

Complex Natures of Risk Management in Bidding

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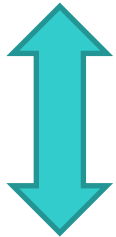
We are not really interested in RM

- We just want to win more of what we bid
- We need to be more successful on the contracts we get

Can effective Risk Management help to achieve these objectives?

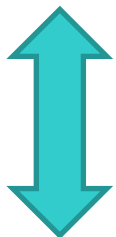
The scope of our 'risk world'

The Customer *including:*



Interdependent stakeholders (users etc)
External and oversight agencies

Industry *including:*



The main contracting authority
All internal cooperating entities (e.g. BUs)
Corporate oversight

Suppliers

Customer

Approach to achieve objectives

- Define 'best practice' standards (inc for RM?)
- Use competition to:
 - Get best Value for Money
 - Enable selection of best contractor (based on confidence and trustworthiness)
- Use contract T&Cs to:
 - Obtain data for oversight purposes
 - Incentivise for success (e.g. LDs)
 - Hold industry to account

Customer

Challenges in this approach

- Competition causes over-optimistic bids
- Bidders obfuscate - fudge the truth
- Short bid timescales incurs assumptions
- Contracts are precise but are in an uncertain scenario
- Industry is optimistic and not transparent

Industry

Approach to achieve objectives

- Business benefit / solution focus (selling)
- Use bids to protect business objectives
 - Fully defined scope, validated commitments
 - Contingencies to protect profits
- Use standard process to deliver programme
 - CMMI, QMS, Customer standards
- React to circumstances as they arise
- Try and keep the Customer 'happy'

Industry

Challenges in this approach

- Competition causes over-optimistic solutions
- Bids lost on Price and confidence:
 - Failure to understand Customer needs
 - Over-egged solution = high cost estimates
 - Excessive contingency to protect profits
 - Behaviours fail to inspire confidence
- Unable to predict project outcomes
- Culture of keeping problems internal until exposure is unavoidable

Suppliers

Suppliers are like us!

Do your
Customers' think
about you like
this?

What drives decisions?

Decisions are influenced by:

Confidence (and Lack of confidence)

Emotion – fear – anxiety – concern - trust

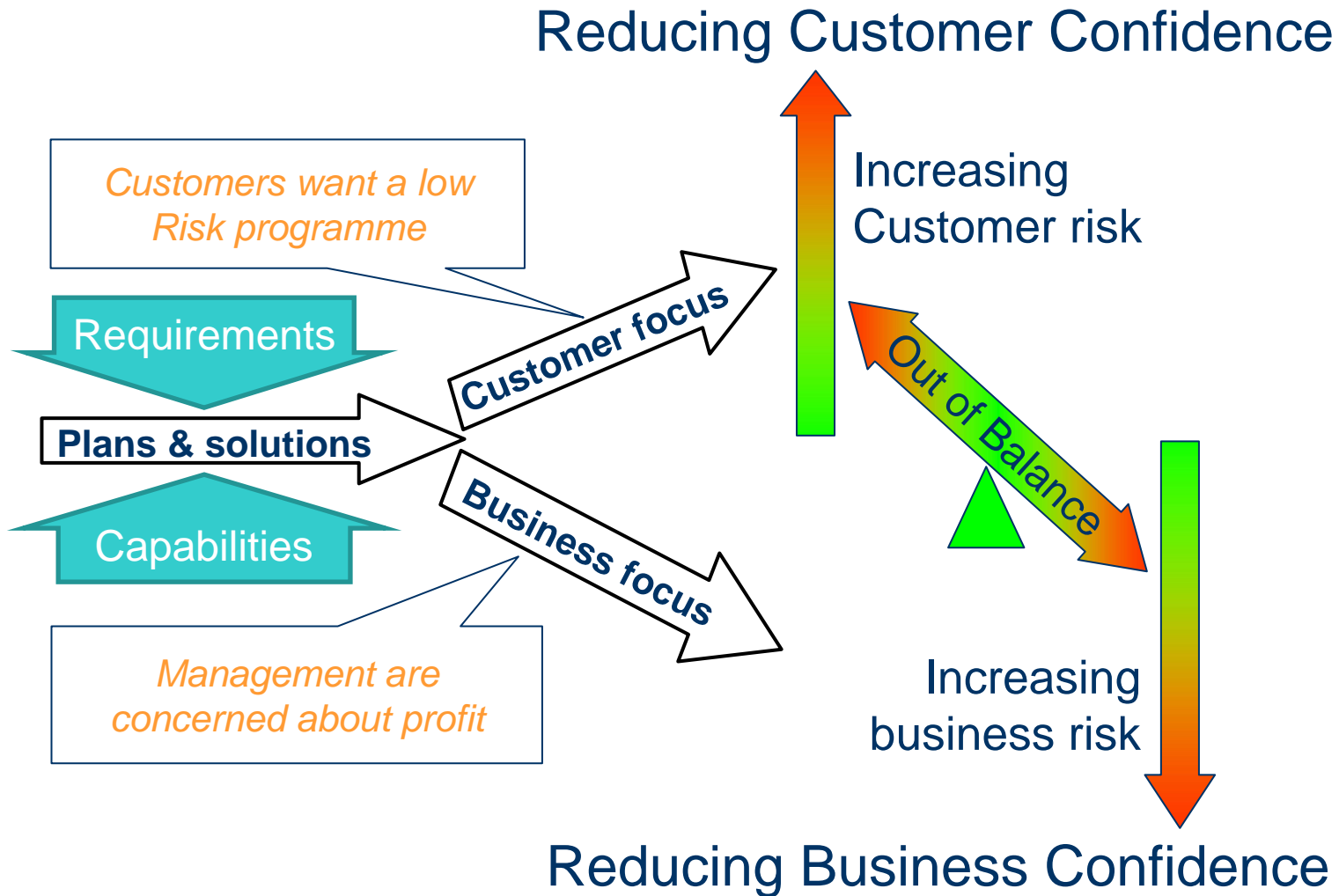
The language we use is:

Risk (and Opportunity)

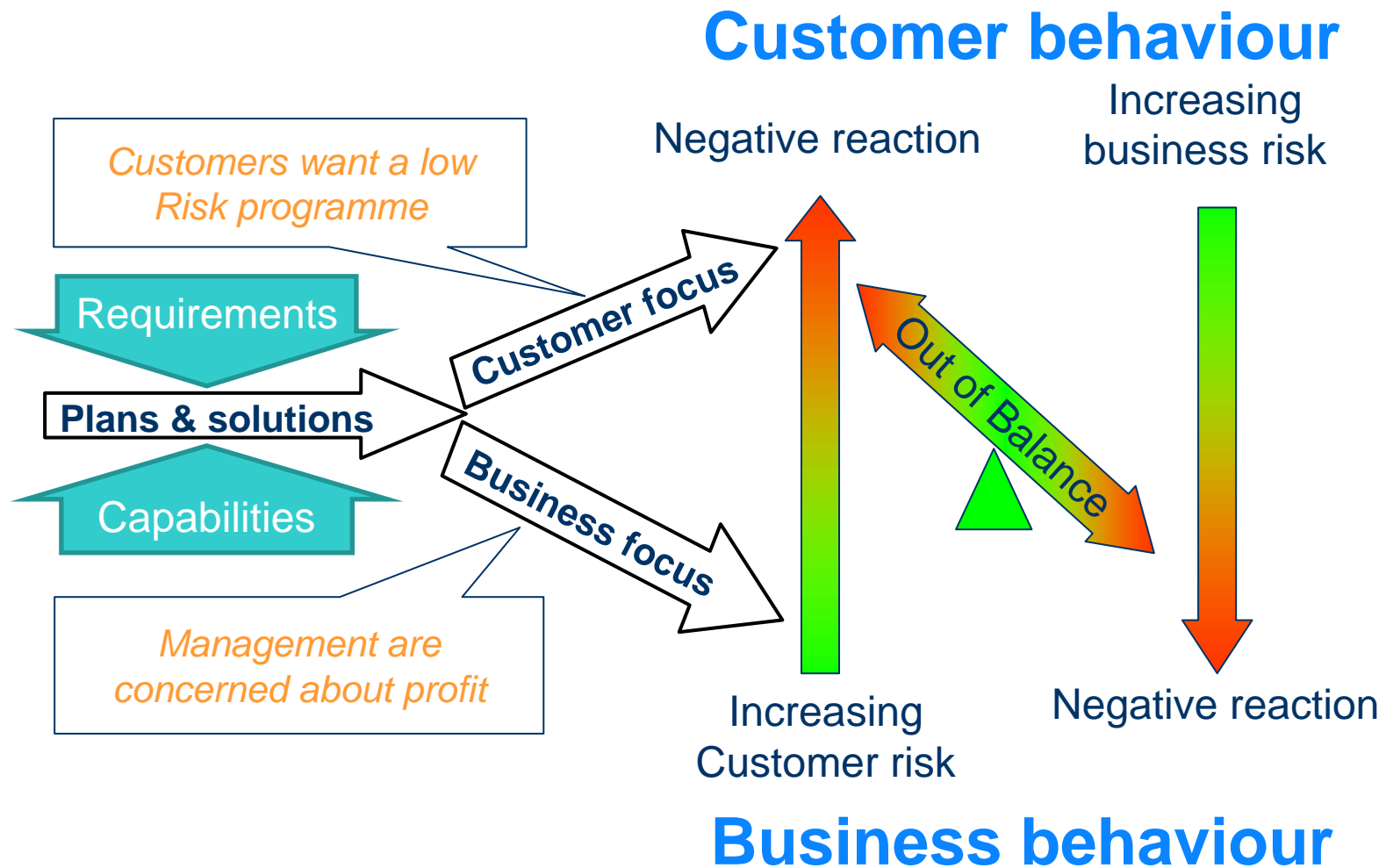
*Analysis – procedure – science – objectivity -
judgement*

