Praxis Series
Volume I, Issue II

Leaving Money on the Table – A Study in Winning

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A sure fire way to get in hot water with management is to win an opportunity and be accused after the fact of having left "money on the table." Of course, one seldom wins even in a best value competition without leaving money on the table. Thus, giving birth to the adage: what do you call someone who left money on the table? The winner. The alternative to this is to be the loser, which under certain circumstances may make sense economically. This is not what interests us here, rather we are concerned with the effect that history as a psychological factor has on both the bidding behavior and expectations of business management making bid pricing decisions. The questions are two: when does a bidder actually leave money on the table? And when does a higher-priced bidder end up with a loss for unjustified economic thinking that fails to account for bid unreality?

Years ago an analyst said of a bidder's successful capture of a major bid: "You left so much money on the table it broke." Many capture executives have gotten more than a little heat for winning by too great a margin. In the above case the winning bidder, EDS, won with prices for equipment that were more than half that of the competition. They bid prices far below what were required to capture the award.

However, the real issues are two fold, first how much risk did EDS shoulder by bidding as it did. In this case, EDS' prices for the items evaluated (which is a critical distinction) were below the prices at which they could be purchased. As such, at least for the first couple of years EDS bid prices that to the extent the items end up being sold, would have been below costs. EDS would not bid in such a manner if it believed such situation would persist; therefore it immediately set out to ensure that profitable alternatives were offered. Suppliers moved evaluated product into the "manufacture discontinued" (MD) categories, thereby forcing the government to purchase unevaluated products at new price points. In fact, it is rumor that EDS used its substantial IT telecom market power to learn the scheduled fate of the products being evaluated, thus banking on the MD process to reduce bid price risk. This certainly sounds a lot like an EDS strategy.

So did EDS leave money on the table? The answer is yes and no. Given that they had to actually scramble to alter the product mix so that is was profitable to them one could argue that they left substantial money on the table, particularly given the relationship of their prices to their nearest competitors. However, it may have simply been the EDS followed its own version of standard operating procedures (SOPs) and the price delta reflected EDS' greater market power and bid gaming maturity as well as its sophisticated price-risk mitigation approach.

Did they bid in error? The answer to this is clearer. EDS appears to have bid in error, this is supported by the fact that they bid far below where they needed to in order to capture the award. Moreover, evidence for a floor on their competitor's ability to take similar risks was almost overwhelming (EDS at a minimum assumed that its competitors could or would bid with the same skill and technique that it was itself able to employ). Nonetheless, EDS bid prices it believed were unreal and was willing to take the risks associated, while they absorbed an unnecessary amount of risk, and in this sense, albeit very manageable risk from the EDS perspective, they left money on the table because they left profits on the table. They left profits (although in all probability these were minor) in the sense that could have bid higher prices and been able to achieve in greater program profits without resorting to acute “get well” tactics which they employed.

Probability and Profit

Federal capture managers are often measured by a simple algorithm, is the contract profitable over its lifetime and does that profit match (or exceed) corporate targets. Capture managers that do not support the implementation phase (post award) are measured more on capture success than program execution. Yet, regardless of who actually implements the program all companies are concerned with whether the prices at which a service or product is being sold on a contract (actual) is below (above) the price bid or is the profit above (below) that which was originally expected at this point in the program plan? If the prices are below those initially bid for the ‘same’ items then the capture manager actually bid conservatively (could have bid lower). This may even be the case, when at contract award the winner appeared to be leaving money on the table. Reality may be that the bid was actually a high priced bid relative to actual market price trends (the capture manager got the future right while the other bidders bid a far more conservative future) and therefore the capture manager left “probability of a win on the table”. Similarly, if profits have risen above the rates initially projected for this juncture in the contract lifecycle then probability was left on the table as well. These are not necessarily bad outcomes, but they are not outcomes anticipated.

As such, some bids appear aggressive from the vantage point of contract award, only to appear conservative within a few years time. Take the AT&T DTS-C award, at the time both Sprint and MCI claimed that AT&T left substantial sums on the table. And in fact they appeared to have done just that in the first year or so after award, but subsequently AT&T has found itself in possession of a contract that offers prices well above the marketplace prices (so much that other vendors have taken advantage of this fact by offering lower prices). Therefore, AT&T could be making profits on the contract that would have been washed away by market forces (competition) in the open commercial space or which would have gone to another bidder in the federal space had it not done what it did in bidding low prices. This situation raises the issue of what to do when a requirements-type contract (a contract in which the winner should receive the work being competed, as opposed to an IDIQ contract that has no commitment) turns out to be more lucrative than originally planned, and creates a management challenge in balancing immediate profits against sustainable demand. The larger the delta between the market price and the contract price the more incentive to absorb the transition costs and migrate to another vendor or contract.

Conclusion

All too often industry claims that money was left on the table, the facts are often more opaque than both from an external and an internal perspective. Management needs to understand the price/probability trade-offs as well as the having a 'realistic' understanding of its competitor's proposal propensities. Capture managers need to be able to bid prices (and solutions) that can win and make money, they or the implementation manager must have a well conceived plan for ensuring that the contract becomes and remains on financial target.