15 Considerations for Progressive Business-to-Government Pricing

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This article is a reprint of Chapter 3 of the author's most recent book – B2G Pricing *– adapted for this Journal.* B2G Pricing *focuses exclusively on the nuances and specific tactics required in the area of business-to-government pricing. Author Stephan M. Liozu is the Founder of Value Innoruption Advisors. He is also an Adjunct Professor & Research Fellow at the Case Western Research University Weatherhead School of Management. He is a Certified Pricing Professional (CPP), a Prosci certified Change Manager, a certified Price-to-Win instructor, and a Strategyzer Business Model Innovation Coach. He authored six books and edited four more. He can be reached at sliozu@gmail.com. Purchase a copy of* B2G Pricing *here.*

Business-to-government pricing (B2G pricing) requires special attention and unique capabilities. B2B and B2G environments are sometimes different worlds. One cannot copy and paste from one world to the other. B2G pricing also has a unique vocabulary and unique rules. In the B2B world, most of the time pricing will be hosted by marketing, sales, or finance organizations. In the B2G space, pricing most likely reside within finance, bid management, offer management, or proposal teams. Pricing might be called estimating, contracting, or costing. It is not unusual to find people participating in pricing work scattered across the organization and not having a formalized and coordinated pricing role. Pricing is often attributed as a role in a job description with other elements of the bid analysis or capture process.

I have worked in the B2G world for 5 years and have been able to list important best practices to make B2G pricing successful. I call them considerations in this paper. Some of them are common sense to the world of pricing, marketing and offer management.

1) B2G pricing does require a strategy: As in B2C and B2B, B2G pricing requires a strategy. And that strategy must be aligned with some of the strategic objectives of the organization: deal realization, win/loss ratio, gross margin, gross margin of order intake, EBIT. A good pricing strategy sets the role of pricing in the offer management and capture process and defines some of the tools that are required to be used to evaluate customer opportunities.

2) Must-win contracts or very large government contracts must be prepared intensively: In a project-oriented business, there are potentially thousands of RFPs open at any one time in the B2G space. Not every RFP is created equal. A vendor must be able to sort through the project pipeline and quickly identify must-win opportunities. For these, there must be a strategic allocation of resources to study the RFP, assemble a team, conduct the necessary pricing analysis (using the 4Cs: cost, competition, customer, change), and develop the capture plan. Often in the B2G world, proper segmentation is not done, which means every offer is considered equal. This is not good news.

3) Value-based pricing is 90% value and 10% pricing: Doing value-based pricing (VBP) in the public sector is different but not impossible. I often face objections when discussing VBP in B2G. I must remind people that VBP is a methodology that requires discipline and a great focus on the customer. In the B2G world and for differentiated offerings, the focus of VBP is even more on customer value. When this is done well, pricing is often easier to do. Depending on the level of pricing sophistication in an organization, the 90/10 ratio might change, but every government project must include the right customer analysis: customer profile, customer journey, customer value proposition, customer value model, customer proposal, and more. There is no going around that.

4) Doing pricing when the RFP comes out is too late: It is often the case that pricing is considered and discussed too late in the capture process. When the RFP is published, pricing can still be done of course, but there is very little opportunity to influence the RFP process, the customer budget, and to shape customer needs. So, when the RFP is out, pricing must be compliant to play. It is too late to discuss value and to take the risk of offering an offer that is not compliant with the specifications and the evaluation criteria.

5) Pricing starts very early in the capture and pursuit process: As such, the work starts very early in the process (i.e., as soon as the customer has expressed the desire and need to acquire a certain technology or solution). It can be several years between that stage and the production of the official RFP. During this period, the account management and business development organizations must focus on shaping the customer's needs, the perceptions of value, the understanding technological worth, and the budget definition. This is ongoing effort which is part of the value-selling process. Some organizations call this early capture or the "left-shift" process. This exercise on shaping and anticipating is essential with must-win opportunities and with customers who are partnership seekers or value buyers. These types of customers might be more open to co-developing and modifying their internal processes.

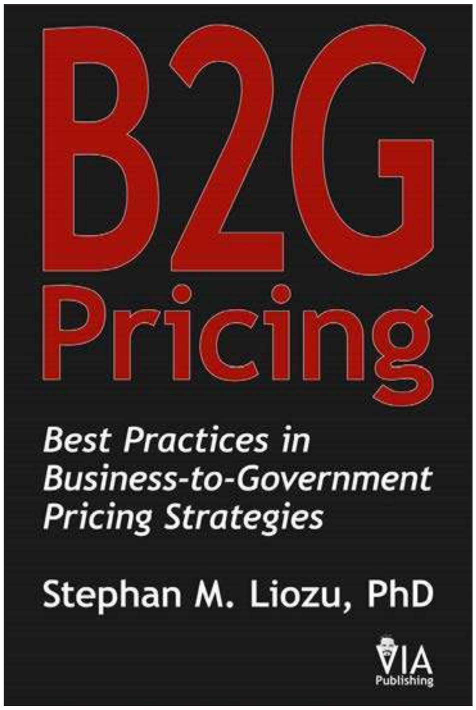
6) Pricing touches many functions in the organization: Because B2G pricing needs a strategy, it also needs formal coordination as it touches many functions in the organization: costing, finance, marketing, product management, bidding, proposal development, and engineering. When a vendor does not have a formal pricing team, that coordination is lacking. Pricing is fragmented across these actors and information might not flow smoothly.

