



2021 GovCon Success Guide

THE FOUR PILLARS OF GOVCON SUCCESS

Unprecedented change
can create unfathomable
opportunity



INTRODUCTION

If you could create the ideal industry from scratch, what would it look like? Would it be a large and steadily growing market? Might it have a regulatory environment designed to level the playing field and lift the competitiveness of the whole sector? And would it include the most reliable and solvent client on the planet?

Federal government contracting is a unique and exciting industry. As the nation digs out from beneath the devastation left in the wake of the COVID-19 pandemic, combined with long-standing and soaring goals for updating the country's infrastructure, defense, and essential operations, the opportunities for new contracting work will continue to grow.

But the industry also has its nuances and challenges. While barriers to entry are low and sales cycles are very predictable, the

rules and regulations around everything from timekeeping to cost accounting can challenge even the most experienced teams.

Factor in the government's shifting procurement priorities, its stance on cybersecurity and data governance and the unprecedented impact of the COVID-19 pandemic, and the complexity of life as a GovCon suddenly increases.

Out of chaos comes opportunity. For GovCons, that means claiming a sustainable competitive advantage by building a solid, strategic business and technology foundation to deal with both today's and tomorrow's obstacles. This guide — a survival guide and roadmap to prosperity — will help you address the challenges of a rapidly changing industry and provide practical steps to improve your competitive posture in 2021 and beyond.

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PLANNING FOR A NEW NORMAL

2020 was something of an inflection point for the GovCon industry. Firms already faced growing economic pressures building from years of consolidation and uncertainty in the political landscape. But then they also had to take on unexpected operational, compliance, and accounting challenges left in COVID's wake.

Unlike previous periods of uncertainty — a conventional economic recession, a new law taking effect, or a new competitor entering the market — this period has proven to be a multifaceted assault on the foundations of the GovCon industry. More than 75% of engineering and construction focused GovCons had projects either postponed or cancelled¹, including more than \$9.5 billion worth of infrastructure projects².

The effects have been widespread, reaching sectors beyond just construction, and the impacts felt deeply by all.

New Challenges for GovCon from 2020:

- Shifting procurement priorities
- Accounting for CARES Act/PPP transactions
- A workforce transitioning to largely remote due to COVID
- A new requirement for a Cybersecurity Maturity Model Certification (CMMC) just to continue to do business with DOD
- Learning how to work with old customers in a very new way

¹ Yoders, Jeff. "AGC Says 75% of Contractors Had Projects Canceled or Postponed Due to Coronavirus." *Enr.com*. October 28, 2020.

² Bousquin, Joe. "\$9.6B worth of infrastructure projects delayed or canceled during COVID-19." *Constructiondive.com*. August 4, 2020.

- Optimism across the GovCon industry dropped more than 10% since March
- Approximately 40% of GovCon leaders worry about their ability to retain talent and recruit new employees amid uncertainty
- More than 45% of GovCons feel that the increased competition for contracts during the pullback and squeezing more operational efficiency from their organizations are worrying challenges

Source: Gauge Report 2020. Unanet

However, there's light at the end of the tunnel. As the global economy slowly digs out from the COVID rubble — aided by the arrival of multiple vaccines, additional stimulus, and organizations

hitting their stride after months of upheaval — government contracting will be among the first sectors to bounce back, as federal agencies hurry to catch up on previously planned work.

And when they do, GovCons must be prepared to capitalize on new short- and long-term opportunities by refining their operations and modernizing their environments across four core areas: Technology, Compliance, Project Management, and Growth Planning.

PILLAR 1: Technology

What's happening

The demand for groundbreaking technology is forcing GovCons away from siloed legacy systems and consumer-grade software toward innovative solutions focused on integrated systems, data security, analytics, cloud computing, and more. While balancing this paradigm shift mandated by the Modernizing Government Technology Act (2017), contractors also must upgrade their technology portfolios to better manage their resources, improve operating efficiencies, and deliver superior service to their agency clients — all while boosting productivity and profitability.

4 IT Trends Affecting GovCons in 2021:

1. Stronger Cybersecurity requirements
2. Adoption of Cloud Computing
3. Predictive Analysis
4. IT modernization and Infrastructure as a Service

Source: 12 Government Contracting Industry Trends In I.T.
EntrustSolutions.com.

Numbers to Notice

As much as **57%**
of government employees and
contractors worked remotely in
2020 because of the pandemic,
underscoring the need for
operational flexibility



Due to the pandemic, adoption of cloud-based messaging
and collaboration tools like Microsoft Office jumped

37% in one week,
900M at one point logging
meeting and call
minutes a week



Agencies and contractors
have spent as much as

\$2.6B

collectively on IT products and services,
licenses for virtual private networks,
contact center services, and on networks
and cloud service in response to COVID-19



Government agencies and their contractors waste

1.3B hours
annually on manual and legacy processes



¹ Miller, Ben. "Data: Telework Rates Still High for Government, but Falling." Govtech.com. September 14, 2020.

