



Helping government contractors
grow their business

Federal Contractor Knowledge White Paper

The Severe Impact of the Budget Crisis on Federal Contractors

Detailed Industry Survey Results

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Executive Summary

The federal budget process has practically ground to a halt. Centurion Research Solutions recently conducted a survey of over 100 of their clients to ascertain the impact of this impasse on current and future business growth plans and, in some cases, financial survival. In a nutshell – the survey illustrates the drastic effects this situation is already having on federal agencies and the companies that support their mission.

The continuing uncertainty about the budget has flowed down to every level of government. Procurements have been delayed, contract budgets slashed, awards increasingly made to the lowest priced bidder. From the survey results, it is obvious that thousands of federal contractors are being negatively impacted especially in terms of reduced hiring and historically low profit margins. Having personally experienced decades in the federal contracting community, I believe the challenges industry is facing are unprecedented.

As shown in Table 1, 131 individuals at professional services, integration, and solutions companies of all sizes participated in the survey.

Company Size	Number of Response(s)	Response Ratio
Over \$1 billion	51	39%
\$250 million to \$1 billion	13	10%
\$101 million to \$250 million	5	4%
\$26 million to \$100 million	18	14%
\$11 million to \$25 million	19	15%
Up to \$10 million	25	19%
Total	131	100%

Table 1: Survey Respondents

The quantifiable results of survey questions #1 through #6 are presented in tables with the most significant results highlighted in light green. For all questions, a representative sample of the several hundred additional comments is also included. Remarks of a political or highly subjective nature have been omitted in the interest of objectivity and multiple comments of a similar nature have been paraphrased as one general comment.

The following bullets summarize the major survey findings:

- 90% of contractors are impacted by the budget impasse in the following areas (Questions 1 & 2):
 - Company revenue
 - New business growth
 - Number of Request for Proposals
 - Request for Proposal schedule delays
 - Number of contract awards
 - Contract award schedule delays
 - Existing contract growth
 - Shift from best value to lowest price technically acceptable awards

- Government agencies continue to be impacted by (Question 3):
 - Contract action decision delays
 - RFP release delays
 - Agency staff morale
 - Unwillingness to talk to contractors prior to RFP release
 - Significant reduction in the number of best value or sole source awards
- Only 11% of responding companies are making a significant investment in new business initiatives (Question 4).
- 67% of respondents are doing no or little new hiring, which, of course, does not bode well for the economy (Question 5).

The impact of the budget impasse on company's strategic direction (Question 6) is:

- 50% are focusing on agencies with more secure budgets (VA, NIH, Intel)
- 37% are staying the course (no significant change in plans or focus)
- 31% are rethinking their entire business strategy
- 25% are making more strategic acquisitions
- 17% are shifting focus from B2G to B2B

Respondents shared over fifty specific examples of the negative impact of the budget impasse on specific agency procurements and budget actions (Question 7). These delays and the uncertainties are severely affecting company financial situations. The survey (Question 8) also revealed quite a few recommendations for actions the government could take to improve the federal procurement and budgeting process.

These results clearly reflect a call to action. The problems faced by federal contractors seem to have started at the highest levels of government and will only be solved there.

Survey Results

Question 1: In what ways did the fiscal budget impasse (including arbitrary deadlines and decision avoidance) impact your company in calendar 2012?

As shown in Table 2, more than 50% of the surveyed companies experienced a moderate or significant impact on their business growth results in 2012. There was a dramatic shift from best value to lowest price technically acceptable (LPTA) awards - probably an indication of agency belt tightening and risk aversion. Unfortunately, this phenomenon is having serious repercussions in contract performance and industry's ability to sustain a profitable business.