THE RISK BALANCE IS KEY TO UNDERSTANDING PERSPECTIVE

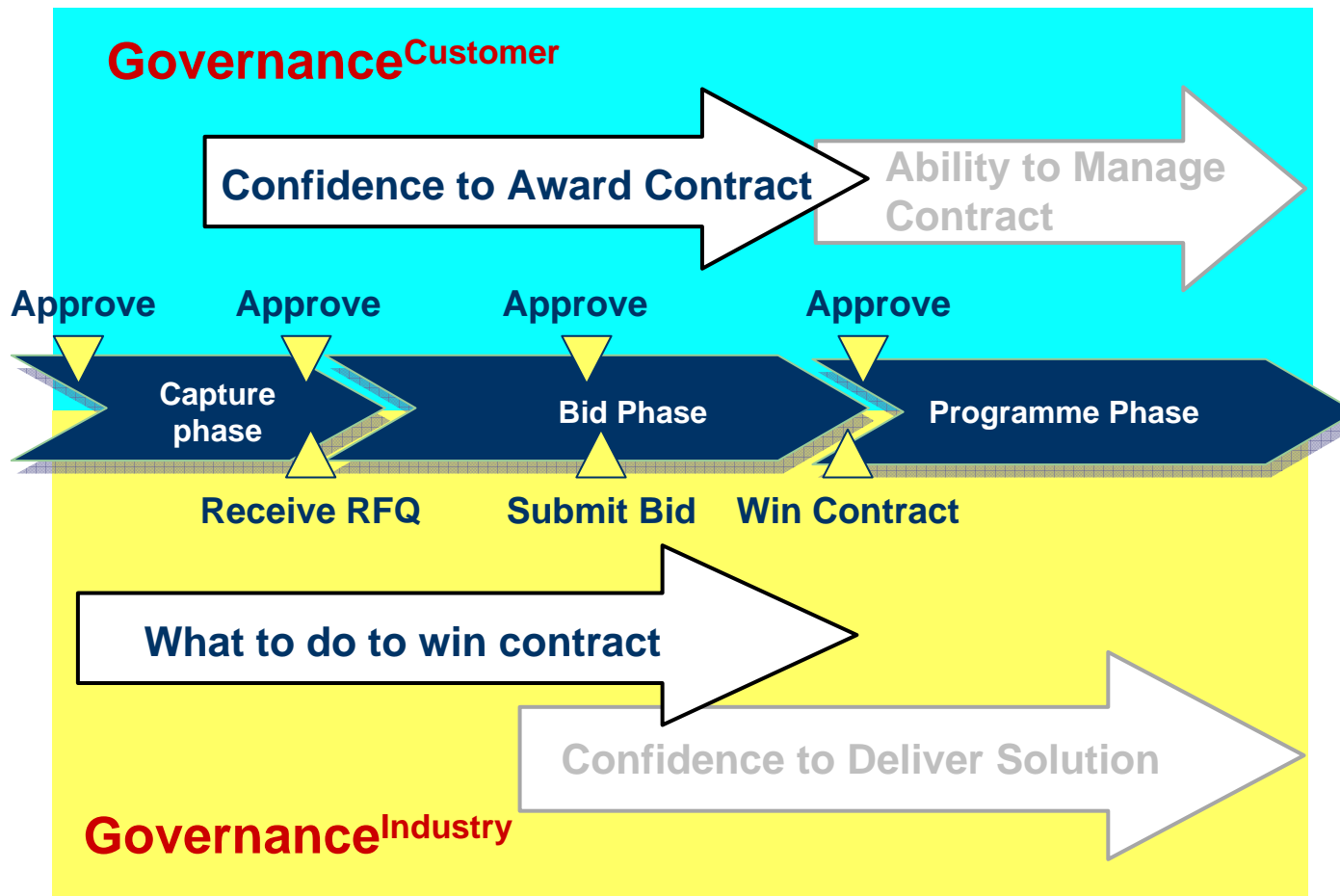
The Risk 'Balance'



Out-of-balance Risk relationships



Governance drivers



Key viewpoints for Customers

Governance^{Customer}



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Who to Award Contract to

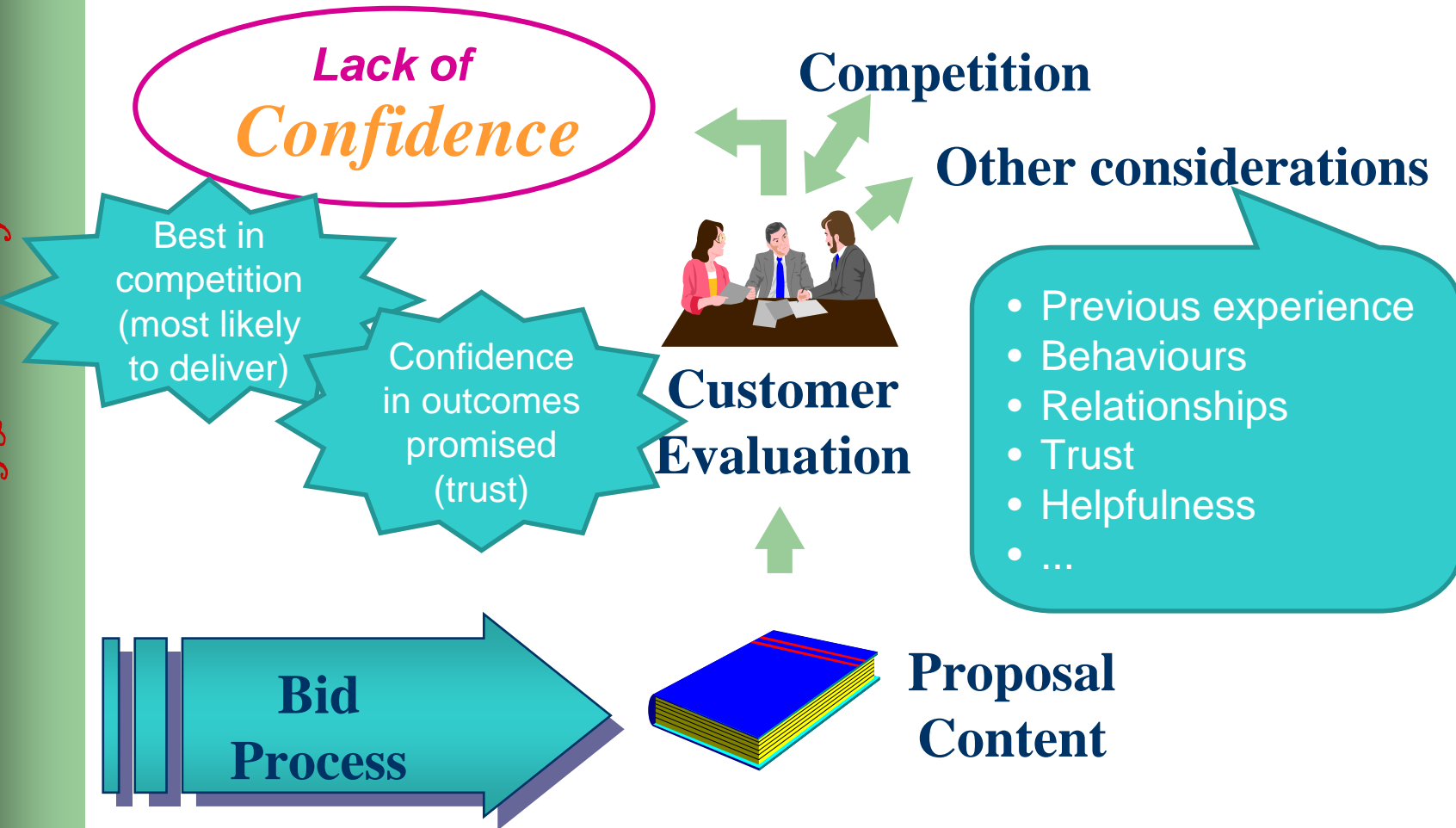
What is important to the Customer?

My prayer is that one of the bidders actually understands what is important to me

Who to Award Contract to

The Customer Decision Approach?

Newland Training & Consultancy



Who to Award Contract to

What do you have to do to win?

To win a contract you only need to do two things:

1. Get the customer to want you to win
2. Give him a proposal that enables him to place a contract with you

Build trust
Develop
Confidence

Show
understanding
Provide proof

Who to Award Contract to

Get inside the Customer's head



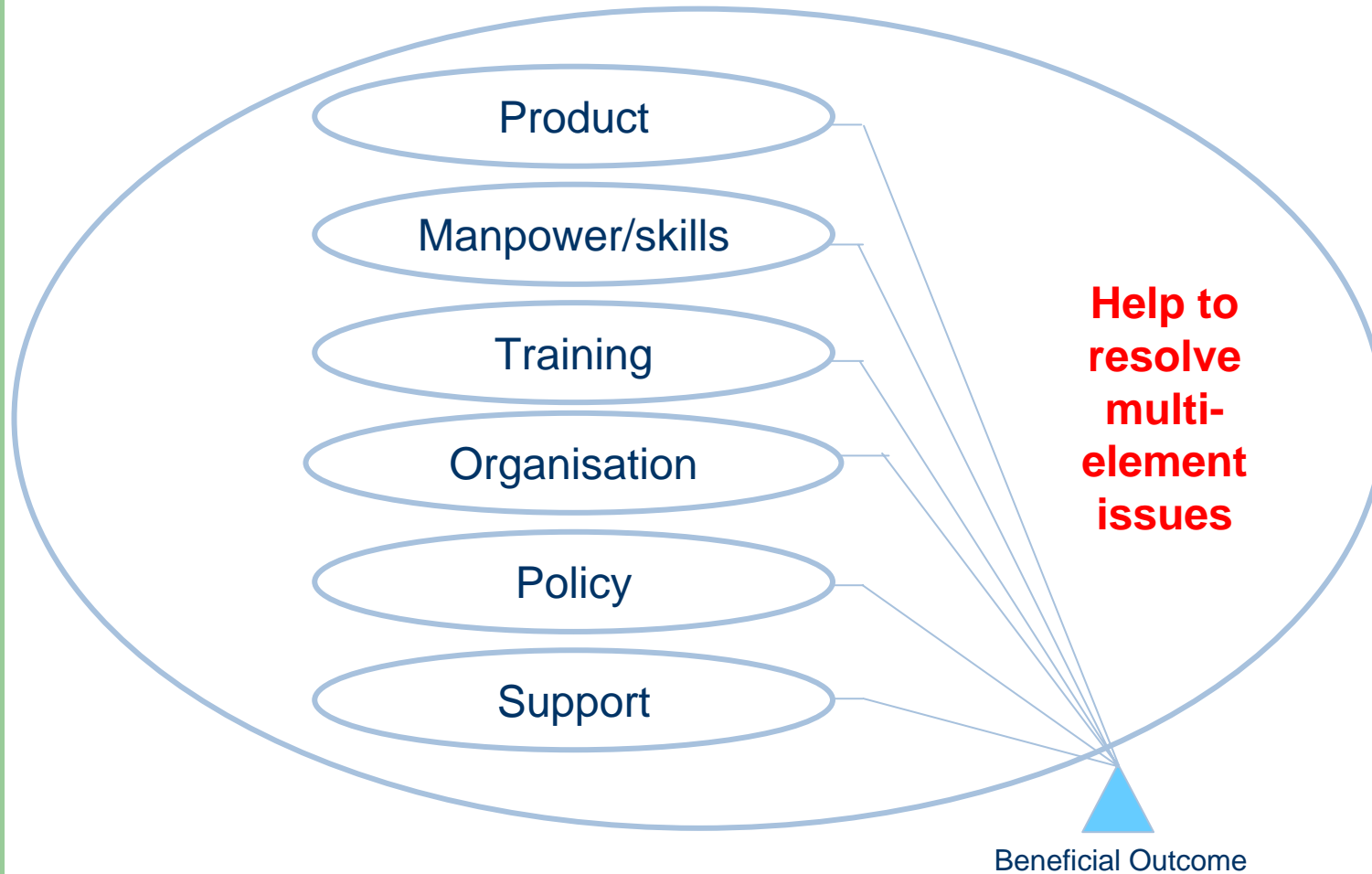
Cicero

106 – 43 BC

If you wish to persuade me, you must think my thoughts, feel my feelings, and speak my words