² Cordell, Carten. "Federal cloud spending increased only slightly in 2020, but AWS's Carlson says there's no going back." Washington Business Journal. October 2, 2020.

³ Stone, Adam. "2020 Puts Cloud Computing in Government to the Test." Govtech.com. September, 2020.

⁴ "4 Key Trends To Watch In Government Contracting In 2020—Business Growth Starts Here." Growthperiod.com. 2020.

Why GovCons Struggle

Many contractors find that transitioning away from manual, legacy processes to automated ones enabled by cloud platforms and integrated solutions dramatically improves their resource management, streamlines their processes, and empowers their organization to deliver better work faster and more cost-effectively.

But migrating to the cloud also introduces new risks around cybersecurity and data governance that many aren't well-equipped to handle. In turn, it increases the likelihood they'll need to seek out in-demand, specialized technical skills to help them deploy, manage, integrate, and secure cloud environments that can be cost-prohibitive for some organizations.

What you should be doing

Strategically and methodically strengthen your technology posture and portfolio by adopting cloud-based systems and productivity platforms. Such systems, particularly your ERP, can unburden your team of time-consuming, manual data management while delivering the tools and insights your team needs.

Cloud ERP solutions feature managed application upgrades, continuous backup, and advanced data encryption to protect your data and significantly reduce operating costs. Physical protection of your data and systems is vastly more comprehensive than most companies could afford to do for themselves and disaster recovery strategies are dramatically simplified. Most importantly, these platforms also create a central, one-stop-shop for all your firm's core operations that break down data silos and visibility gaps created by conventional environments.

They also provide easy access via mobile devices and apps or web interfaces to provide real-time insights with a single source of truth. Those insights can inform all your critical business decisions and dramatically improve resource planning, budget management, data analysis and reporting. In general, using integrated, cloud-based technology to run the business enables greater automation across key activities, from timekeeping and expense reporting to invoicing customers. And, anything that reduces process time decreases the critical cost-to-cash cycle that drives profitability in GovCons.

Top Tech Priorities for 2021:

- IT consolidation for cost management and operating efficiencies
- Enhanced security for both systems and data
- Global access to systems and data via web browsers and mobile apps and devices to support remote workers
- Managed systems to offload the tasks associated with updates, upgrades, and security patches
- Process automation to improve productivity and accuracy and make analytics an outgrowth of day-to-day processes and not a recurring special project
- More efficient data capture, analysis, and mobilization



PILLAR 2: Compliance

What's happening

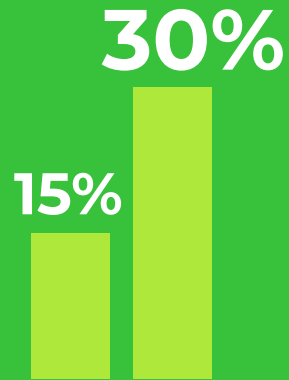
Federal contracting regulations continue to be complex, ranging from Federal Acquisition Regulation (FAR) and Cost Accounting Standards (CAS) to labor and employment statutes that come with significant non-compliance consequences.

But cost accounting compliance is not GovCons' only compliance headache. The economic stimulus packages, new paid leave mandates, and Payroll Protection Program (PPP) loans

associated with the COVID-19 pandemic have created a spate of new record-keeping and compliance challenges as well.

At the same time, the government's push toward IT modernization and cloud-based platforms, a heavy emphasis on data security, and the evolution of CMMC has complicated the way many contractors store, access, and share data.

Numbers to Notice



The cost of compliance has doubled over the past three years in part due to increased emphasis on Business Systems, CMMC, and FAR Compliance being key to winning new business



Over **80%** of government contractors cite audit of indirect rates as the biggest challenge they face each year



Nearly **30%** of GovCon leaders list cybersecurity compliance as their most or second-most challenging issue keeping them up at night

Why GovCons Struggle

Within six months of their fiscal year end, many government contractors are required to prepare and submit a report of all incurred costs for the prior year. The Federal Acquisition Regulation (FAR) generally refers to the report as an incurred cost submission (or claim), required if a contractor performed any contracts during the year containing the Allowable Cost and Payment clause (FAR 52.216-7).

That submission is the basis for final settlement of any indirect rate applied to contract costs. The content of the claim is specified in excruciating detail in the clause.

Manual spreadsheets force teams into time-consuming data collection and reporting. Worse, they make data version control extremely difficult, which can impact the quality and accuracy of the information. The result is silos of data that are often duplicative and inconsistent and can lead to significant reporting delays.