	No impact	Minor impact	Moderate impact	Significant impact
Company revenue	13	50	49	18
	10%	38%	38%	14%
New business growth	5	29	56	39
	4%	22%	43%	30%
Number of Request for Proposals	11	30	52	37
	8%	23%	40%	28%
Request for Proposal schedule delays	9	20	48	53
	7%	15%	37%	41%
Number of contract awards	9	34	46	40
	7%	26%	36%	31%
Contract award schedule delays	11	23	42	54
	8%	18%	32%	42%
Existing contract growth	10	31	57	29
	8%	24%	45%	23%
Shift from best value to lowest price technically acceptable awards	3	17	41	69
	2%	13%	32%	53%

Table 2: 2012 Budget Impasse Impacts

A significant impact is the increasing move to LPTA type procurements. Evaluation criteria are not strong enough to eliminate unreasonable low prices. In services business these cuts come on the backs of employees. The amount of new players in government contracting that have little or no experience has created opportunity problems for companies that have been in the business for years. Businesses underbid projects without the capability to recover. The playing field is distorted by the LPTA award approach. Many of the survey respondents don't see how using this approach saves any money for the government in the long run.

Significant delays in awards and tracked opportunities have had a major impact on company revenue and resource planning. The largest impact has been for requests to slow down spending of existing funding. For instance, a delay in Renewable Energy Tax Credit caused a reduction in energy projects. The uncertain federal budget had adverse impacts on the DoD market as well.

Some companies were only able to achieve about 50% of their plan due to the impact from continuing resolutions. Also, the government has been issuing contract extensions much more frequently. Even when the Government made contract awards, they often did not fund the projects, resulting in a waste of time and marketing dollars. Businesses also have experienced a number of contract reductions through performance work statement de-scoping and workload revisions that ultimately reduce manpower and contract values.

Question 2: In what ways do you anticipate the fiscal budget impasse will impact your company in calendar 2013?

Almost 80% of these companies anticipate a moderate or significant impact on their business growth plans in all the surveyed areas.

	No impact	Minor impact	Moderate impact	Significant impact
Projected company revenue	4	17	74	36
	3%	13%	56%	27%
Number of agency new program starts	2	14	59	56
	2%	11%	45%	43%
Number of Request for Proposals	3	17	59	50
	2%	13%	46%	39%
Request for Proposal schedule delays	3	14	56	55
	2%	11%	44%	43%
Contract award schedule delays	2	13	54	61
	2%	10%	42%	47%
Existing contract growth	6	22	54	48
	5%	17%	42%	37%
Shift from best value to lowest price technically acceptable	2	13	47	69
	2%	10%	36%	53%

Table 3: Projected 2013 Budget Impasse Impacts

DoD has already shifted a majority of its decisions from best value to low price. The best value definitions being used are often not effective and it is costing the government when they don't get what is truly best value and quality.

Due to continual Government uncertainty based upon lack of approved budgets and timely funding authorizations many small businesses are on the track to fail. In the current environment little to no new business is being generated.

The delays in awards or delays in funding after award are problematic. RFP releases that are on hold make it harder to forecast potential revenue opportunities. Companies have to hold onto their cash to keep their operations going and people employed. They no longer have the resources to dedicate to pursuing as many new opportunities or to hire the great talent as they find it.

It is worth mentioning that for some DOD contractors, a significant financial impact stems from DOD moving out of Afghanistan.

Continued expansion of set-aside contracts will have adverse effects on mid-sized and large contractors in the federal/DoD market. Delays on RFP/Contract awards may require that they keep people on overhead longer waiting for the work, which affects their bottom line. And, if sequestration comes into play, they will be forced to consider furloughs.

Survey respondents expect the number of RFPs to be significantly reduced and the number of new projects to be significantly reduced. They have revised their goals to reflect the potential delays and fewer contract awards. No RFPs = no proposals = no new revenue = no hiring or investments.

Question 3: In what ways are your current clients impacted by the budget impasse?

The budget morass is also significantly impacting their partners in government. Many of their procurements are being delayed and program budgets reduced with a corresponding decline in morale.

	No impact	Minor impact	Moderate impact	Significant impact
Contract action decisions	3	11	67	48
	2%	9%	52%	37%
RFP releases	3	9	61	56
	2%	7%	47%	43%
Agency staff morale	6	25	51	44
	5%	20%	40%	35%
Willingness to talk to contractors	12	31	43	43
	9%	24%	33%	33%
Number of best value or sole source awards	6	19	45	57
	5%	15%	35%	45%

Table 4: Budget Impasse Impact on Government Clients

Agencies are already starting to formalize actions to include: limiting travel and new permanent hires, and hiring more temp employees.