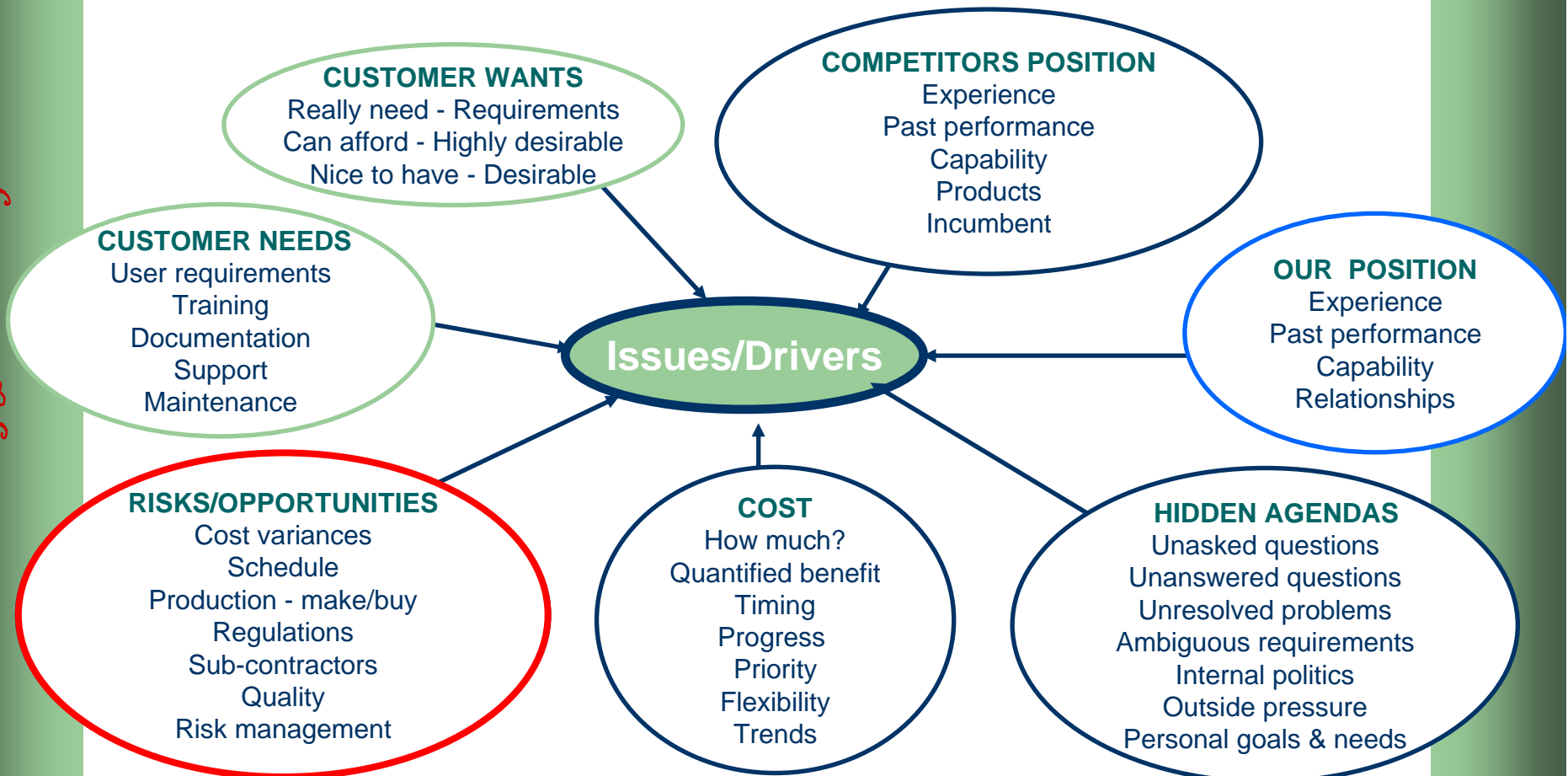
Who to Award Contract to

Understand their 'Community'



Who to Award Contract to

Understand their Perceptions



Who to Award Contract to

Address Out-of-Balance Risk drivers

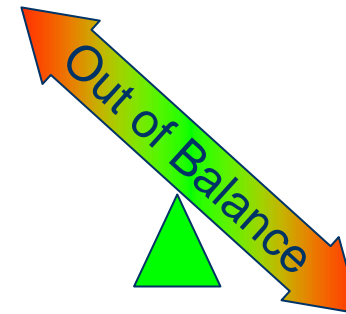
Customer behaviour

No contract

Ongoing distrust



Unrealistic solution
Inadequate evidence
Excess Cust supply
Biased assumptions
Onerous T&Cs
Limiting constraints
Major caveats
Inflexible behaviours
etc



Increasing
Customer risk

Manage the Customer's concerns

- Identify the customer's top risks / opportunities
 - Consider the customer's 'bigger picture'
 - Apply his Business Case perspective
 - Remember his responsibilities (and career aims)
- Confirm the risks with the customer whenever possible
- Make sure that the risks are resolved - **dead!**
- Identify Customer related opportunities
- Make sure they stand out
- Inspire confidence!

