



GAUGE

2020 REPORT

Leveraging Technology to
Optimize Your Business



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4TH EDITION | August 2020

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NEW THIS YEAR!

Watch for our “Voice of the Experts” callouts identifying key takeaways and predictions.



Learn how to weather the storm with the Survival Guide for continued COVID-19 impacts on page 32.





G | Government
Contract
Compliance

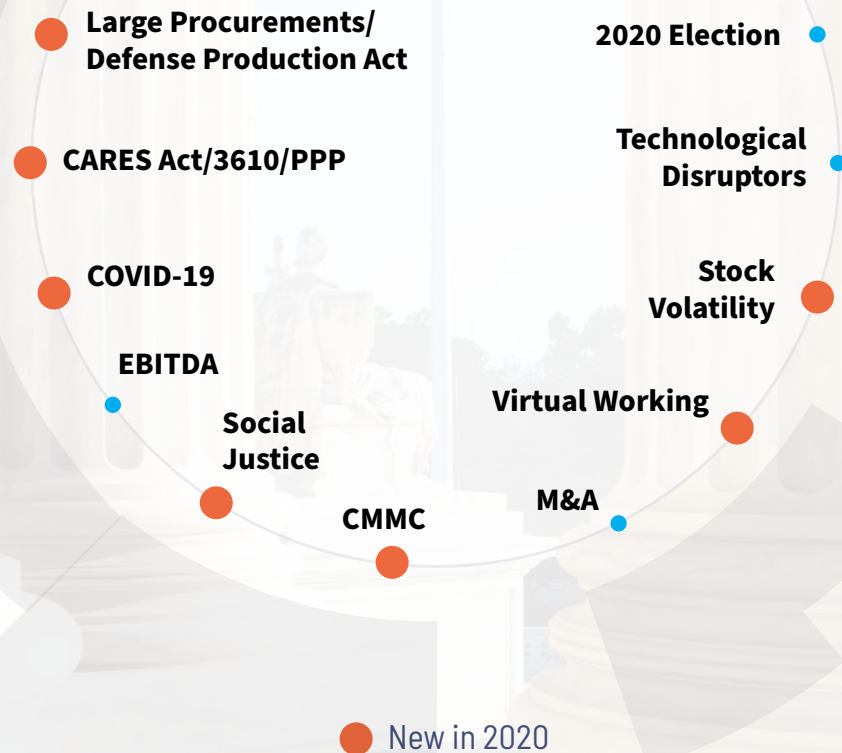
A | Accounting

U | Utilization

G | Growth

E | Efficiencies

Pressures Impacting the GovCon Industry





EXECUTIVE SUMMARY

The fourth annual GAUGE is a tool for the government contracting community to gain insights into industry best practices and performance metrics. It can be particularly valuable to contractors striving for constant improvement by learning from others who face similar challenges and opportunities. In the following pages, we share results from our survey to help you address current challenges, identify key performance indicators, and benchmark your organization against your competitors.

This year's GAUGE comes at a time of unprecedented change. Nearly overnight in mid-March, the COVID-19 pandemic turned the world into a different place, drove widespread fear and cost-cutting for some industries, and forever changed the way we work. Government contractors—essential and non-essential—suddenly had to contend with managing the ranks of newly remote workers, subcontractors, vendors, and customers. 2020 continues to be a year of reckoning as government contractors are either reaping the rewards of having laid

a sound business and technology foundation, or paying the price of playing catch-up.

In spite of the disruption, optimism remains high among 74% of our respondents, although 3 of 10 contractors noted cost of compliance as a concern to their business. 80% boasted growing workforces, 2% confessed they were shrinking, and 18% said they were holding steady. Study the following pages for other interesting and helpful strategic highlights. Keep an eye out for our new feature, “Voice of the Experts,” in every section, which shares a nugget of practical wisdom from our interviews with subject matter experts.

Bottom line, the federal government remains a stable industry. Government contractors have the chance to prove yet again how nimble and resilient they are. Our hope is that the insights offered through the GAUGE can serve as a useful guide to navigating the challenges ahead.