They are rapidly becoming understaffed to the point where contracts have been cancelled due to their inability to manage the contract. Businesses have been "awarded" contracts that are several months old with tasks that have not been released because of the fear that the money will be withdrawn at a later date.

The internal lack of capability or capacity of some contracting offices seems to be driving them towards direct awards and GWACs.

Agency staff morale has declined. There is too much risk and uncertainty. From the perspective of some of the surveyed businesses, significant contracting inaction and the spending of federal dollars in seemingly irrational ways is hurting small businesses and creating additional costs for government.

Question 4: How would you characterize the impact of the budget impasse (lack of decision making) on your company's willingness to invest in new business initiatives at this time?

Because of the budget and procurement uncertainty and the need to reduce overhead costs to remain competitive, a majority of the companies appear to be refraining from any substantial new business investments. When extrapolated to the entire federal contractor community, the economic impact has been significant.

No new investment	Minor investment	Some investment	Significant investment
22	39	54	14
17%	30%	42%	11%

Table 5: Budget Impasse Impact on Company Investment

The lack of Defense contract actions is directly impacting OEMs and their vendors. The budget impact is freezing everything -- hiring, capital investment, and bid and proposal funding. It is extremely difficult to invest in infrastructure or people when delays in contract awards continue. There has been much less new investment, especially in new hires.

Even sustaining is becoming a challenge. Companies have to invest more to get similar returns. There is too much uncertainty for most contractors to make major strategic acquisitions or to pursue new business ventures.

Many businesses are investing in efforts with new agencies and partners to increase basic services they provide and to build a broader base of contracts to sustain them through this austere period. New investments are mainly being made in the private sector, outside the government arena.

With more companies going after fewer contracts, business development activities must be more aggressive. Some contractors have had to target fewer opportunities even if they have high win probabilities.

Question 5: How would you characterize the impact of the budget impasse (lack of decision making) on your company's willingness to hire additional employees?

Practically all companies have reduced or eliminated new hiring. Considering the number and size of the companies that participated in the survey, this is having a serious impact on the job market.

No new hiring	Minor new hiring	Some new hiring	Significant new hiring
33	53	32	11
26%	41%	25%	9%

Table 5: Budget Impasse Impact on New Employee Hiring

Due to overhead cuts and lower margins and wrap rates, money is not available to hire necessary overhead, non-direct personnel. Without new awards, contractors cannot bring on additional staff. They are doing more with less.

Most contractors are only hiring key strategic positions, but often the actual hiring will be delayed until the work starts. Smaller companies especially are only bringing new people aboard to meet the obligations of contracts in hand. This environment eliminates planning for anything except what is happening today.

Small businesses are considering Reductions in Force (RIF's) and reducing salaried staff to less than full time. One executive explained that between ill thought out agency insourcing and current spending uncertainties, his overall staffing level has steadily declined for several years.

Question 6: How would you characterize your company's current strategic planning approach to the federal market?

Of the respondent companies, 25% are making more acquisitions and 50% are pursuing business that has a higher probability of having a more secure budget. 16% of the respondents indicated they are shifting focus from B2G to B2B. This might seem like a relative small percentage but it represents a loss of talent and expertise.

	Number of Response(s)	Response Ratio
Focusing on agencies with more secure budgets (VA, NIH, Intel)	65	50.0%
Staying the course (no significant change in plans or focus)	48	36.9%
Rethinking their entire business strategy	40	30.7%
Making more strategic acquisitions	32	24.6%
Shifting focus from B2G to B2B	21	16.1%
Other	16	12.3%

Table 6: Budget Impasse Impact on Company Strategic Planning Approach

For many businesses, the strategy and targets are the same with lower financial goals (revenue and bookings). Companies are planning to become as lean as possible so their labor wrap rates are the most competitive and so they can accept lower margins in order to win new business. Some corporations are

reacting to the increased federal acquisition difficulties by shifting their focus to more commercial and International work opportunities.

