

New Business Development – Managing the Process

Part 04-02 – NBO Process
February 26, 2003

Purpose

To Introduce students to the concepts:

- That engineering consulting and construction are NOT “walk in” businesses, and
- That there is a process for identifying, competing for, and winning new business opportunities.
- That developing new business is an expensive (30-40% of the overhead) and difficult (hard work) activity.

Learning Objectives:

- Students should be able to describe briefly the process for obtaining new business.
- Students should be able to describe briefly where this process fits into the overall project development process.
- Students should be able to compute the important metrics for managing the process

Why is this topic important to you?

Rat #04-02-1

- Take out a sheet of paper.
- As a one of the 10 professionals, What is your billing rate?
- Turn in and pass to the aisles.

Direct Labor		
Staffing	Annual	Daily
1-Partner (120k)	\$120,000	\$480
5-Associates (60k)	\$300,000	\$1,200
10-Professional (40)	\$400,000	\$1,600
5-Support (20)	\$100,000	\$400
21 - people	\$920,000	\$3,680
Fringe Benefits @30	\$276,000	\$1,104
ODC @20%	\$184,000	\$736
Total Direct	\$1,380,000	\$5,520
Indirect @ 125%	\$1,725,000	\$6,900
Total Cost	\$3,105,000	\$12,420
Profit @ 20%	\$621,000	\$2,484
Billable	\$3,726,000	\$14,904
You must "book"/month Just to stay even		\$310,500

What is New Business Development?

- Is it Marketing?
 - Is it Proposal Writing?
 - Is it Selling?
 - Is it Relationship Building?
- It is all of the above.**
- How does technical staff fit in? (If you can't develop new business opportunities, you should strongly consider working for the government.)

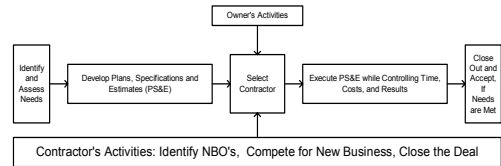
What is the “New Business Development” Process?

The New Business Development Process is that series of activities which results in the signing of new contracts for additional work which will generate additional revenue. This work may originate with new customers or old customers. The important issue is: does it add to the base of existing contracts?

Where does it Fit within the Project Development Process

1. Recognize and Develop Need
2. Develop Plans, Specifications, and Estimates (PS&E)
3. **Select the Contractor\Builder**
4. Execute PS&E while Controlling Time, Cost, and Results
5. Close Out and Accept, if Needs are Satisfied

The Traditional Project Development Process



Note: The contractor\consultant must strive to be involved from the very beginning of the project, if at all possible.

Steps in Selecting the Contractor – Owner's Side (Traditional)

1. Prepare "bid" package
2. Solicit written responses
3. Receive written responses
4. Evaluate written responses
5. Select "short list" – or "lowest responsive"
6. Hear Oral "Arguments"
7. Negotiate with "short list"
8. Select "best and final"
9. Sign Contract and Issue Notice to Proceed

This is a Typical Federal Process NOT TXDoT Consulting.

Steps in Selecting the Builder – Contractor's Side (Traditional)

1. Learn about a "New Business Opportunity"
2. Evaluate the Opportunity
3. Develop a Written Response
4. Submit Written Response
5. If "short listed," evaluate position – Lowest Responsive Bidder
6. Develop & Present Oral Arguments
7. Evaluate Position and Negotiate T&C's and \$\$\$'s
8. Sign (or not sign) Contract
9. Await notice to proceed
10. Develop Execution Strategy

The Three Basic Steps – Contractor's Side

- Identify New Business Opportunities
 - Competitive and Unsolicited
 - Both Require considerable effort and organization
- Compete for the Business
 - Evaluate Opportunity
 - Respond Appropriately
- Close the Deal
 - Negotiate
 - Sign
 - Initiate Start Up

RAT #04-02-2

- Take out a single sheet of paper, write you name and team number:
- Individually, take 3-minutes to write down and describe briefly the three major phases of the process.
- As pairs, take another 3 minutes to resolve the differences between the two.

Why Does the NBD Process Have to be Managed?

- Good Results are Essential
 - Sloppy Work results in a low hit-rate
 - A low hit-rate will put you out of business
- It's Expensive and is a major part of the Indirect Costs – Say, 30-40%
 - It is Labor Intensive
 - It involves high travel expenses
 - It involves high reproduction costs.

An Example Process I Designed in 1975 at AMV & Associates

- Locate Opportunities
 - Competitive and Unsolicited
 - About 6 Generic Sources (2-5% chance of success)
- Compete for the Business
 - Evaluate Opportunity
 - Get Permission and Support
 - Respond Appropriately (20-30% chance of success)
- Close the Deal
 - Get to Finals, Negotiate, Oral Exams, Contracting Strategy (75% chance of success)
 - Sign (95% chance of collecting all your money.)
 - Divide up the Bonus Pool

Example Expected Backlog Calculation

Expected Backlog Report					10/18/2002
	%	Value	Expected	PI & Co	Notes and Remarks
New Leads & Suspects					
Texas DoT - Materials	5%	600,000	\$8,000		
TDU - TAMU Runoff Model	5%	20,000	\$1,000		
PHM& - Design Standards	5%	150,000	\$2,500		
Texas Dept. of Res.	5%	250,000	\$12,500		
Texco - Training	5%	400,000	\$20,000		
Proposals Under Development					
Texas DoT - Materials	10%	500,000	\$50,000		
Proposals Actually Submitted					
NCHRP - Contracts	45%	200,000	\$80,000		
Proposals in Negotiation					
EU - Training	60%	300,000	\$180,000		
Total Expected Backlog					
		\$ 750,000	\$ 357,000		
Signed Contracts / Remaining %					
Texas DoT - Materials	80%	\$ 500,000	\$400,000		
CI - Partnership	60%	\$ 250,000	\$150,000		
Remaining - Expected					
		\$ 1,500,000	\$ 907,000		
Total Required Backlog @ \$150,000					
	4	\$ 150,000	\$ 600,000		

\$150,000 per year is all it takes to be "golden" at TAMU.