K. Koster *Christine B. Williamson*



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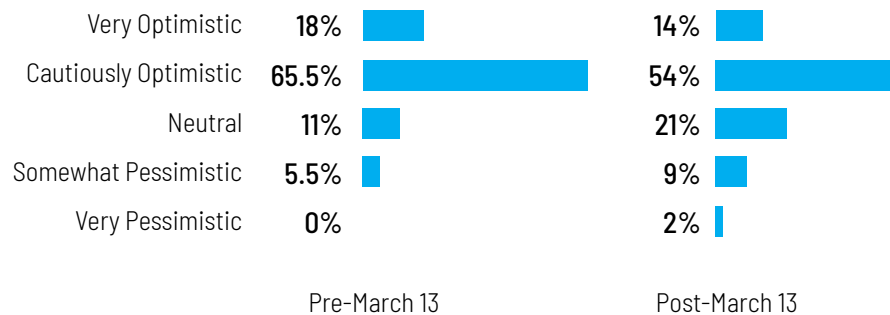
REPORT HIGHLIGHTS

Nothing we've seen in recent history has had such deep, course-altering impact on all industries, including government contracting, as the novel COVID-19 pandemic. Gulf Wars, 9/11, presidential elections, government sequestration and shutdowns—these all greatly affected how government appropriations would be spent. The current pandemic is different. The pandemic and resulting quarantine phases have profoundly impacted the direction and funding of the federal government. This change is likely to persist. The government is spending and could be considered over-spending to keep the economy afloat, including keeping government contractors at

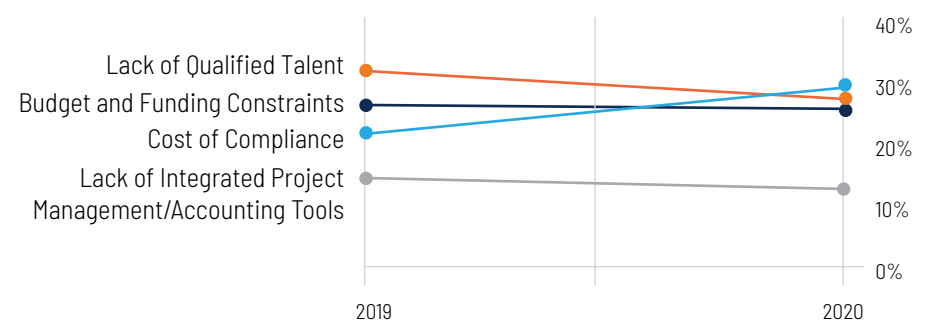
a “ready state.” Government contractors that are doing well are leaning in and embracing the change by empowering teams to be productive in any setting and adapting quickly to new ways of operating—and technology plays a big part in their success.

The CARES Act provided sustainability and financial assistance to many industries, including government contractors, who sought relief with the Paycheck Protection Program (PPP) and Section 3610 of the Act. The stimulus packages that occurred in March and April 2020 were unprecedented. Of the \$2 trillion in aid passed, many are projecting Q4 FY2020 government-wide

How would you characterize the current business environment for government contracting?



What issues are of the most concern to your GovCon organization today?



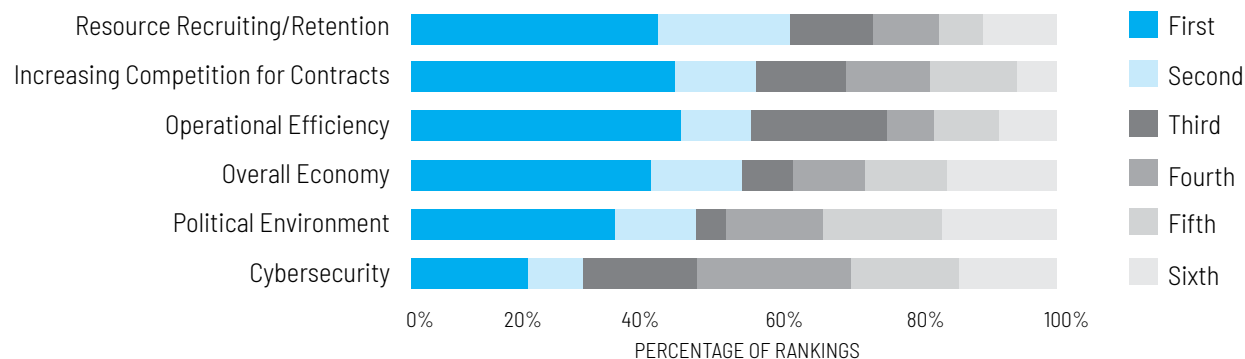
spending to exceed \$200B in that quarter alone. Our survey timing perfectly straddled the highly disruptive pandemic shutdown. It is likely that some responses were impacted by the disruption, for instance, “What is your biggest business development challenge?” or “What keeps you up at night?” While it is nearly impossible to account for the dynamic of “before- and after-shutdown,” we did contemplate in our analysis the impact of a protracted quarantine.