Key viewpoints for Industry

GovernanceIndustry

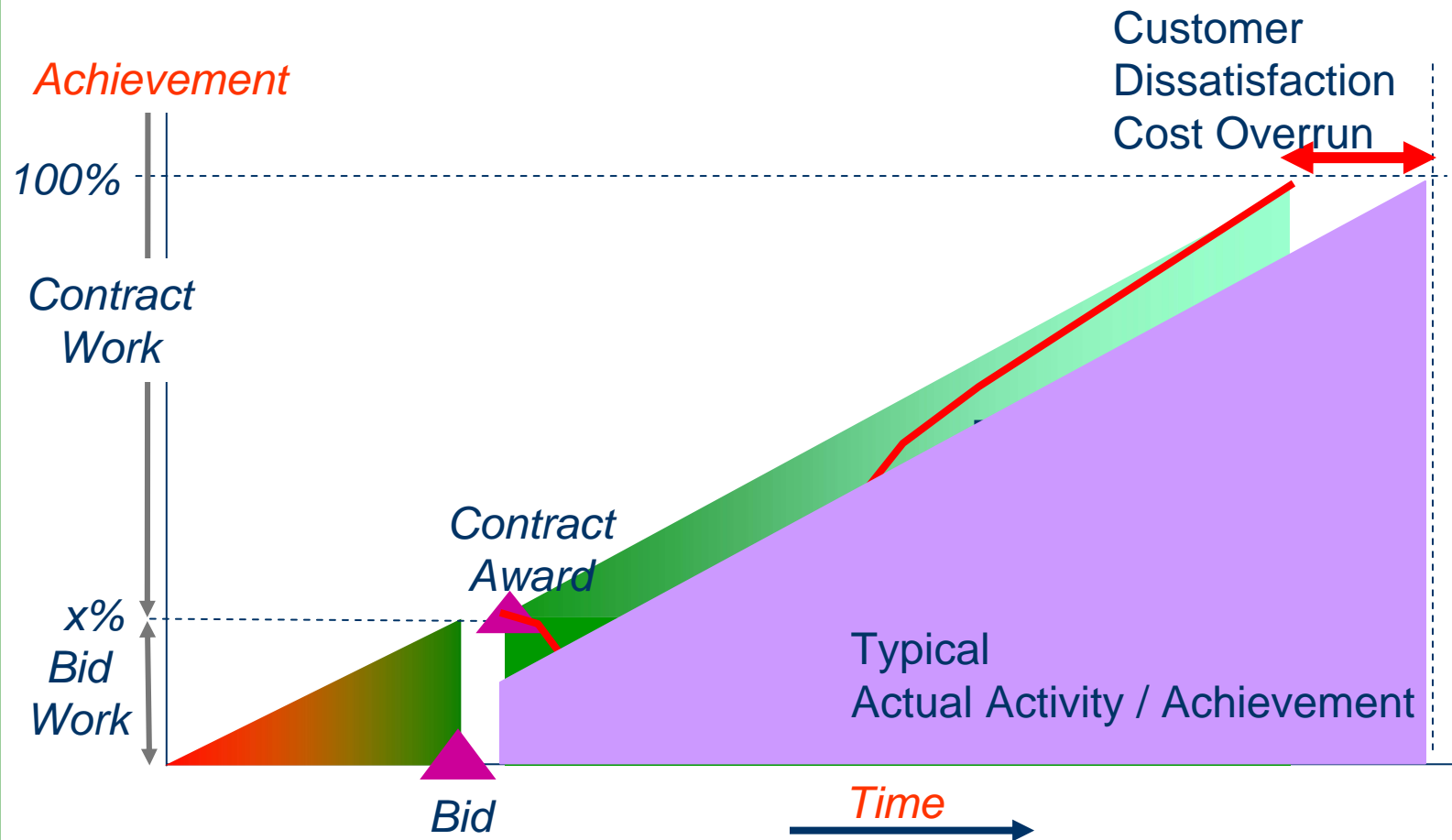


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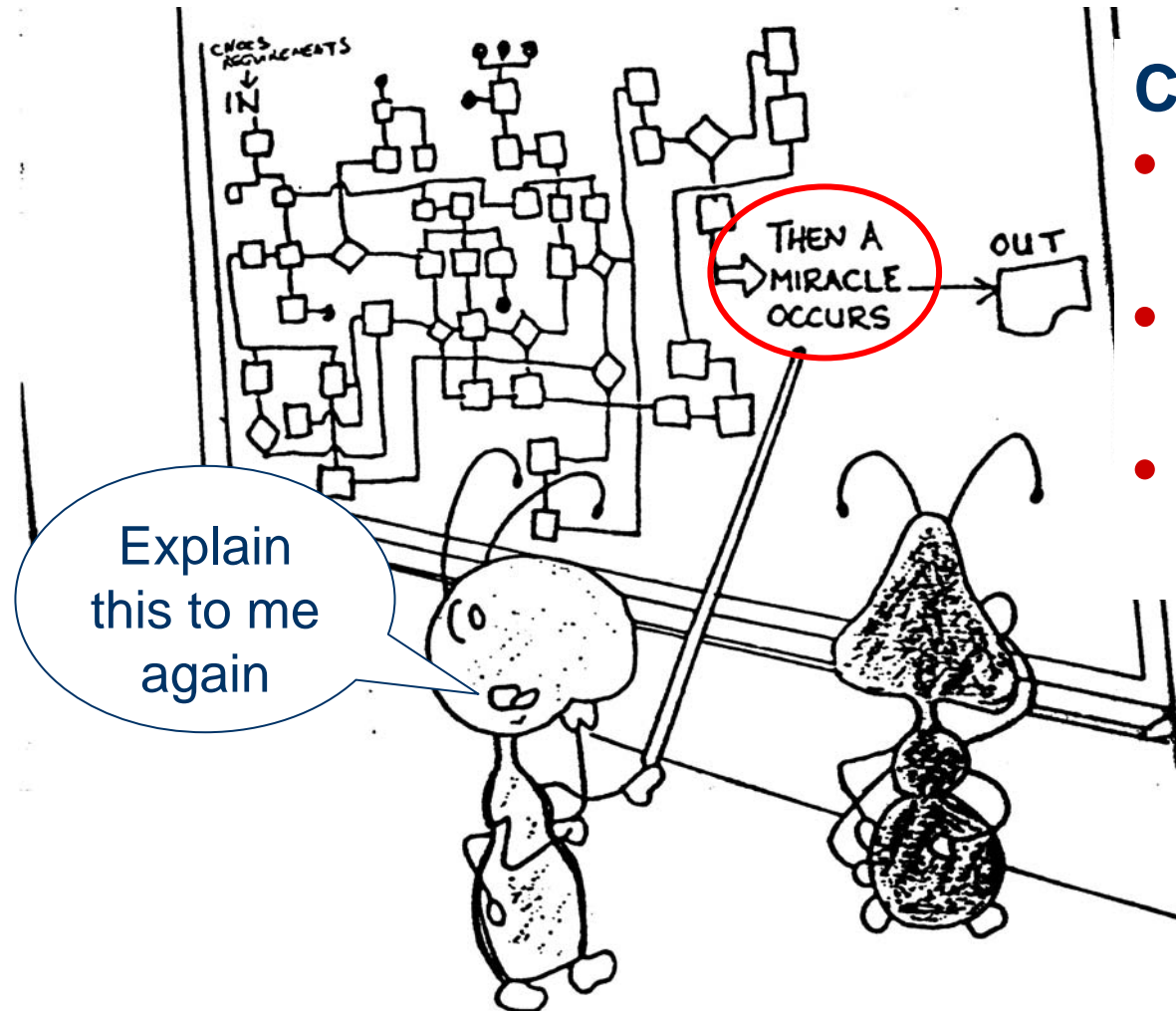
Confidence can Deliver Solution

Bid Planning is key for Delivery



Confidence can Deliver Solution

A good Baseline is essential

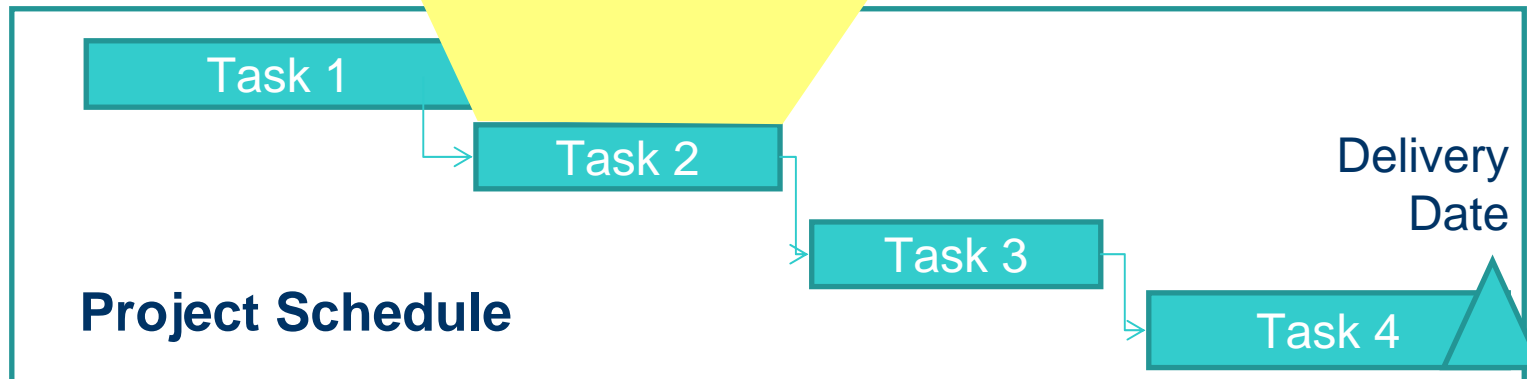
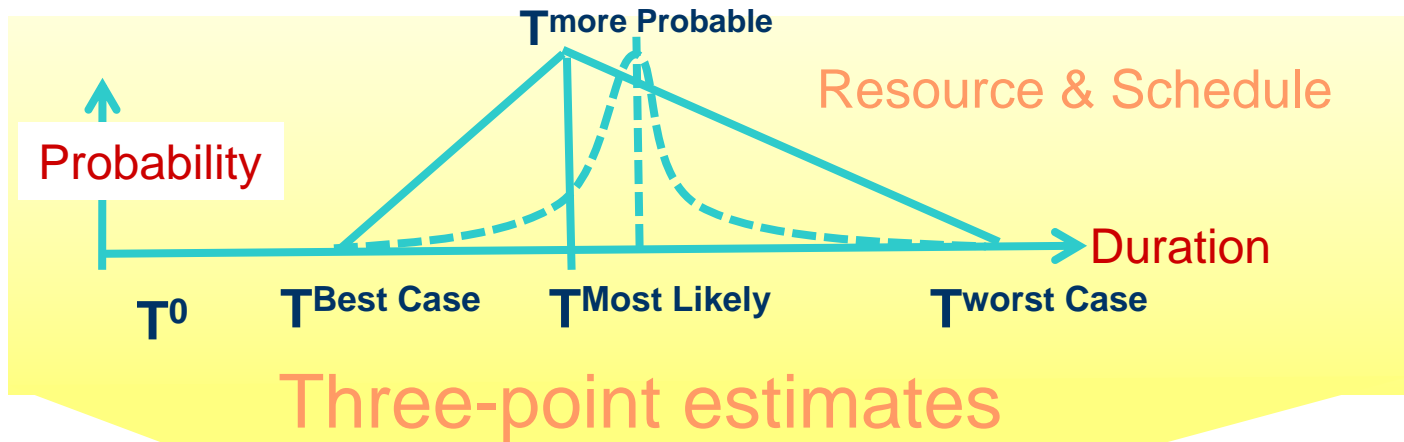


CONSIDER

- Estimating errors
- Schedule Robustness
- Risk impacts

Confidence can Deliver Solution

Addressing estimating error (bias)



Confidence can Deliver Solution

Aggregate estimating errors

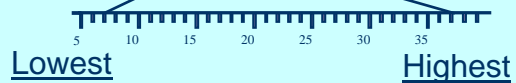
Project
Baseline

Create **Network** based
on Program PERT

Plan for actions to
**reduce critical
uncertainties**

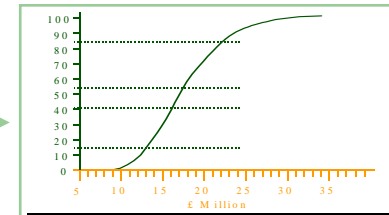
3-point estimates

Most Likely



Estimate **Uncertainties**
for planned activities
(PERT) & planned costs
-min, max, medium-

Run Monte Carlo
simulation & **assess**
spreads on milestones
dates & likely costs due
to uncertainties