7) Project pricing needs the right teaming: Vendors need to be able to assemble the right team to work on the pricing of specific B2G contracts. Of course, not every RFP is the same and teams might vary depending on the nature and complexity of the opportunity. For very demanding opportunities, a capture leader is going to be named and this person needs to assemble the right team with the relevant internal and external professionals. For specific contracts, external price-to-win experts might be mobilized.

8) Pricing decisions must be informed by the 4Cs of pricing: It is essential to balance the sources of input and information when making bid pricing decisions. Traditionally, industrial and B2G vendors are competitors or costs-oriented in their pricing strategy. The information on customer needs and customer value does not often enter in the gate review for specific bids. This is the reason why I developed a pricing model innovation canvas (PMIC) based on the 4Cs of pricing: cost, customer, competitors, and change. The foundation of this canvas is to develop pricing intelligence to make better pricing decisions. There is a chapter dedicated to PMIC later in the book.

9) Pricing must evolve in tandem with your value proposition and offer: Because of the long B2G commercial cycles, the customer needs and requirements will change over time. The value proposition will be adapted to these changing customer dynamics. Often, pricing stays static along the way. While the price levels might stay the same, the pricing strategy and model might not evolve enough. Successful B2G pricing requires agile and innovative pricing strategies that match customer changing needs.

10) The price process needs to be included in your bidding and capture process: Vendors might have very professional process management rules covering capture management and bid management. Often pricing is integrated in one or more of these process streams. It is critical to make sure that the pricing process be equally robustly managed as an independent process or under another process. All rules, responsibilities, process documents, educational documents, and references to relevant tools must be included in this process description.



11) Pricing and value must be part of a good proposal as a crisp story: A good customer proposal is built based on a customer value proposition and of a series of winning themes. Assuming the proper homework is done for a specific bid or offer, the work is not done. Proposal managers must create a strong story line tying together all the elements of the offers: customer needs, value proposition, winning themes, customer value, and pricing. The design of this customer proposal is equally important.

12) Confidence in the data and analysis affects your internal pricing decision: Internally, top management reviewing your big pricing and approving the gate reviews needs to have confidence in the analysis of the bid components and ultimately in the pricing. The typical emphasis is on cost modeling and risk management for the offer. Less attention and discipline are given to competitive review and customer value analysis as well as price-to-win. To change this paradigm, it is important to balance the focus on the 4Cs of pricing to give equal attention and discipline to all Cs. Your degree of preparation and depth of analysis will also be perceived by your customer when delivering the customer proposal. It is all about discipline in preparation.

13) Innovation in pricing is required, but it is different: The public sector is typically not very receptive to new pricing models, but this is changing. Some government agencies have outsourced asset operations to third-party vendors and are paying vendors based on outcome or performance. Other vendors have been creative and aggressive with payment terms, financing schemes, industrial off-set strategies, and shared R&D expenses. Pricing innovation is not just about pricing models. In B2G, financing and payment structures are essential. Working with financial institutions and collaborating with experts is also a form of innovation for B2G customers.

14) Mastering and anticipating risk impacts your pricing: Managing B2G pricing means excellence in mastering risk management. Most of the cost modeling tools for advanced and complex bids will have a strong risk management module. Bid and capture managers need to manage a risk register for each offer. Risk is potentially everywhere when designing a solution for a multi-year term: risks in partnership, risks in customer dynamics, risks in the technology roadmap, risks in currency and geopolitics. All vendors to the B2G world need to master risk while pricing customer proposals with the right level of risk. The difference when everything goes well with a specific project ends up in the gross margin. When everything goes wrong, it can quickly reduce margins to zero and cost in program overruns.

15) Language does not matter, but principles do: B2G pricing uses different vocabulary. For example, what are referred to as differentiators in B2B pricing are called discriminators in B2G. Successful B2G pricing needs nimbleness and agility. It is best not to fall in love with methodologies, languages and philosophies. I encourage teams to embrace methodologies and to absorb their principles: customer needs, value proposition, differentiators, willingness and ability to pay, and pricing.

These fifteen considerations are based on my experience of B2G pricing over the past 5 years. I am far from being an expert, but they have resonated with many pricing practitioners. I hope they do with you as well. Pricing for government entities uses a lot of the same methods and tools, but they are aimed at totally different types of customers who have different evaluation and procurement processes. Pricing for commercial markets is not the same as pricing for the public or B2G market. Therefore, I wrote an entire book about B2G pricing. I recommend you learn more about this intriguing topic and acquire the necessary skills. ❖