Optimism dropped from 84% prior to the COVID-19 shutdown (pre-March 13) to 68% following (post-March 13), settling at 74% overall. Post-shutdown, responses clearly show consistent downward shifts charted to neutral and even 2% of respondents very pessimistic on the business environment. With the stock market volatility and COVID-19 infection rates on the rise, this was not surprising. Major contractors of >\$50M looked

slightly more favorable because of cash reserves and variety of contracts held.

Mid 2020, with the aid of the CARES Act funding and new awards on the rise, many government contractors are reaping the benefits of expenses dropping in some categories, such as travel, lunches, supplies, and other costs associated with having an on-site workforce. All the while, costs for cleaning, technology, and compliance are on the rise. Cost of compliance doubled in our survey over the past three years from 15% in 2018 to 30% in 2020. This is not surprising as Business Systems, CMMC, and FAR compliance is so key to winning new awards. Operational efficiency topped what’s keeping you up at night, followed by retaining and finding resources. It will be interesting as the post-March 13 era settles in how efficiency and finding talent are improved or worsened.

Rank what issues “keep you up at night” regarding your organization today.





USING THE GAUGE

Leveraging Technology to Optimize Your Business

Technology is the theme of this year's GAUGE, and in this season of remote work and operational disruption, technology finally gets its day in the spotlight. By this point, most government contractors use technology to help **run** their businesses. However, only some are using it to run their businesses **better**. What is the difference? One automates a work step, the other improves efficiencies. Winning firms are doing more of the latter, leveraging technology solutions to elevate their businesses. One illustration is outlined here, and others are included in the sidebar on the next two pages:

- Using technology to **run** the business = automating the timekeeping process, which shaves minutes off each employee's time entry task, and hours off of the task of billing subcontractors.
- Using technology to run the business **better** = providing mobile timekeeping and linking actual time spent to a resource planning tool, thereby generating rich insights into people and projects. This not only enables employees to fill out timesheets from anywhere quickly and seamlessly, but also supports compliance and increases visibility and utilization both upstream and downstream.

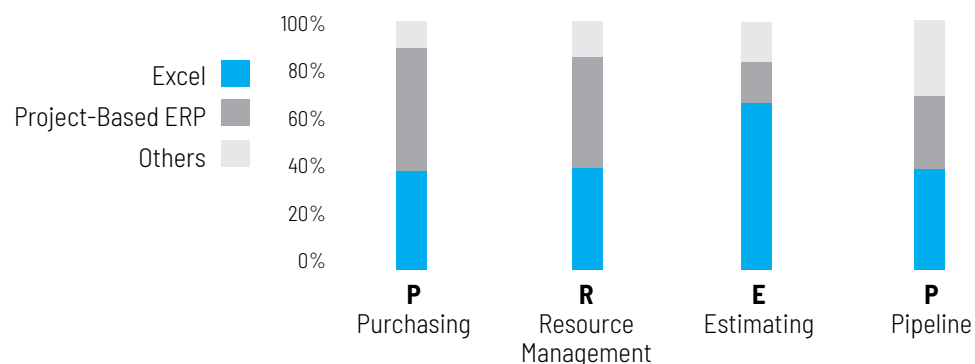
VOICE of the EXPERTS

Leading companies have stopped asking, "Do I need this technology?" Instead, they are inspecting every challenge and obstacle throughout their operations and asking, "How can technology help me address this?" Technology adoption and optimization will be a defining factor for leaders and laggards in the coming age.

Government contractors sit at an intersection of broadening technology needs and the abundant availability of high-performing solutions. A few years ago, technology solutions were limited, siloed, and cumbersome. Companies had to cobble together multiple systems, in many cases creating entirely new problems. Technology was seen as expensive, unwieldy, and delivering questionable ROI. Digital process transformation was often driven by compliance requirements, and not something many businesses proactively sought. Those days are in the past. Modern, project-based, workflow-driven technology solutions can now be deployed quickly and seamlessly across major divisions or the entire company. The returns are nearly immediate and often measurable.

The 2020 GAUGE responses indicate there is still work left to do for many government contractors in the area of technology. Excel remains the technology of choice for what many consider to be the four key functions (outside of Accounting): Purchasing, Resource Management, Estimating, and Pipeline (PREP). Excel is inexpensive, and is universally understood and available. However, as workers are forced to work remotely for an extended period of time, and as the pressure mounts to squeeze every ounce of efficiency out of their operations, companies may soon collide with the limitations of trying to push Excel to replicate what project-based software can deliver.

What technology do you use in the areas we call PREP?



Forms

Companies use so many disparate forms, checklists, inspections, and surveys that issues arise in reporting, training, and communication. ERP solutions provide a unified, standardized platform that can help eliminate this confusion.