Confidence can Deliver Solution

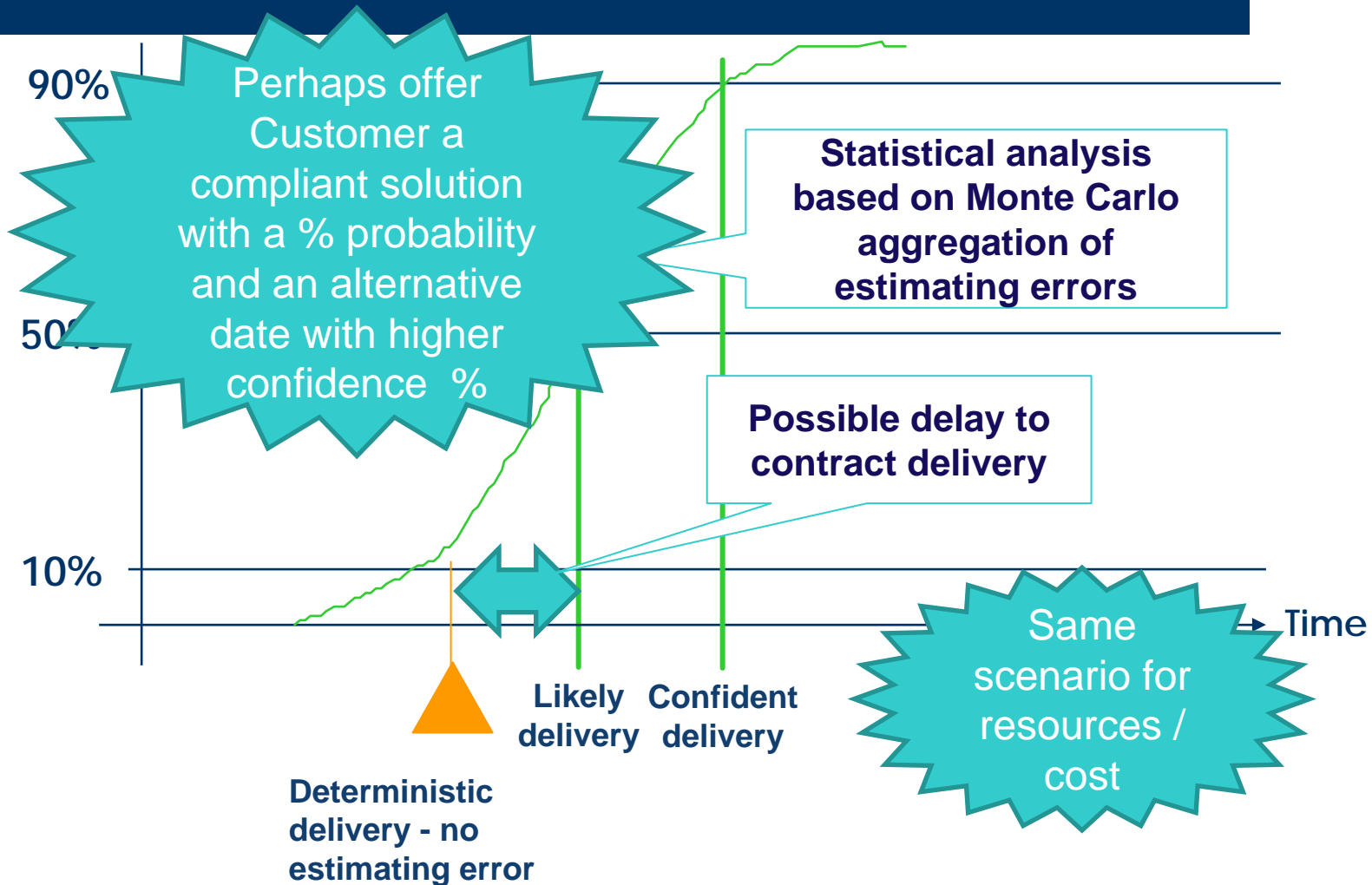
Statistical Analysis needs care

Beware of GIGO
Garbage In:
Gospel Out



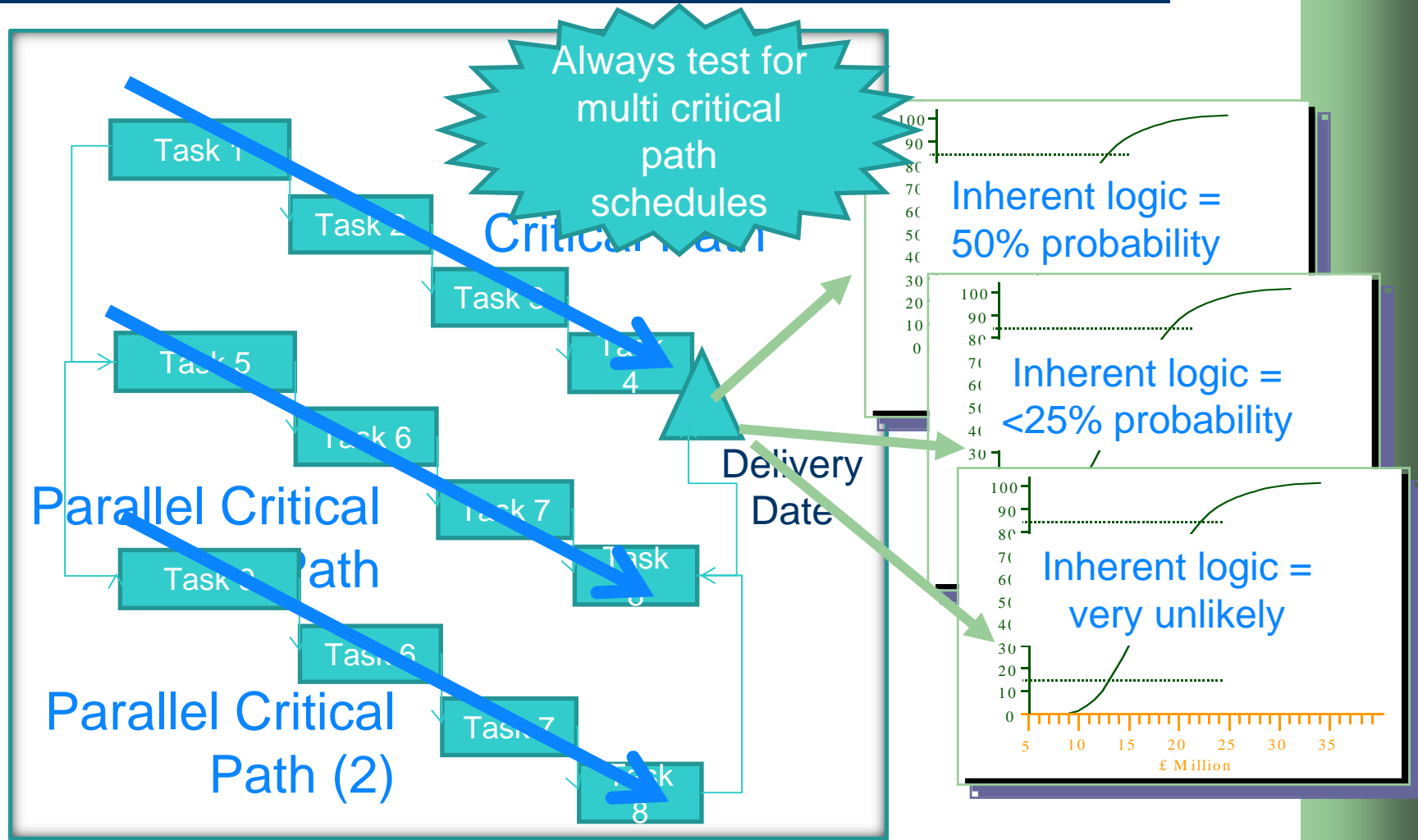
Confidence can Deliver Solution

Impact of Estimating Errors



Confidence can Deliver Solution

Handling schedule robustness



Confidence can Deliver Solution

Qualitative Risk Management

- **PLAN FOR RISK MANAGEMENT**

How it will be undertaken (who, what, when)

- **IDENTIFY**

What might go wrong and Opportunities

- **ANALYSE [CHARACTERISE]**

The consequences

- **PLAN ACTION [DEFINE MITIGATION PLANS]**

What is going to be done about it

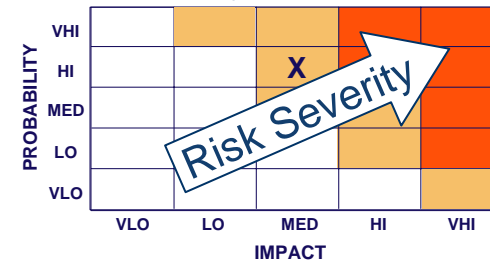
- **ACT**

Do what has been planned

- **MONITOR - MANAGE**

Check and revise plans

Probability - Impact Tables



Confidence can Deliver Solution

But Impacts have estimating error

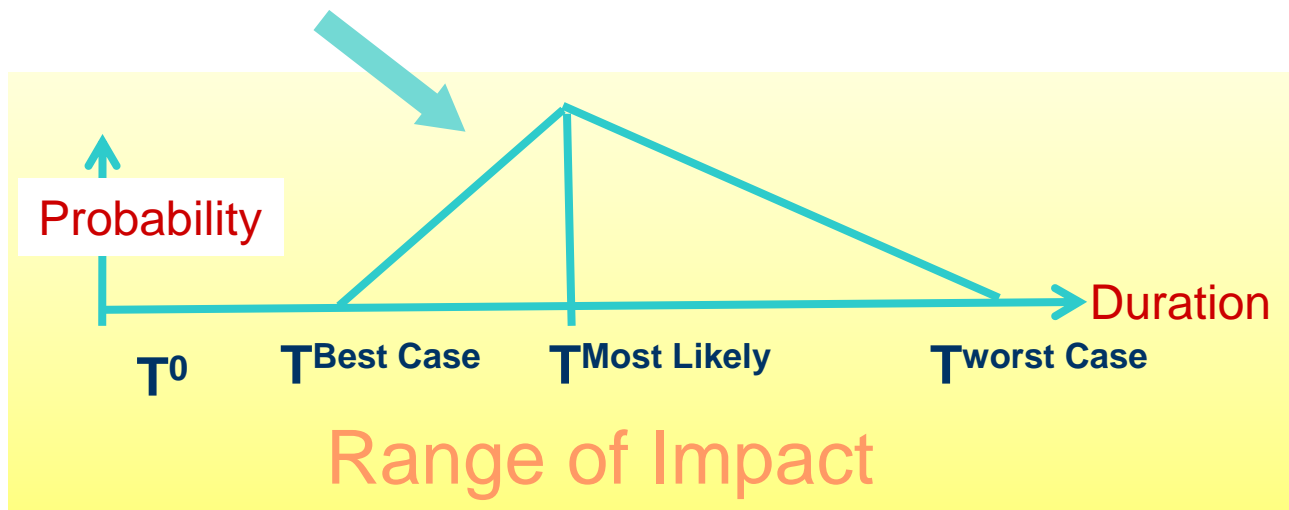
VHI					
HI			X		
MED					
LO					
VLO					
	VLO	LO	MED	HI	VHI

