



Break-even Pricing Analysis

Challenge:

An electronic data record management and technology client was experiencing pricing competition from competitors in the industry, and suddenly found themselves losing bids strictly on price. The client wanted to make an informed decision on whether or not they could reduce their pricing, but had never analyzed the break-even point on their products and services. With over 20 different products and services at different levels of direct and indirect labor, outside services and development costs, determining a common allocation factor was a challenge.

Solution:

GBQ met with management to determine the internal cost structure and conclude how they could track costs by the specific products and services they offered to their clients. We quickly learned that the internal time spent on each product and service was not formally tracked and that only general allocations were being assumed for overhead costs. Through the meetings, GBQ determined there were four specific kinds of overhead costs that could be allocated based on the number of direct dollars. Further interviews with management and operations personnel revealed solid estimates of the number of hours spent on each project which could then be used to create the allocation factors. The pay scale of the employees working on the different products and services ranged widely so being able to identify which employees worked on the specific products and services was critical.

In the end, a cost analysis sheet was developed for each product and service the client offered. For each sales bid the client worked on from that point forward, they completed an estimated break-even cost analysis to understand the true costs for each product and service allowing the client to make an informed decision on pricing minimums.

Benefits:

The client immediately began to see changes in their win rate based on the fact that they had under/over priced certain products and services in the past in competitive bid proposals.