Workflow

Workflow can drive action, boost consistency, increase visibility, and improve control, thereby delivering better business outcomes. Today's ERP platforms enable dynamic, connected workflow, which powers tracking and accountability.



Data

Process-enabling business applications bring data from multiple applications and sources together into one place, creating a common-language gateway throughout an organization.



Reporting

Visibility breeds accountability. Process-enabling business applications allow a company to report on its process status and business performance, promoting continuous improvement. A variety of reporting tools can help gather and visualize vital information.

With increased technology adoption comes elevated concerns about security. CIOs will be pushed to embrace key NIST security controls, and today over two-thirds report success here. Government contractors will also be asked to meet DOD's Cybersecurity Maturity Model Certification (CMMC), a framework that verifies contractors have adequate cybersecurity safeguards to protect Federal Contract Information (FCI) and Controlled Unclassified Information (CUI). In some cases, a required CMMC level will be specified in RFP sections L & M and will drive a "go/no-go decision" for a contractor to propose. Compliance with CMMC will be challenging for some contractors.



Mobile

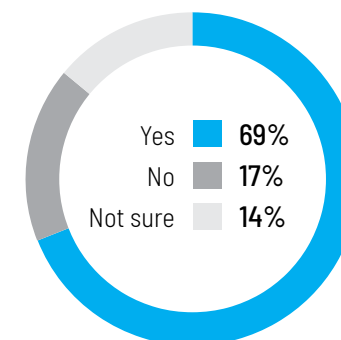
Most enterprise applications can be quickly adapted and deployed for mobile devices. Process owners and participants can access data remotely, receive timely updates and notifications, and take immediate action to execute a business process. Information is available wherever and whenever needed.



Communication

Many process-related issues result from a lack of communication (one part of an organization is not getting all of the information it needs from another part of the organization). Ineffective communication grows over time. Process-enabling business applications provide a single source and a standard for sharing vital information.

Has your organization implemented security controls using NIST 800-171/171B or NIST 800-53?



CMMC Maturity Scale

Practices		Processes
Advanced/Progressive: Demonstrate a proven ability to optimize capabilities in an effort to repel advanced persistent threats	5	Optimized: Activities are standardized across all applicable organizational units and identified improvements are shared
Proactive: Demonstrate a substantial and proactive cybersecurity program	4	Reviewed: Activities are reviewed for effectiveness and management is informed of any issues
Good Cyber Hygiene: Demonstrate good cyber hygiene and effective NIST SP 800-171 Rev 1 security requirements	3	Managed: Activities are reviewed for adherence to policy and procedures and adequately resourced
Intermediate Cyber Hygiene: Demonstrate intermediate cyber hygiene	2	Documented: Standard operating procedures, policies, and plans are established for all practices
Basic Cyber Hygiene: As defined by the Federal Acquisition Regulation (FAR)	1	Performed: N/A

Nearly one-third of companies in this year's survey rate themselves CMMC Level 3—an indicator of good cyber hygiene and the baseline for DOD contractors. Going forward, as more defense contractors recognize the competitive advantage a higher CMMC rating provides, we expect to see contractors continue to invest to climb the maturity scale.

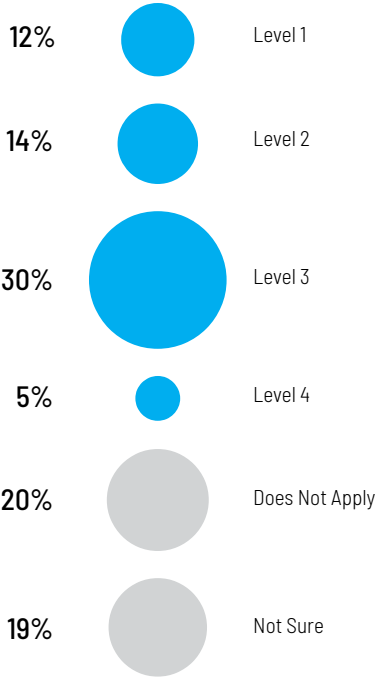
In this report, we dive into how government contracting leaders need to leverage technology to best position their companies for the next five years. Within each of our report findings, technology is a game-changer and highlights what the winners are doing to offer insights into their own digital process transformation. For those feeling behind the curve, it's not too late. Many companies are telling the story of quickly evolving from spreadsheets and pen-and-paper processes into high-performing, technology-driven engines. We are here to shed light on what's possible through the intelligent use of technology in contractors today.