What does It take for starting faculty to succeed in Civil Engineering at TAMU?

Sponsored Research Coverage				Average Required Annual Support @ 40% Level	
Months	Fall	Spring	Summer	Mid	Ave
	4.5	4.5	3		
Min Coverage	25%	25%	75%	38%	
Max Coverage	50%	50%	100%	63%	

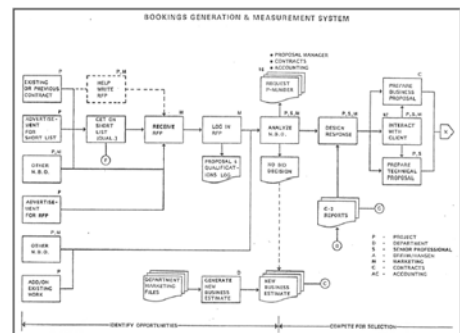
Required Combined Level of Support - Monthly	
Direct Combined Faculty Salary	\$ 6,000
2 Phd Students + Insurance	\$ 3,000
2 MSME Students + Insurance	\$ 2,000
Fringe @ 30%	\$ 3,300
Labor Support	\$ 14,300
Other Direct	\$ 1,000
Total Direct	\$ 15,300
Full Indirect @ 45%	\$ 6,885
Total Required / Month	\$ 22,185
Total Required / Year	\$266,220
Average Required Annual Support / Faculty	\$135,000

Class Discussion: How does this affect the time younger faculty can spend "nurse maiding" students?

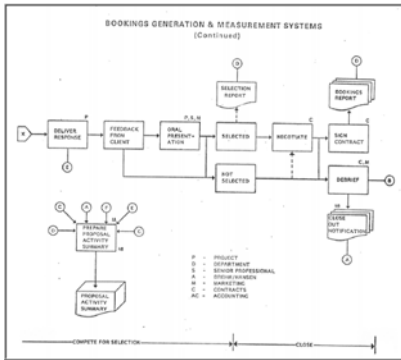
An Example Process Flow Chart for a Consultant.

- Developed mainly as a teaching tool for the group VP responsible for tracking the marketing process.
- He had lots of Departmental level data and charts to go along with this.
- The technical staff was called in and "chewed out" (the stick) when we fell behind and given cash rewards (the carrot) when we succeeded.

Locate NBO and Develop Response



Compete with Other Responders



Where Do We Find NBO's?

- On the WWW?
 - In the paper?
 - In the trade magazines?
 - Interaction with others?
 - Hunches?
 - Spies?
 - Legislation?
- All of the above.

Sources of New Business by Category (2-5% hit rate)

- Additions to Existing Contracts
 - Easiest/cheapest to get but zero future expansion.
- New Contracts with Existing Customers
 - Almost as good, but no growth in volume.
- Traditional Line of Work with New Customers
 - Growth in volume but no future expansion.
- New Kinds of Work with Existing Customers
 - The easiest way to grow the business.
- New Kinds of Work with New Customers
 - The real growth area but expensive and hard to accomplish.

Evaluation of NBO:

- What advantage does your organization have:
 - Unique skills or knowledge?
 - Unique political or personal situation?
 - Unique location or reputation?
- Do any of these work against you?
- Since this is an expensive exercise, what risks are you willing to take?
(If you come in 2-nd too many times you will go broke! Max expense and No reward.)

Given your circumstances, what strategy will result in the highest possible score?

- Technical Proposal 50-60%
 - Highlight what you know.
 - How you will solve the problem.
- Business Proposal 40-50%
 - Who will work on the project, their background and skills, and how they will be organized.
 - Company background, capability, finances, strengths ...
- Price Proposal 0-10%
 - Used to break ties.
 - "Auction off" the work to fit the budget.

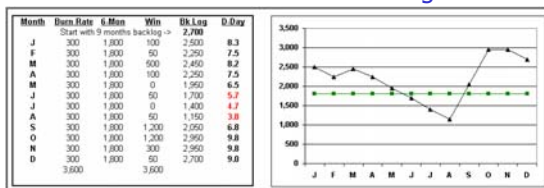
Class Exercise

- Write down on a sheet of paper ...
- How many hours it would take you to write a 150 page report on a complex technical issue where you have to research a number of items.
- At \$50/hr what is your cost to the company?
- How would you organize to accomplish this in 4-weeks or less?

How to tell when you doing OK!

- Burn rate is the constant cost of operating your consulting firm per month – including direct and indirect costs.
- Firm Backlog is the remaining unspent \$\$ amount of contracts underway.
- Total Backlog is the Firm Backlog plus the Expected Backlog.
- “Drop Dead Day” is the day you go out of business, if you fail to bring in new work. It is the total backlog / the burn rate.

Affect of “Lumpy” Hit Rate versus Constant Burn Rate on Total Backlog



- Actual Backlog and “Drop Dead” date. – remember the first RAT?
- Assuming that you want 6-months of backlog as a cushion, you are in the **Danger Zone**: June, July, August
- The lumps in this case are caused by the U.S. Gov’s budget cycle.
- How would you feel about laying off your “drinking buddy” in August?

Class Assessment:

- Take out a sheet of paper
- Take 1 minute to write 1-sentence on the “muddiest” topic in presentation.
- Pass it to the aisles.

Don’t forget to prepare for the Mock Arbitrations on Wednesday and Friday.