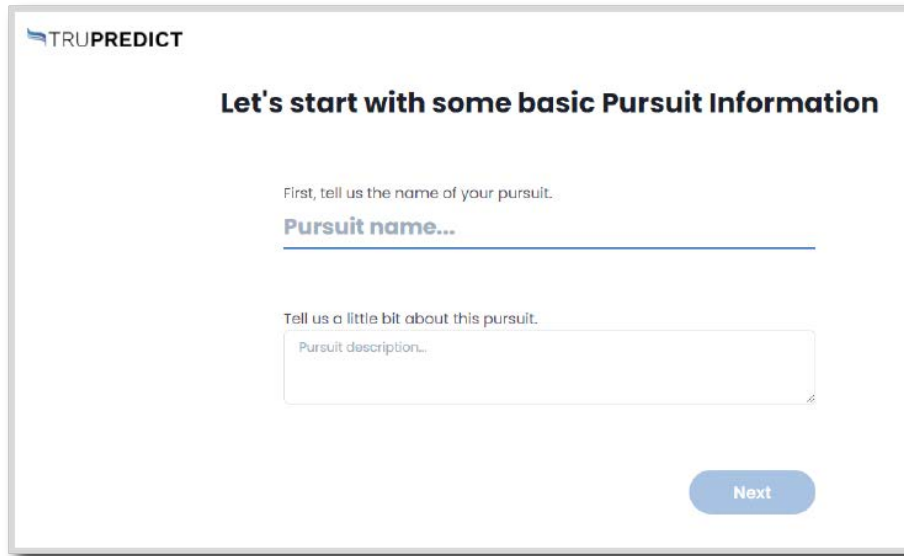
Cost content summary documentation and disciplined cost configuration control are a start at preventing these problems.



Avoiding These Costing Errors.

A technology-enabled process is a proven way the most successful firms avoid these blunders. There is no better technology for bid pricing than TruPredict™. It embodies the best practices in bid process discipline, behavioral economics, and benchmarked best practices in analytic excellence.

TruPredict™ uses native uncertainty in its mathematics. Unlike spreadsheets, designed to process point estimates, TruPredict was designed to handle spans of uncertainty, and to present them in ways decision makers can understand and use them.

A screenshot of a web form titled "Let's start with some basic Pursuit Information". The form is part of the TRUPREDICT interface. It contains two input fields: a text field for "Pursuit name..." and a larger text area for "Pursuit description...". A blue "Next" button is located at the bottom right of the form.

TRUPREDICT

Let's start with some basic Pursuit Information

First, tell us the name of your pursuit.

Pursuit name...

Tell us a little bit about this pursuit.

Pursuit description...

Next

About TruPredict™ Essentials Price to Win Software

Much more than just pricing software for government bids, TruPredict Essentials empowers you to test every assumption, model every possible outcome and see the impact of your strategic decisions.

Even if you have no experience, TruPredict Essentials gives you the answers you need to win more government contracts using an intuitive, guided Q&A format. And you can try it for free with zero obligation and with no credit card. It only takes about 30 second to sign up.

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