With enough silos, real-time collaboration and transparency across teams can become virtually impossible.

What you should be doing

Replace outdated and underpowered spreadsheets with integrated cloud-based tools. Leverage those tools to develop a single source of truth that simplifies everything from project reporting to invoicing to those pesky indirect rate submissions. Incorporate those digital tools into your ERP and automate production and reporting of Key Performance Indicators (KPIs) so that the metrics that really matter are a natural and direct outcome of your normal day-to-day processes and not a time-consuming special. Then, put those KPIs to work to inform every critical business decision.

PILLAR 3:

Growth Preparedness

What's happening

This pillar of success is a mindset shift enabled by process and technology refinements. As the country (and world at large) begins the long road to post-COVID recovery, government contractors will be well-positioned to capitalize on the volume of new project opportunities coming online as agencies mobilize their newfound or unfrozen resources and reignite project plans that may have been postponed or otherwise delayed by the pandemic.

In fact, some analysts expect civilian agencies' contract spending to continue growing in fiscal 2021 at or above the 17% rate it did in 2020, including a nearly 7% increase in public services. The spending increases will be a welcome development for GovCons after a year of unprecedented volatility, but will also command that firms be on top of their proposal writing and forecasting game to demonstrate their superior offering, display their differentiators, and show they have the resources/skills to back up their claims.

Numbers to Notice for 2021

The federal government is preparing to invest

\$6B+

in AI-related research and development projects in fiscal 2021



Federal contract spending on AI is on pace to grow by almost

50%



Federal agencies will invest close to

\$6.2B

on IT modernization in fiscal year 2021



Defense agencies will account for

12 of the top 20 contracting opportunities; civilian agencies will comprise **8**



Agencies like HHS will be the largest spenders in response to the COVID-19 pandemic throughout fiscal 2021, with more than

\$1.5B
in obligations



Source: Bloomberg Government 2021 GovCon Playbook

Why GovCons Struggle

Proposal writing is an underrated skill. Crafting a personalized, relevant response to an RFP is the difference between getting the contract or not—directly impacting revenue. The key to writing a winning proposal is anticipating the customer's needs and proving the resources, strategies, and programs are in place to get them across the finish line.

RFP responses must be based on and supported by detailed and accurate forecasts — a weakness for many contractors. GovCons struggle because many still maintain separate forecasts and project plans, or they continue to rely on forecasts based on annual lump sums with minimal break out of labor, material, and ODC. This model provides little insight into the business's existing skills, resources, and funding or ability to respond quickly to unplanned changes.

This year, that exercise is even more complex and murky; now contractors must also factor in technology investments that enable workers to meet via secure remote access, share files, manage projects, and continue running the business smoothly while virtual. These factors have immense influence on which projects the firm pursues, its staffing and hiring plans, its projected operating budget, and whether it may need to source bridge loans to cover payment gaps once the economy reopens.

What you should be doing

Revamp your forecasting to break down at a minimum by month, or even by week, to account for short duration projects or specialty labor instances that may require quick course corrections. Invest in data management and analytics tools that provide a single location for reviewing:

- Contract Profitability
- Rates and wrap rates
- Rate variances ceilings

It's important to select tools and processes that enable you to accurately and granularly gauge how profitable a contract will be for more informed decisions about whether to pursue it. You can evaluate performance at the client, project, and resource levels — including increased expenditures in compliant remote

work and collaboration technologies — and compare those metrics with your existing business benchmarks.

At the same time, tools with time phasing capabilities also allow you to compare the bottom line impact of opportunities over various time intervals for greater context and easier planning. These analyses will give your team time to conduct research about the types of opportunities you'd consider pursuing, talk with government customers to dial in exactly what they're looking for in a contractor partner, and provide essential background information for your best RFP writers to develop a compelling, winning pitch time after time.



PILLAR 4: Project Management

What's happening

Few things impact a GovCon's short- and long-term success as much as effective project management. More than just making sure task A is done by deadline B, project management is also essential to cost control and cash flow. The longer unbilled transactions remain in your invoicing cycle, the more impact it'll have on the cost-to-cash cycle. In addition, lack of actionable information on project status can affect profitability.

In addition to tightly managing direct and indirect project costs, project owners and

managers must now contend with a host of other variables. Some are just the ever-present pressure to drive profitability and productivity, but the turmoil created by the pandemic has added new ones. Now, PMs and their teams also face unpredictability in the availability of labor, materials, and equipment, as disrupted supply chains show little sign of stabilizing in the coming year. Insolvency among supply chain partners becomes increasingly likely as markets and the economy continue to ebb and flow and both project timelines and cash flow will become more challenging to manage.