Smaller contractors are seeking business as a subcontractor to other stronger small businesses to bolster their collective win percentage. Meanwhile companies are revising their business development processes to make better capture and bid decisions earlier in the acquisition cycle.

Question 7: Share a specific example of the impact of the budget impasse on your company.

The following paragraphs consolidate over 50 detailed examples of the negative impact of the budget crisis on contractor business.

Task order requests on most IDIQs have fallen well short of projections for both FY12 and FY13 to date. Customers are self-insuring...by holding back money. With agencies unable to quickly and efficiently place funds on contracts, small businesses have to assume a huge "at risk" position. This position of risk in turn creates severe cash flow constraints especially when contractors are not getting paid in a timely manner. It requires significantly larger lines of credit.

Many companies have been told that the people they proposed were "over-qualified" and that they needed to propose other personnel who more closely matched the "minimum" personnel requirements in the RFP. This is like being told to hire minimally qualified individuals.

Quite a few incumbent contractors with acceptable performance lost their recompetes due to low price technically acceptable (LPTA) awards. LPTA means that the government suffers by "barely getting what they paid for." Too many contractors low ball their proposals and then run up the costs thru changes generated by poorly written scopes of work and little to no technical investigation/evaluation of proposals by the government.

Contracting offices now have much of the say in selecting the contract awardee. Program offices need to require specific criteria to be set for the evaluation process (i.e. the technical factor must have X, Y and Z; the past performance must be A, B and/or C; the pricing must be within realistic industry standards.) Right now, the LPTA approach is doing nothing but establishing contractors as unreliable.

There have been excessive delays in numerous program RFP releases and corresponding delayed awards. Many companies shared examples of RFP and award delays of over a year due to budget uncertainties. Option contracts have had option periods canceled or option funding reduced. The government is not re-competing existing/expiring contracts. Many of these operate under contract extensions but on a smaller scale, which means layoffs for contractor employees.

Sometimes a projected RFP release is delayed for so long that a small business loses their eligibility due to graduating from an SBA status like 8(a).

In one of the more severe examples all of a contractor's pending contract awards have been placed on hold awaiting Congressional Budget action. They employ almost 100 people and all of their jobs hang in the balance.

Another company has invested considerable bid and proposal money only to have six large proposals pending review by the government. Large awards have been delayed and procurements cancelled at agencies such as NASA, NGA, Army Geospatial Center, VA, U.S. Army, Marine Corps, U.S. Navy, DLA, EPA and USACE.

Some companies reported having to decrease their General and Administrative (G&A) expense and other overhead costs to well below actual operating costs and reducing profit to an average of 1% in order to even be considered competitive. This has forced small businesses, to even cut benefits, corporate staff and to reduce salaries in order to simply stay in business. Contractors are also consolidating business groups, realigning assets, laying-off senior staff, freezing salary increases and new hiring initiatives.

Many contractors have had to reduce their back office support staff to below bare bones minimums and have created dual tasking for all overhead staff. This has added stress as the same amount of work and reports have to be generated but there are fewer individuals doing them.

Some Multi-Award Contracts have been awarded with no actual work in the form of Task Orders for the solicited effort. There has also been a lack of new task orders for existing IDIQ contracts and a corresponding expiration of contracts with unused capacity.

Some government customers are unable to travel. Companies working at military bases across the country have had work put on hold until the government personnel can travel to work with their team.

It appears that DoD is going to see significant reductions in new contracts awarded and we are already seeing reductions in personnel on existing contracts as option years are exercised. The DoD civilian workforce is very concerned about the future as are onsite contractor personnel.

Question 8: Besides a budget agreement, what else would be beneficial to contractors and the economy?

Over one hundred government budget and acquisition process improvement suggestions are encompassed in the following paragraphs.

Many contractors recommended implementing a multi-year budget agreement as opposed to what appears to be an annual five-month continuing resolution process. The positive effects of this one action would be considerable.