Technology Tool Readiness Checklist

When picking and implementing a technology tool, make sure you can answer these questions:

- ☐ Is the system you are considering truly project-based?
- ☐ What is the architecture of the software? Is it web-based? One database? Multiple tools?
- ☐ Is it cloud ready?
- ☐ Is the company you are buying from customer-centric?
- ☐ Will the system require customization?
- ☐ Will the system meet the needs of the business units?
- ☐ Will the business units save money and time with the proper use of the system?
- ☐ What is the reputation of the software company you are considering?
- ☐ What is the true total cost of ownership (TCO)?

What CMMC level would you assign to your company?



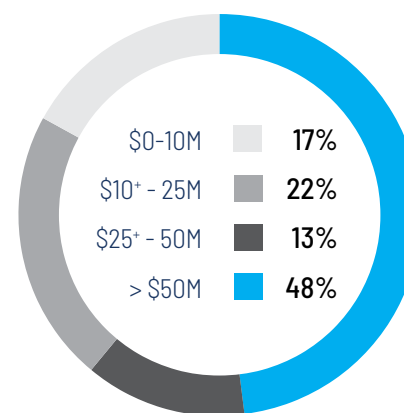


SURVEY RESPONDENTS

Our 2020 GAUGE survey captured responses from 1,468 contributors between January and May of 2020. We are excited about the diversity of responses, spanning a broad array of company sizes, titles, and roles, as well as industries and company types.

Astute GAUGE readers will note a slight change to this year's revenue bands. We believe the current bands better represent the distinct operational challenges companies face as they grow. Plus, by reducing the range of the bands, we achieve a higher density of responses and greater statistical confidence.

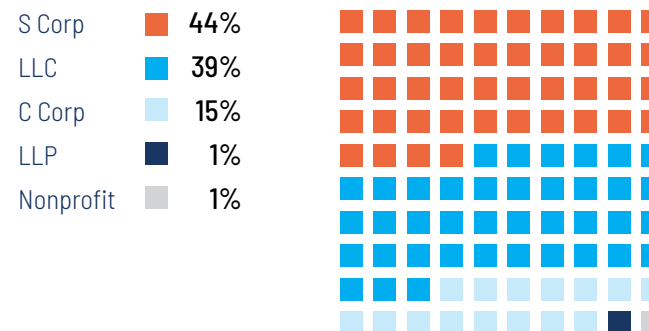
Respondents by Annual Revenue



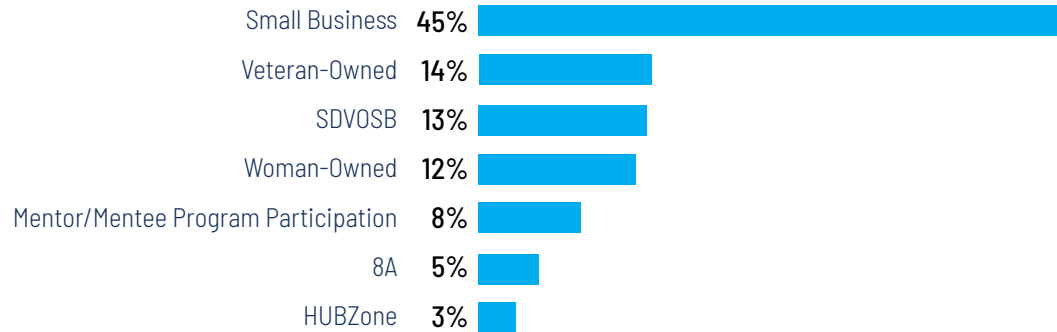
What ERP or accounting software does your company use?