PROBABILITY

IMPACT

Qualitative Risk Assessment

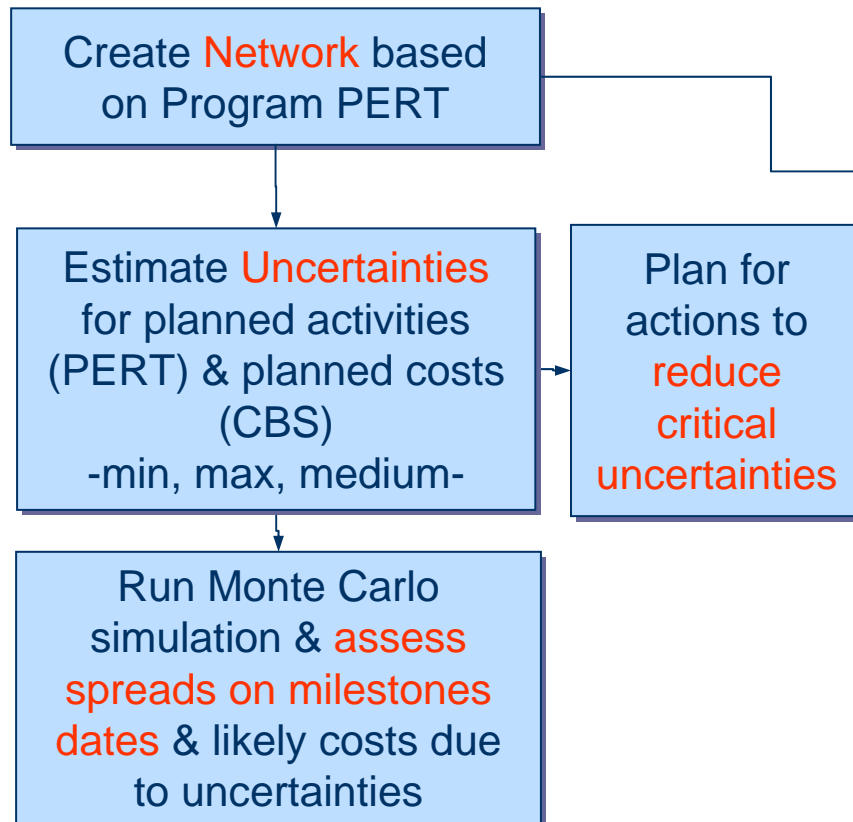
Probability - Impact Table



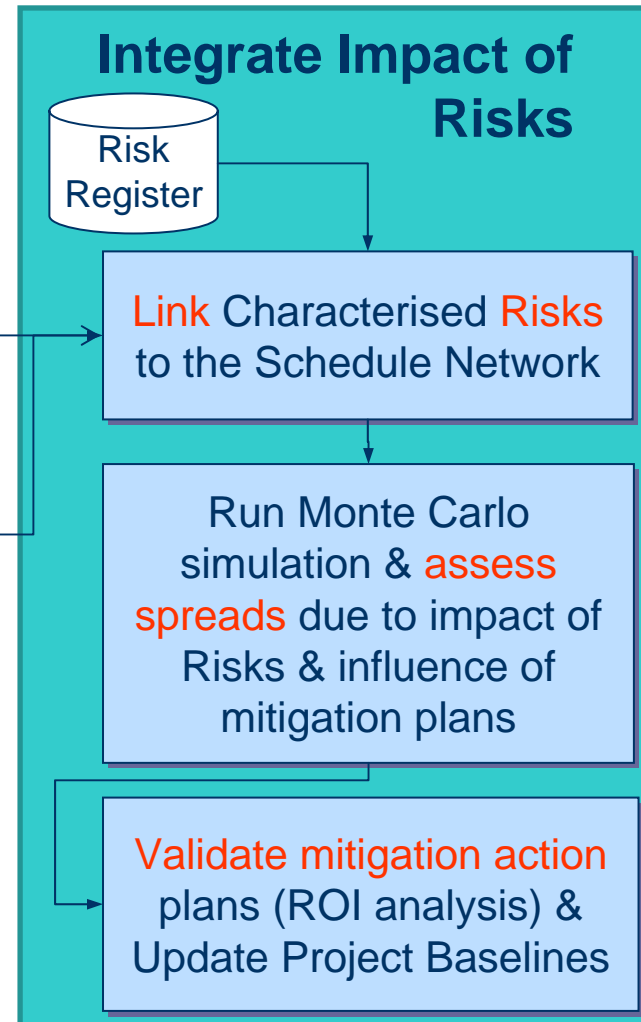
Confidence can Deliver Solution

Analysing Cumulative Variations

Reduce Estimating Error

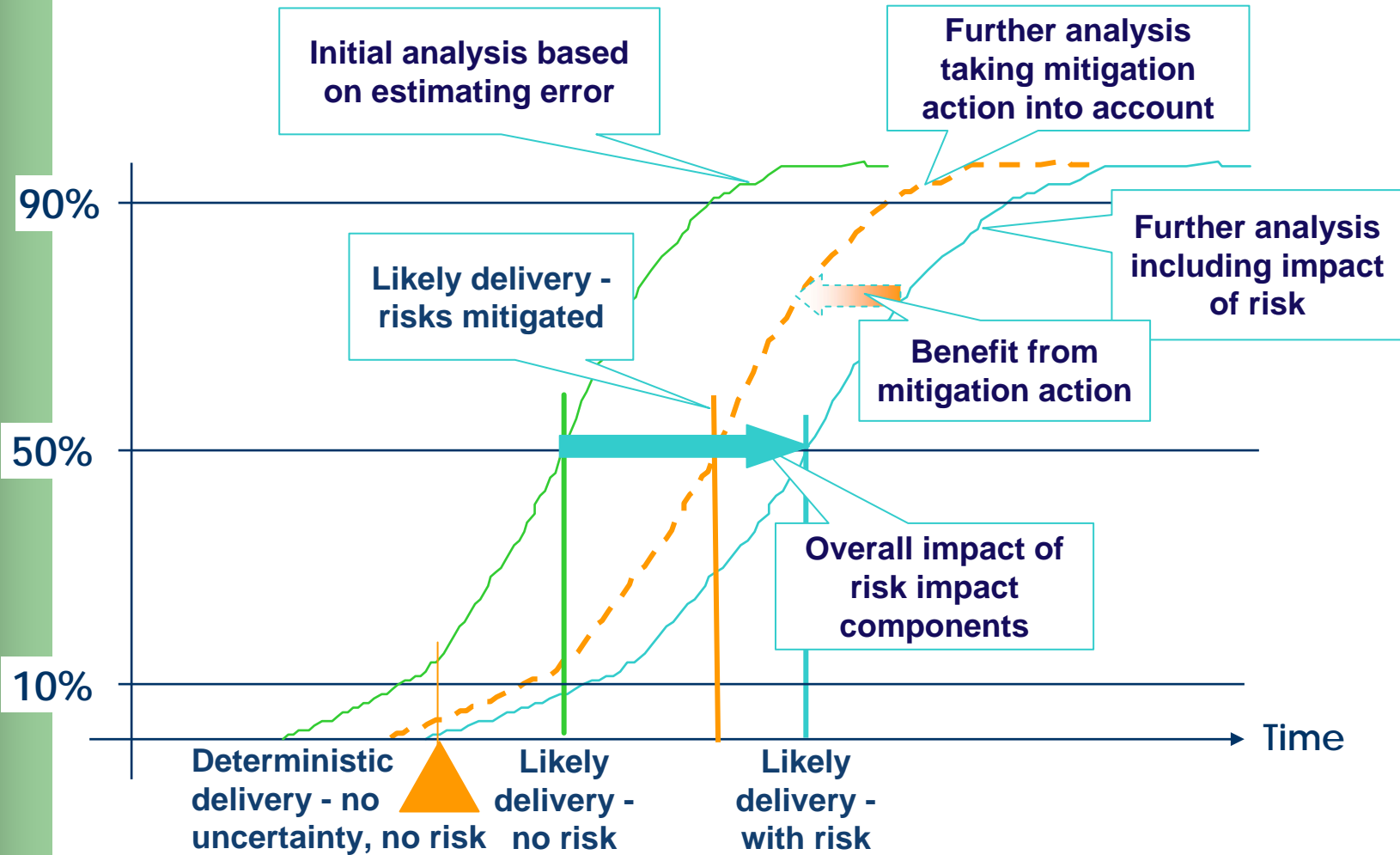


Integrate Impact of Risks



Confidence can Deliver Solution

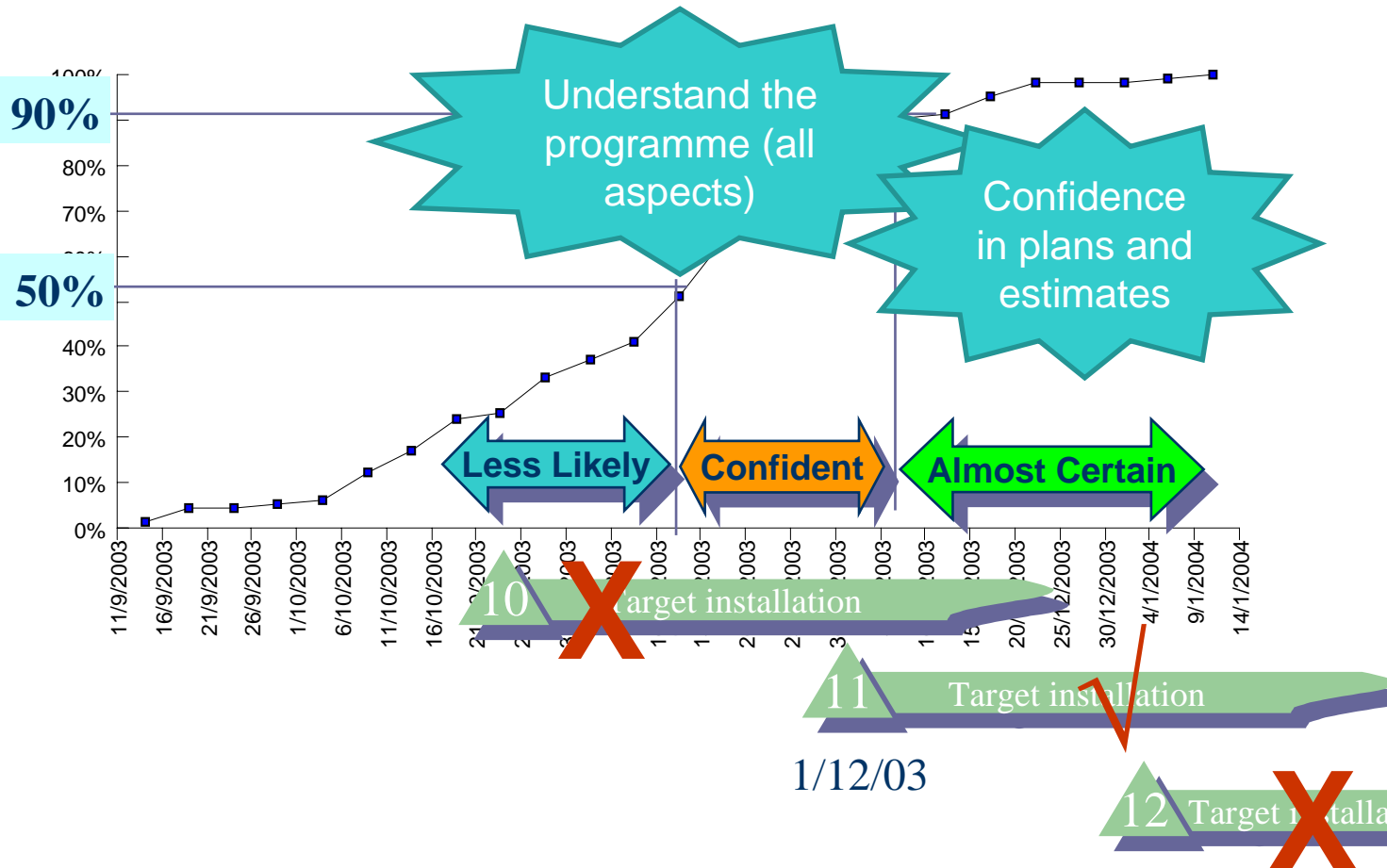
Principles of cumulative effects



Confidence can Deliver Solution

Use to generate confidence

PROBABILITY



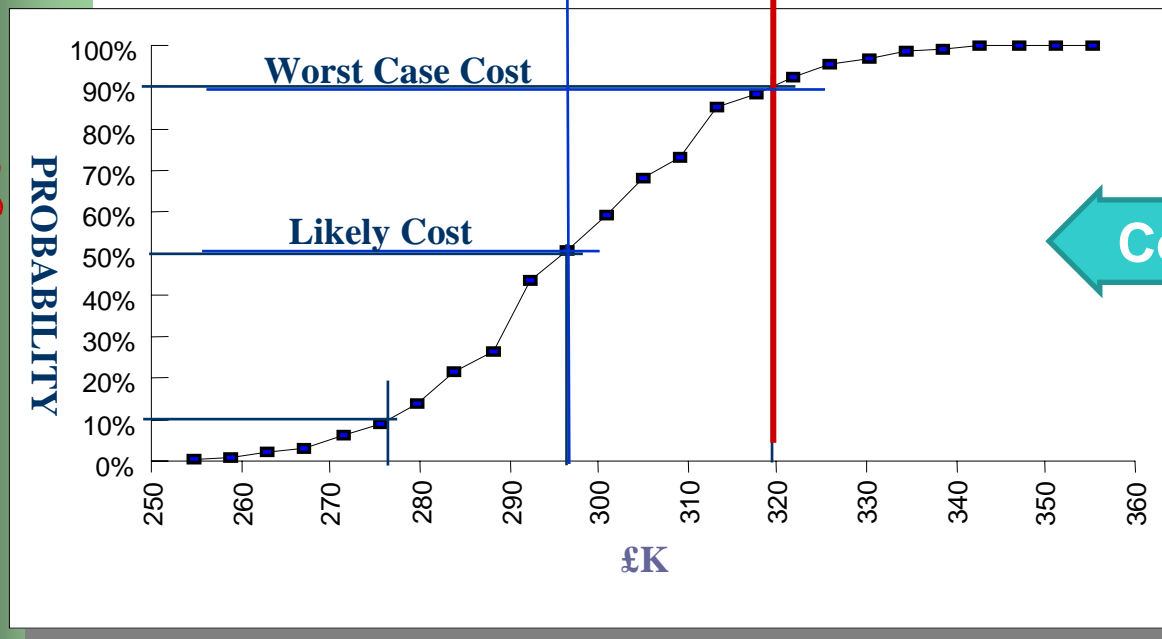
Confidence can Deliver Solution

Modelling to support pricing

Target for Project Manager?

