# SBIR Proposal Writing Basics: Costly Cost Proposal Mistakes

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We estimate that more than 90% of the SBIR/STTR proposals we review have serious errors in their cost proposals. “Only” about 80% 0f Phase II proposals have such errors, so guess what that means in terms of the fraction of Phase I’s that are in error?

How big are these errors? There was a sample Phase II proposal on the NIH website a few years ago that included some budget documentation. Just based on the basic budget information presented, we identified more than $350,000 in errors in that $1.2 million budget. Imagine what such errors do to your cash flow, your company’s ability to survive, and your ability to build a sustainable business. So let’s talk this month about some of the most common budget/cost proposal errors we see in SBIR/STTR proposals.

1. Over proposing. We see a lot of Phase I and II proposals where the applicant is trying to do too much direct (R&D) work. When reading the work plan, the reviewer gets the impression that this is a lot of work for a little $150k Phase I, for example. Then the budget shows that all (or all but a token amount) of the $150k is being put into the technical work. That means you are not asking for funds to help cover your general costs of being in business (aka indirect or F&A costs). The SBIR/STTR agencies are willing to pay a reasonable amount for such costs, and you want them to. Otherwise you have to ask your other clients to pay for all of them which isn’t fair or equitable. And if you don’t have any other clients, then you will have to borrow, or dive into your pocket to pay these costs, which makes no sense when you are trying to be a viable, sustainable business.

We think this error often occurs because you dream up your technical project first, write it up in the technical proposal, and THEN do your budget only to discover there’s not enough money to do the whole glorious project and cover the indirects. Given all the work you’ve put into scoping and writing up the technical project, the “obvious” solution is to scrimp on the indirect portion of the budget. To avoid making this error, first estimate how much you can afford to propose in the way of an R&D project. Take the maximum amount the agency will allow, subtract your fee/profit (See #2 below), and subtract an allowance for your indirect costs--what’s left over is what is available for the technical project, and you should scope the project accordingly. As a quick example, assume the agency will fund up to $150k on a Phase I, you are asking for a 7% fee/profit, and your indirect rate is 40% of all direct costs:

$150k - ($150k / 1.07) = $9.8k

$150k - 9.8k = $140.2k

$140.2k / 1.4 = $100.1k

Therefore, your $150k Phase I will only support about $100k in actual R&D costs, including your labor, materials, and any subcontracts and consultants. So in this example, you should scope a $100.1k technical effort, realizing that when you add indirect and fee/profit, you will be asking the SBIR/STTR agency to pay you the maximum $150k allowed.

1. Not asking for fee/profit. A related mistake is not asking for any fee/profit in your cost proposal. All SBIR/STTR agencies will consider a 7% fee/profit, but you have to ask for it. Why would you? Because you can use fee/profit for ANYTHING YOU NEED OR WANT TO. There are plenty of things the Government won’t allow as part of your direct or indirect budget, and many are legitimate business expenses, so fee/profit is where you can get some money to cover these costs. Because of its flexibility, we always recommend you ask for the maximum profit possible (again, 7% of your combined direct and indirect costs is typical). And don’t just make fee/profit the gap filler between all your costs and the agency’s budget maximum—did we mention it is the most flexible money you will ever get from the Government and you can do whatever you want to with it??
2. Not asking for enough Indirect/F&A. Most small companies, especially startups, have never calculated their indirect/F&A rate. As a result, they tend to either not ask for any indirect/F&A on their SBIR/STTR cost proposal, or ask for some goofy amount (like what the local university charges for its indirect rate). Like we said in #1 above, this is the allowance for helping you pay for your general costs of being in business, so the less you ask for (relative to your actual indirect costs), the bigger deficit you are creating for yourself. For a relatively easy way to estimate your company’s indirect rate, check out the tutorial we authored: <https://www.sbir.gov/sites/all/themes/sbir/dawnbreaker/img/documents/Course8-Tutorial3.pdf>.
3. Using a fake or someone else’s indirect/F&A rate. To elaborate on #3: don’t just make up an indirect/F&A rate, and don’t use someone else’s. Each company has a unique indirect rate, reflecting its costs, and therefore it makes no sense to use someone else’s.
4. Claiming 100% direct on labor. Often, we see a cost proposal in which one or more of the company’s employees are shown as working 100% of their time on the proposed SBIR/STTR project. This is impossible. Every employee, no matter how focused they are on project work, must have some indirect time to fill out timesheets, attend staff meetings, help write proposals, and answer non-project-related emails. So put employees in your budget for a reasonable fraction of their time that they will work on this project, which we would argue is not more than about 90% time (that’s only 4 hours per workweek that they aren’t working on this project—a very aggressive assumption). How do you cover the other 10% of their time that they aren’t working on the project? You charge the indirect/F&A rate discussed in #2-4 above, and therefore pay that additional salary from that non-project portion of your budget.
5. Only asking for $600 on NSF consultants. NSF states in their solicitation that they will only pay $600/day for consultants. What they don’t clarify is that this is a cap on that consultant’s labor (i.e., salary), and does not include their indirect costs. Every consultant has time that they aren’t working on projects, and they all have non-project costs like cell phone bills and office supplies. These indirect costs can be charged on top of the $600/day. NSF says you can charge the consultant’s travel costs, but these oddly appear elsewhere in the budget.
6. Unjustified requests. NEVER have a number in your budget that you can’t justify with a straight face. Large, rounded numbers like $10,000 or $25,000 look like you made them up, so the Government negotiator will ask about them when they are contemplating giving you an SBIR/STTR award. You should have documentation that explains how you got to those numbers—summarize in the budget justification attachment, and have detailed notes/ calculations in your file. If you can’t justify it, then don’t expect the Government to pay for it.
7. Asking for basics in the direct equipment budget. If you are a startup, then you probably need to buy some laptops, a printer, and some desks and chairs. Do NOT request such common equipment as part of your direct budget on an SBIR/STTR project. Some agencies don’t allow you to buy any equipment in your Phase I budget, and none of them want to pay for common equipment that they expect a company to have. So how do you buy such equipment? Either build its cost into your indirect rate (you can include a depreciation expense in that rate that “reimburses” you for your equipment purchases), or remember that fee/profit can be used for ANYTHING and therefore can be used to purchase equipment.

Your cost proposal must be accurate so you get paid all you deserve on an SBIR/STTR project, and it needs to be “reasonable” so the Government doesn’t exclude requested costs. Always include the maximum fee/profit allowed to help pay for those costs the Government doesn’t allow or doesn’t deem to be reasonable, or to serve as a contingency. This will help you build a sustainable business, not one that just limps from one government project to the next.