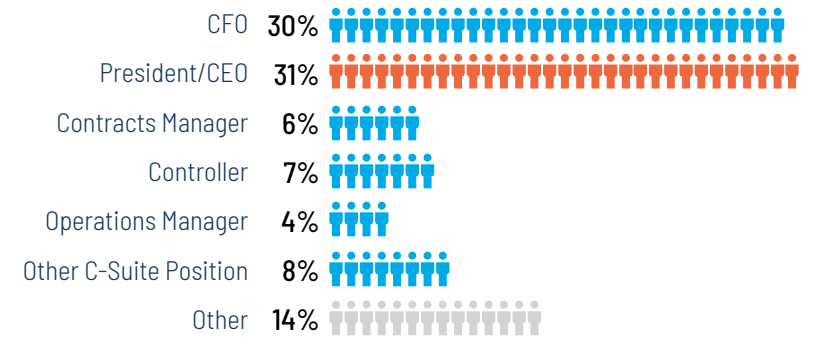
Respondents by Entity Structure



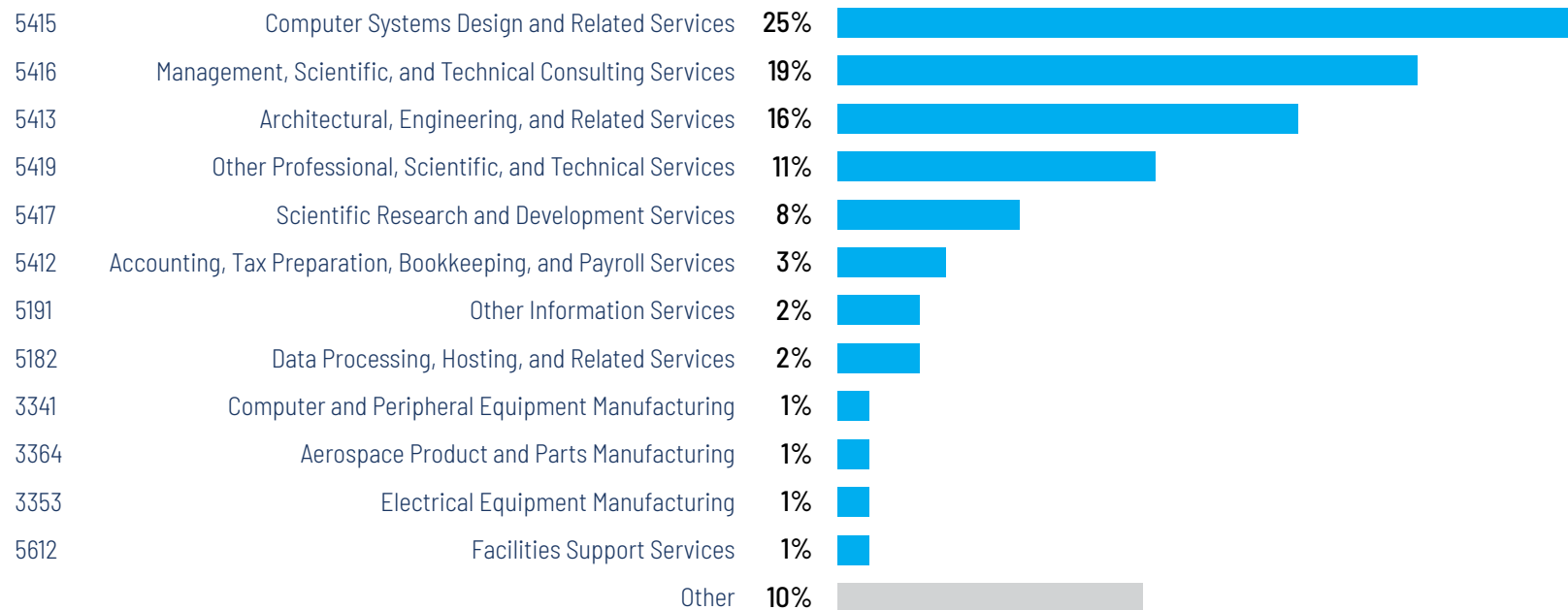
Respondents by Set-Aside Designations



Respondents by Job Title



Respondents by NAICS Industry Group Code



G.

GOVERNMENT CONTRACT COMPLIANCE

Incurred cost audits top the list of compliance audits performed on government contractors this year, as predicted—DCAA has finally dug out of a backlog. Accounting Systems and Pre-Award surveys come in second place. The bigger story is happening off our charts, following DCAA's announcement that defective pricing audits would be a future priority. This is notable, as government contractors haven't seen this type of audit in more than a decade. We anticipate that defective pricing will appear in GAUGE results in 2021.

We believe the post-COVID-19 audit environment will have minimal impact on the speed of an audit's progress, and we predict companies that transition to electronic data storage could see their audits progress more quickly. When firms eliminate paper document inefficiencies, many find they can more quickly (and inexpensively) locate and provide electronic documentation. We anticipate that cumbersome on-site requirements may drive auditing agencies to place more reliance on contractors to provide electronic documentation and virtual tours of all their technology tools.

We foresee the calculation of indirect rates to be complicated by the end of 2020 as controversies continue around how to account for PPP and 3610 funding. These issues of special direct "leave funding" and "forgiveness" are bound to create some contentious audits. Moreover, technology is making indirect rates easier to audit virtually. As more companies respond by leveraging software to manage time, rates, and other key data digitally, automation may ease some of their compliance burden. Accounting for unallowables, for instance, has become refined with new accounting systems that help ensure appropriate treatment of cost from the inception of the system setup, which may explain why questioned cost continues to be on the decline from our respondents.