Managed Contingency

Basis for Quoted Price?

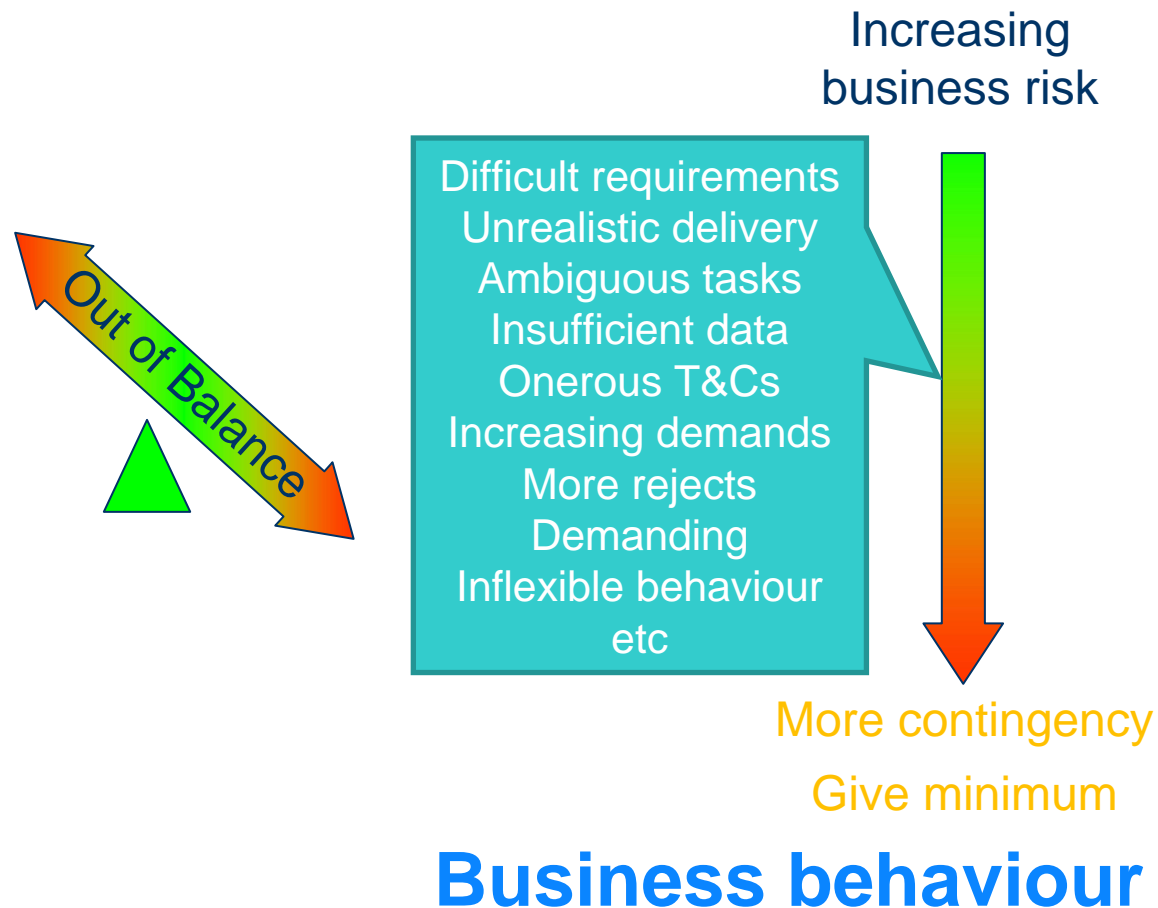


Standard Price Sheet

Compare

Confidence can Deliver Solution

Address out-of-Balance Risk drivers



Key viewpoints for Customers

Governance^{Customer}



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Demonstrating governance

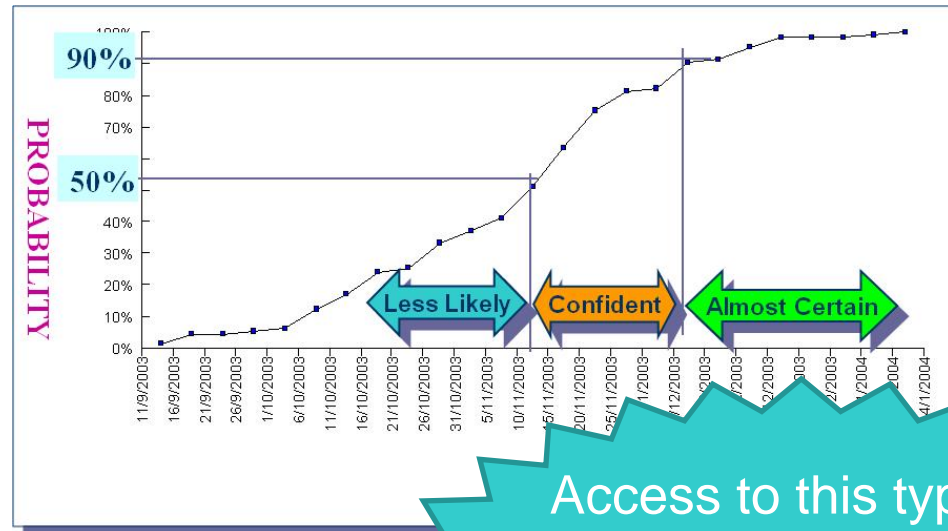
**IF WE SHARE OUR FULL
UNDERSTANDING WITH THE
CUSTOMER, HE CAN USE IT TO
DEMONSTRATE HIS OWN
GOVERNANCE**

Effective
oversight of
suppliers

Management
of related
expectations

Using probability reporting

Probable
outcome
reporting



Access to this type of
data enables
Customer's to align
related projects and to
manage stakeholder
expectations

**What then.....
Take risks for competitive advantage?**



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When we have

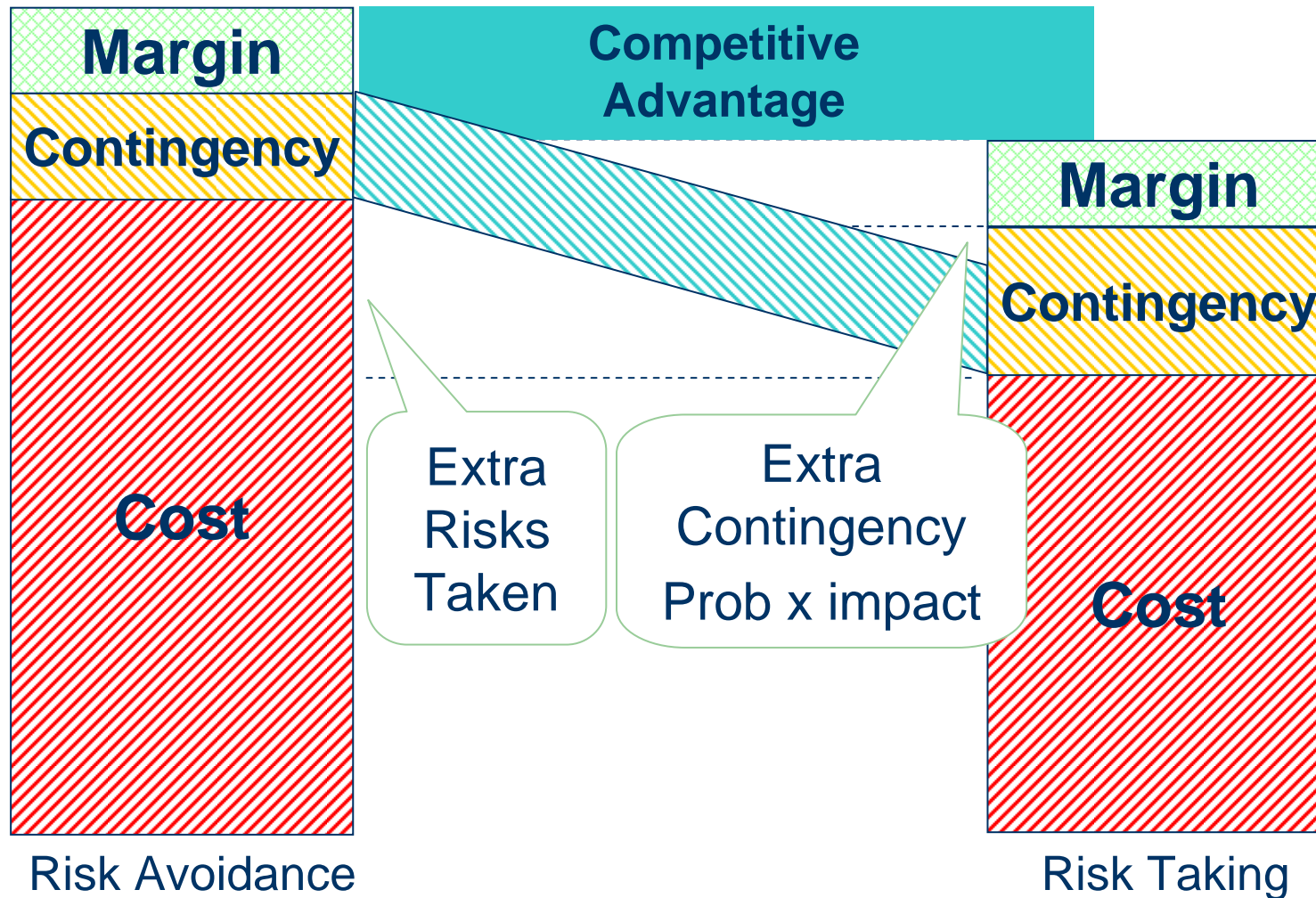
- A mature RM approach
- Predictable project outcomes
- People who know what they are doing
- And why
- With all viewpoints covered
- And the right tools in place

..... we can move on

The BIG Question

Can we then take risks deliberately to achieve commercial advantage whilst taking measures that inherently manage the consequences

Winning by Taking more Risks



The First Principle

If you cannot manage risks effectively then you cannot afford to take them

The Second Principle

You must approach deliberate risk taking in full knowledge of what you are doing



The Third Principle

You must be able to challenge internal inertia



The Fourth Principle

Your organisation must understand the difference between:

