



THREE WAYS UNCERTAINTY CREATES CONFUSION IN BIDS

 TRUPREDICT™



TruPredict™ was created for strategic bidding by experts.

Their work has involved bids of all sorts, from bidding to win large contracts, to buying mobile phone spectrum licenses. Even after hundreds of important competitions, no one can claim “we’ve seen it all.” But one of the most common errors we see is dealing with uncertainty. There are many ways uncertainty creates confusion in the bidding process. Here are three of the most common.

1 Adding High/Low/Nominal Estimates.

Perhaps the most confusing and common mistake when bid teams attempt to tackle uncertainty. They create three columns for High/Low/Nominal Estimates like this:

Price Component	High Estimate	Low Estimate	Nominal Estimate
Shop Labor	\$1,000	\$800	\$900
Design Labor	\$800	\$600	\$700
Project Management	\$500	\$400	\$540
Other Labor			
Labor Subtotal (Direct)	\$2,300	\$1,800	\$2,140
Labor Overhead %	100%	70%	90%
Labor Overhead \$	\$2,300	\$1,260	\$1,926
Labor Subtotal Burdened	\$4,600	\$3,060	\$4,066
Top Three Purchased Items	\$6,000	\$5,000	\$5,500
Other Purchased Items	\$4,000	\$3,600	\$3,800
Purchased Subtotal	\$10,000	\$8,600	\$9,300
Purchased Overhead %	20%	16%	18%
Purchased Overhead \$	\$2,000	\$1,376	\$1,674
Purchased Subtotal Burdened	\$12,000	\$9,976	\$10,974
Total Burdened Cost	\$16,600	\$13,036	\$15,040
Profit % (Markup)	14%	2%	8%
Profit \$	\$2,324	\$261	\$16,243
Total Price	\$18,924	\$13,297	\$16,243

If you look carefully, there are eight separate estimates combined in the totals. If each low estimate has a one-in-four chance of happening, the chance we'd see all eight come in that low is 25% to the eighth power. That's a very small number, a tiny fraction of one percent. Let's say the low/high estimates are less likely (say, one-in-ten). In that case, the odds we'd see all the high or all the low estimates happen are essentially impossible. So, why would we show the manager doing pricing a cost estimate where two of the estimates are so impossible, they are meaningless? Of course, this should never happen, but it is (sadly) very common.



2 Being Too Fancy.

Sometimes in an effort to correctly treat uncertainty, a bid team will go too far the other way. They will agonize over what statistical distributions to use for schedule uncertainty. They will argue about the names of dead mathematicians for whom distributions have been named.

Some discipline in doing probability math is a good thing. But the truth is you rarely have enough information to choose which dead mathematician's distribution to use, and most often the data wouldn't fit one of them perfectly anyway.

Good tools focus on collecting uncertainty from your sources in a reliable way. Being too fancy means working on a math project instead of working on good data collection.



3 Ignoring Uncertainty Completely.

Finally, one of the most common and most damaging ways to be confused is to ignore uncertainty. We see this when we:

- ask for precise estimates, instead of ranges
- get one estimate from one source
- agonize over the “best” estimate

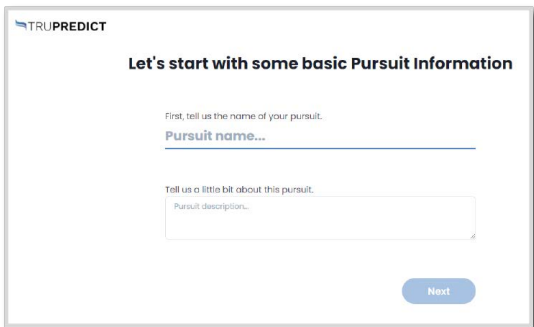
Humans hate uncertainty. But in bidding, the truth is we will face quite a bit of uncertainty. Accepting that is just the beginning of successful bidding.



Avoiding Confusion from Uncertainty.

A technology-enabled process is a proven way to avoid these blunders. This is the methodology deployed by most successful firms. 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™ use 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.



The screenshot shows a registration form for TruPredict Essentials. At the top left is the TRUPREDICT logo. The main heading is "Let's start with some basic Pursuit Information". Below this, there are two input fields: "Pursuit name..." and "Pursuit description...". A blue "Next" button is located at the bottom right of the form.

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.

[Click here for a free trial of TruPredict™ .](#)