Finding the Right Opportunity: Faster Bid No/Bid Decisions

CASE STUDY

The marketing department of the Government Communications Division of this corporation had identified an attractive opportunity in the civil sector of the government. A relatively high volume procurement of a secure communication device, though not precisely in this division's line of business, looked like a rare opportunity. A business capture team was established to pursue the device program, with the first order of business being a decision on whether to bid on the development phase that preceded a series of multiple year production buys.

This decision was very important in that there would be almost no way to realize the business volume of production without first winning the development contract. The contractor had no prior production history with secure communication devices. The contractor also realized that lack of experience would probably require an investment in the development phase to win that contract. The question was, how much of an investment and when would it pay back in production? The civil agency budget for both development and production were well known. Any bidding contractor could expect little, if any funding above that budgeted. PRICE H was used to model the development and production cost estimates for this opportunity. Because of the inexperience of the contractor with secure communication devices, uncertainty was applied to areas of higher than normal exposure, such as: incidence of new design and redesign and potential material obsolescence.

These and other potentially threatening issues were bracketed with probabilistic distributions and subjected to cost-risk analysis. The results indicated an acceptable level of development investment to the contractor; it was more or less what the business capture team leaders had expected from the start. What was a disappointing surprise however, was the projection that even more investment would be required in production, thus assuring that pay back would never occur. The entire basis for the analysis rested upon the calibrated performance of this division of this contractor. That performance said that the budgeted amount was not enough for this contractor to enter the marketplace of secure communication devices without losing money.

The disappointing news did not sit well with the contractor's management - this was a rare opportunity that many wanted to seize. A second opinion was called for. After expending 3 months and over $1 million in a grass roots analysis (the PRICE H analysis was done in 2 weeks at a cost of less than $20 thousand), the second opinion was indeed different. It indicated even greater loss potential than had the earlier PRICE H analysis. Though disappointed, the contractor passed on the bid, saving untold millions of dollars in potential loss.

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