Numbers to Notice



Almost
40%

of government contractors
ranked inexperienced project
managers as their top project
management challenge



73%

of GovCons have some form
of Project Management Office
(PMO), while only 27% report
no formal PMO



40%

are considering a change to
their indirect rate structures
as a direct result of the
shift toward a more remote
workforce—and that number
is expected to go up as the
pandemic pushes us toward a
new normal

Source: GAUGE Report, 2020. Unanet.

Why GovCons Struggle

Businesses run best when everyone in the organization is pulling on the same rope in the same direction. But, conventional project management — especially cost monitoring — requires visibility into a litany of disparate items like hours worked and the associated labor costs, expenses reimbursed, and materials purchased. Worse, they're usually tracked offline in siloed spreadsheets, burdening project management staff with a complete duplication of work the accounting folks are already doing — all just to get near real-time (or, at least, more timely) status information for customers. Of course, this creates a risk (in fact, almost an inevitability) that the status information will not agree with the final invoice.

Even firms using more modern tools like ERPs often have to toggle between different systems and manually aggregate information, exacerbating the problems with data accuracy and timeliness because they never solve the visibility issue.

What you should be doing

Strategic decision making is a function of the accuracy and thoroughness of your firm's financial information. All business strategies around growth, profitability, project selection and portfolio management must be informed by accurate financial data. Work toward centralizing all your data stores by integrating information streams from timesheets, accounting, and the resource planning processes to create real-time visibility and insights that will help you:

- View actual project costs alongside budgets, plans, and forecasts
- Evaluate current plans against targets and forecasts and compare them to the overarching objectives
- Effectively and effortlessly detect and correct for variances that would otherwise derail a project and the firm's monthly, quarterly, or annual budget outlook

Direct data from across your firm to a single system of record to make it easier to align current activities and resources with organizational objectives or make course corrections when needed. Emphasize the importance of resource planning throughout the project lifecycle and devise processes for documenting and communicating requirements to stakeholders to inform schedules and recruit staff.

Planning for indirect work is equally as important, and having a system that lets all functions of the organization know who is taking leave is critical for accurate resource planning. You don't want to plan a critical activity when your best research analyst is on vacation.

It also enables your team to establish Key Performance Indicators (KPIs) and leverage those KPIs to measure your firm against industry benchmarks. Systems with integrated business analytics — complete with personalized dashboards and configurable report outputs — enables anyone in your organization to assess a project's performance at a glance, uncover trends or variances that improve productivity and cost management, and align the efforts of everyone in your organization toward the same objectives.

Optimizing resource allocation to increase utilization by 1% for a 100 person company whose bill rate is \$200/hour will result in an **annual revenue increase of \$384,000**, an outcome that grows proportionately with each percentage improvement.

Source: GAUGE Report 2020

CONCLUSION

Separating the wheat from the chaff with next-gen ERPs

The last year has been among the most challenging and unpredictable in recent memory. In addition to the everyday operational challenges around cost management, productivity, and profitability, the confluence of mandated technology enhancements and market-altering impacts of the COVID-19 pandemic have put government contractors at a crossroads.

Firms that prioritize revamping and enhancing their practices with forward-thinking business and technology strategies will be the winners. Increasingly, GovCon leaders are recognizing that to maintain a competitive edge, they need to adopt sustainable, integrated tools and automation capabilities to bring together applications, processes and teams.

They're realizing that the functionality, extensibility, and agility of their ERP system will

prove decisive to their competitive posture in the next year and beyond, setting the stage for an honest assessment of whether their current environment and practices position them to:

- Create an in-depth, thorough understanding of their target government customers and desired solutions
- Identify the right opportunities with the right agencies at the right time
- Employ advanced predictive analytics to accurately project soft or variable costs and profitability
- Deliver more accurate and current reporting to comply with various regulatory and accounting standards
- Adhere to CMMC requirements and other security or governance standards

Government contractors operate across several different solutions, and next-generation ERP systems like Unanet — featuring an extensive library of secure APIs, connectors, and automation tools — provide a meeting point for combining their core accounting and finance operations with best-in-class solutions spanning payroll and HR systems, marketing automation, productivity, and analytics.

In a time of upheaval and uncertainty, many government contractors are still trying to

distinguish upside down from right side up, spinning their wheels in hopes of things returning to normal sooner rather than later. But the contractors who prioritize consolidating their systems, improving data quality and insights, and optimizing their resource planning can skip uncertainty, wasted time, and missed opportunities, and set themselves on a path of sustainable growth and success — this year, and for years to come.

Become a GovCon Insider and check out more resources [here](#) 

Or, contact us today for more information about upgrading your ERP to a true single system of record.

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