Planning for possible future Risks and Opportunities

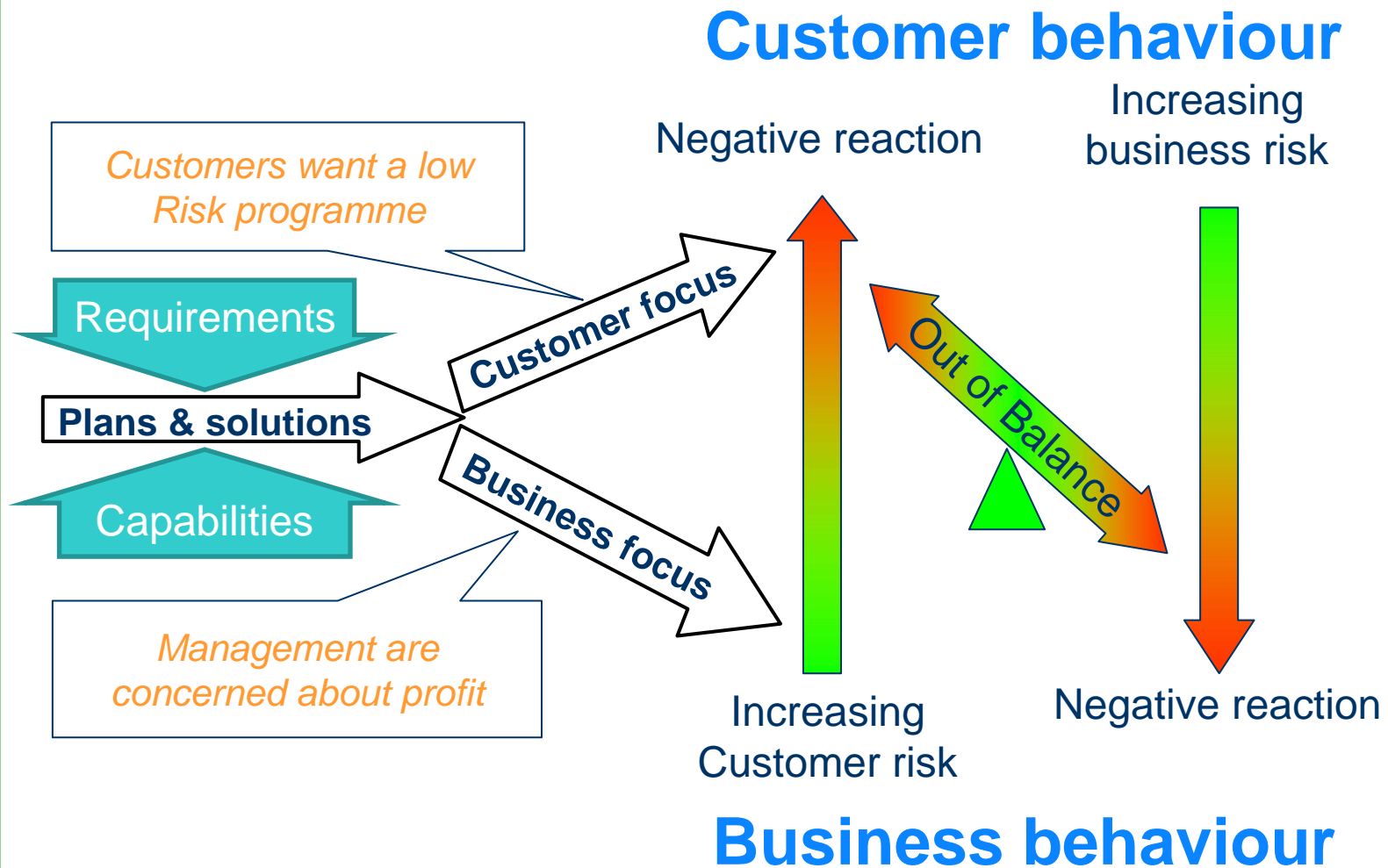
Deliberately taking calculated risks and managing the consequences

And finally



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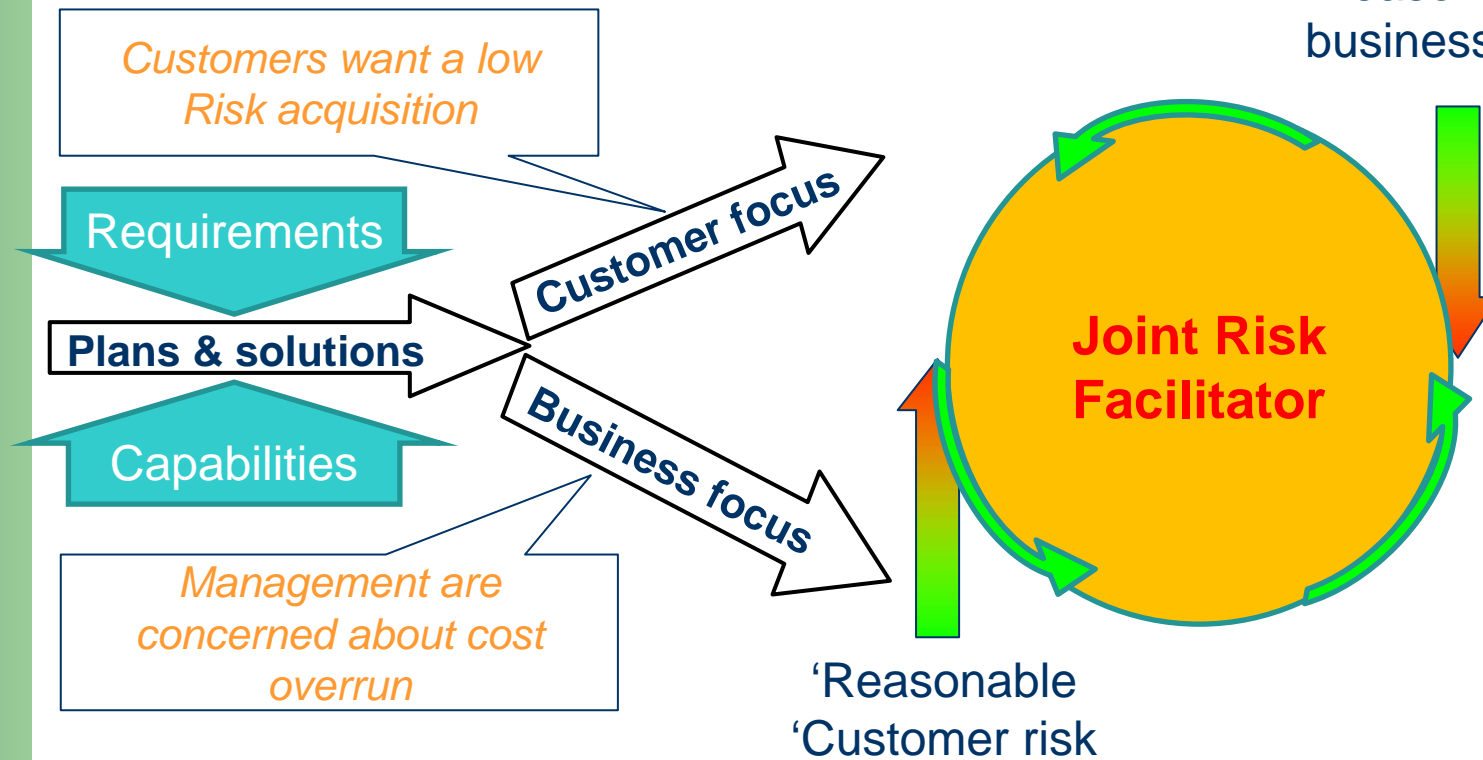
Out-of-balance Risk relationships



We need to get Risk 'in-Balance'

Customer perspective

'Reasonable'
business risk



Business perspective

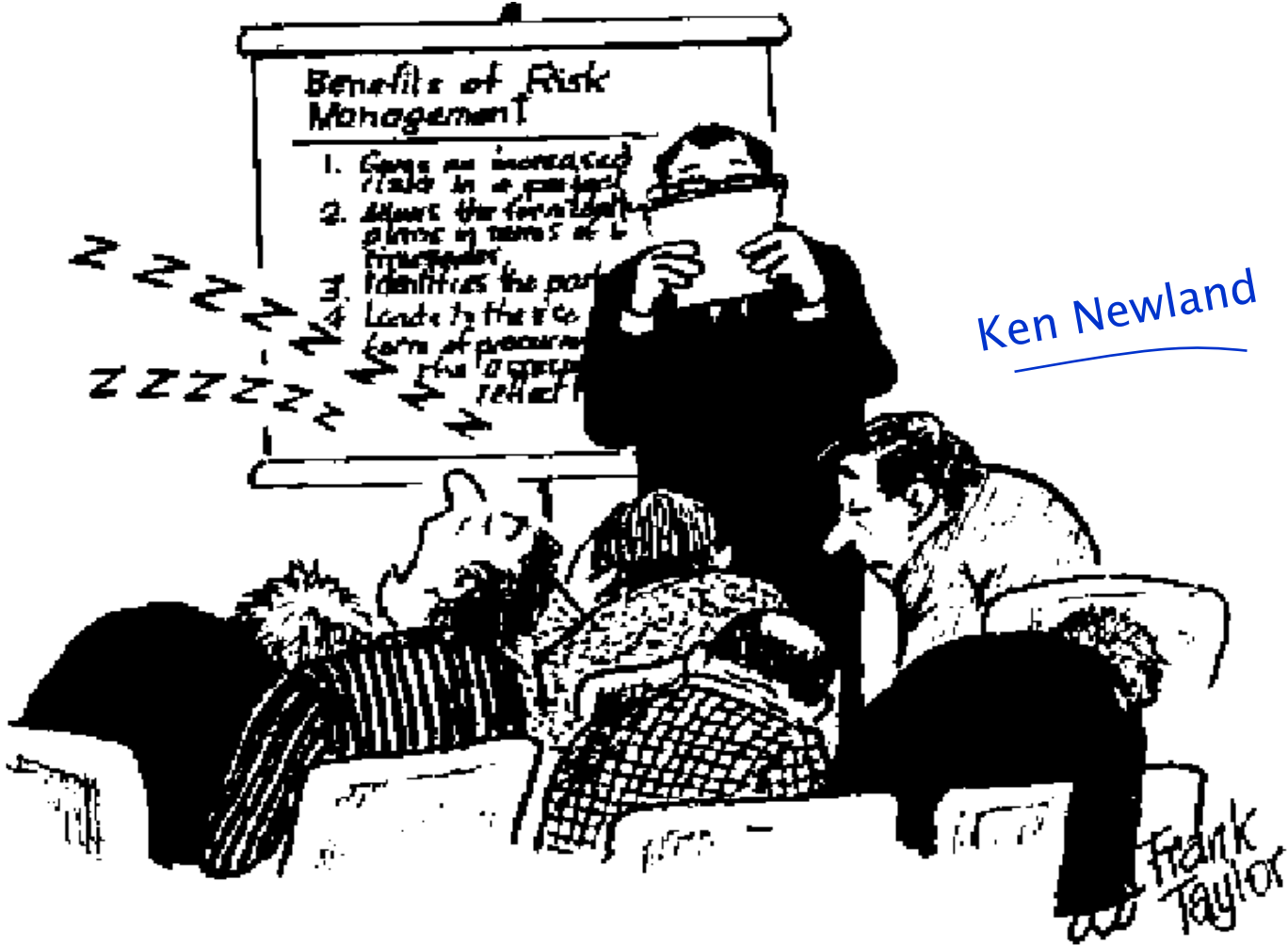
We are not really interested in RM

- We just want to win more
- We need to be more competitive on the contracts we get

We need to develop a mature understanding of how we can use RM to the advantage of us, our Customers, and the other stakeholders.

Risk Management techniques can be used, to some extent, to help to achieve these objectives

Thank you



Ken Newland