Develop a plan! The killer is the uncertainty that contractors have been dealing with for the past 12+ months. The amount of planning or adjustments that can be done is limited when contractors don't know what the future holds. If the decision includes new taxes and smaller government, so be it -- contractors can then at least move on and figure out the road ahead. Bottom line is -- MAKE A DECISION! Respondents say they'll adjust and live with the results.

Bridge contracting is being used extensively due to budget slips but is far more costly. This fact does not seem to be on anybody's radar. Further, protests need to be resolved in a timely manner.

Federal agencies should consider improving acquisition training to increase the understanding of using best value procurements as a way to select contractors who offer staffing capabilities that are more cost effective and efficient. Restrain the use of LPTA source selection criteria to only those procurements that are for truly commercial-type services requirements. For requirements unique to the needs of the Federal government, for which the available pool of skilled labor is relatively small, the government would achieve greater cost effectiveness and increased innovation by using best value criteria.

DOD and civilian agencies appear to have a limited understanding of the financial impacts to industry of the failure to maintain timelines for RFPs and contract awards. For major bids, companies spend many thousands and even millions in B&P to pursue a single award.

Make programmatic decisions and kill lower priority or poorly performing programs. Change the MAC philosophy to more single source awards. Also, return to the original sole source award rules for Native American, ANC's and 8a businesses.

Restore government participation in professional conferences. Two-way communication between industry and the government is crucial to successful mission support.

Large businesses suggested a more realistic approach to awarding work as set-asides. The task order size limits are unrealistic and restrictive to most small businesses and punitive to large businesses. Large businesses need work to retain employees. Meanwhile, several small businesses recommended increasing the number of set-asides to enable them to compete for their fair share of the business.

The healthcare act impact needs to be clarified, with more certainty on actual costs.

Remove the cone of silence prior to release of an RFP that happens when a pre-solicitation announcement occurs. The government loses when companies must rely on Q&A and cut-and-paste solicitations that do not reflect the government's true need. This also eliminates competition because only the incumbent knows that need. Also recommended was that the government provide more regular updates on procurement timelines, which have slipped significantly.

Recognition within the Government that arbitrary "trip wires" and rate limits do more to hurt the Government than save money. Getting the cheapest contractor to do the work will mean that the same job will need to be paid for again and again until some kind of satisfactory result can be obtained.

Prompt payments need to be made by Government to contractors and in turn, large primes need to make prompt payments to their small business sub-contractor companies.

Many contractors also recommended that Federal agencies acknowledge that they often don't know enough about their outsourcing requirements and/or are unable to articulate those requirements in a manner consistent with FAR guidance for the general propensity to use firm-fixed pricing (FFP). The government's inappropriate reliance upon FFP contracting results in a combination of reduced competition (since only contractors with client intimacy can compensate for the inadequate RFPs) and awards to companies that low-ball to win and then either fail to perform or succeed in executing an incremental requirements growth strategy to earn a reasonable return

Eliminate or slow down the Government in-sourcing of contractor positions...a purposeful move to reduce contractor manpower and increase government personnel. Agencies are able to save monies through reductions in contractor positions without indicating the increase in government personnel and costs. Reverse this in-sourcing trend by reducing the number of full time government employees and hiring contract support personnel to execute non-inherently government tasks. Some small businesses suggested a slow down of contract bundling. Contract opportunities are reduced and contract services being performed show performance degradation. One company was awarded two (2) sole source 8(a) services contracts where the previous larger contractor had failed to provide quality and timely services.

Institute a more prudent method of achieving budget savings, providing the military services with flexibility to cut unwanted/unneeded programs instead of cutting every budget line item equally.

Establish solid requirements that support small business opportunities. Do not allow contracting to just set a SB utilization "goal." Instead, mandate the percentage that must be awarded to a SB.

Conclusion

This survey would seem to validate the saying “misery loves company.” Clearly, we are in the middle of a major transition in the federal market. Hopefully, Congress, the Administration and agency executives will act quickly to establish a solid and predictable budget process and baseline. Meanwhile, Centurion will continue to do its best to help our many clients weather the storm.

About the Author



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