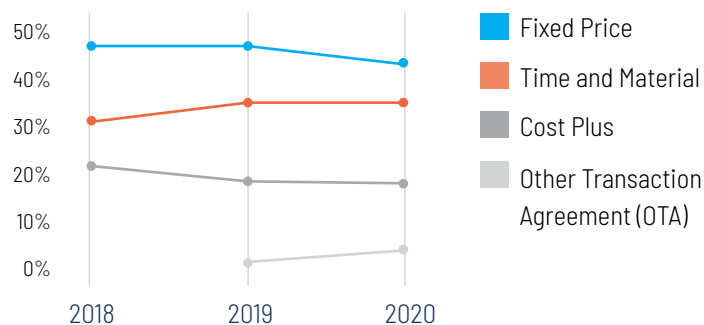
VOICE of the EXPERTS

In contrast to DCAA's push to do physical audits in previous years, more audits will be conducted virtually. For companies, this is a wake-up call to have all data and recordkeeping organized and available digitally.

Key Takeaways

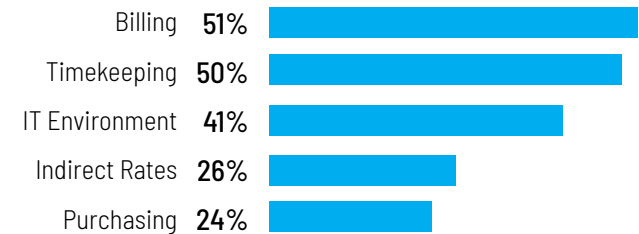
- Other Transaction Agreements (OTAs) made up 3.5% of respondents' contracts, up from just 1% last year. OTA procurements have increased exponentially due to the CARES Act stimulus.
- Over 38% of contractors reported providing training to their employees on their specific various Business Systems compliance, jumping from nearly null last year.
- Note the list of contract (DCAA) audits and make sure your technology tools and processes are in shape for any one of these audits. Procurements continue to require adequate business systems before award, especially the GWAC, IDIQs, etc.
- More than 4 in 10 companies said they have a neutral relationship with their Administrative Contracting Officer (ACO), and government oversight in general increased in 2020 for a third of respondents. This may continue with implementation of the CARES Act, which has many contractors leaning on their ACO to understand the implementations of Section 3610.
- It was no surprise to see that indirect rates and timekeeping are top of mind, with nearly half of all survey respondents identifying them as compliance concerns.

List the % of revenue earned from the following contract types.



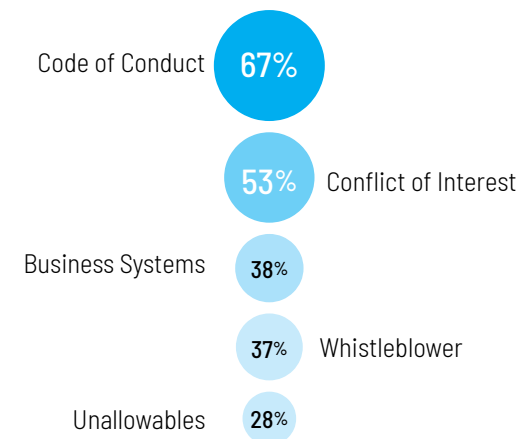
Which of the following third-party audits does your organization perform on your subcontractors?

(Multiple allowable selections mean responses will sum to > 100%)

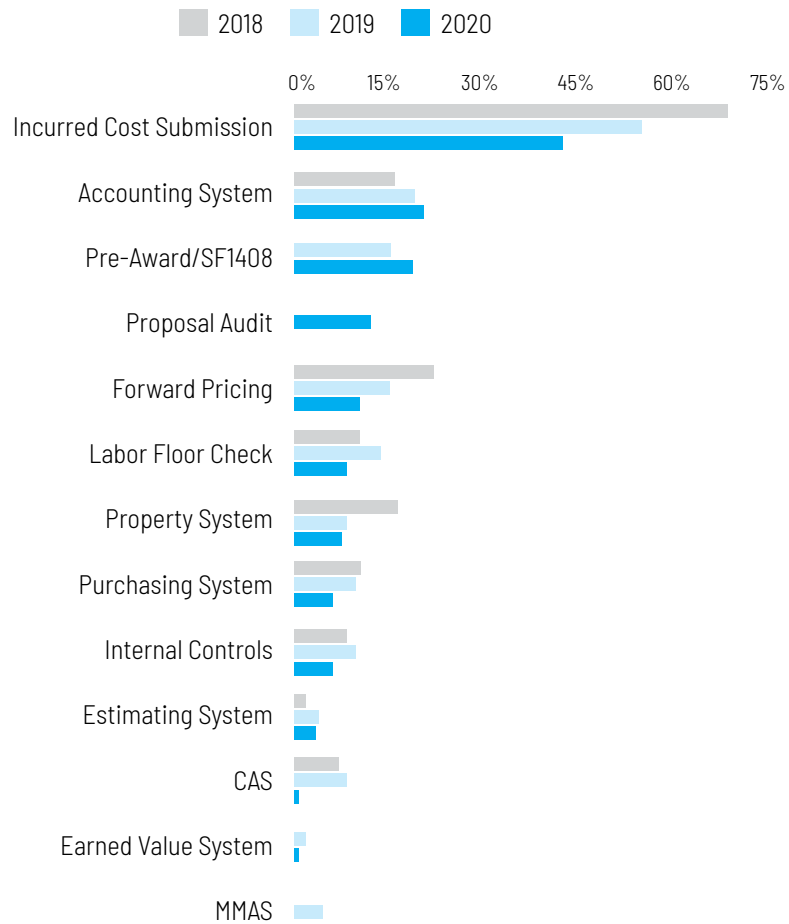


For which of the following does your company provide annual training?

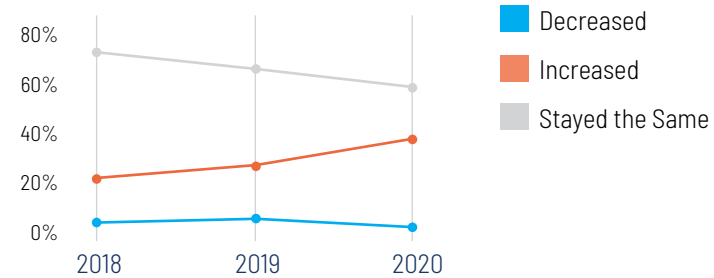
(Multiple allowable selections mean responses will sum to > 100%)



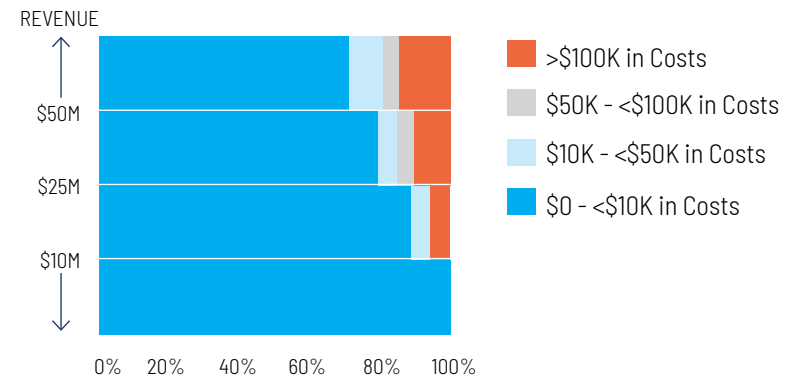
What types of DCAA Audits did your company endure over the past three years?



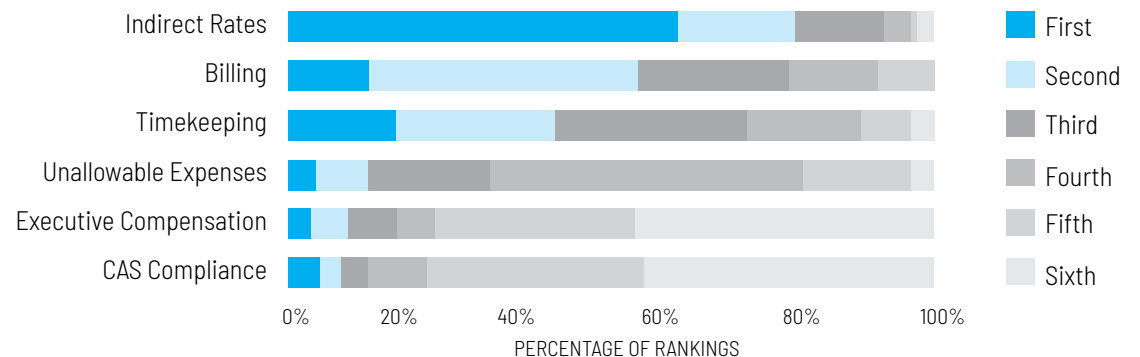
How would you describe the change in government oversight for your company over the past year?



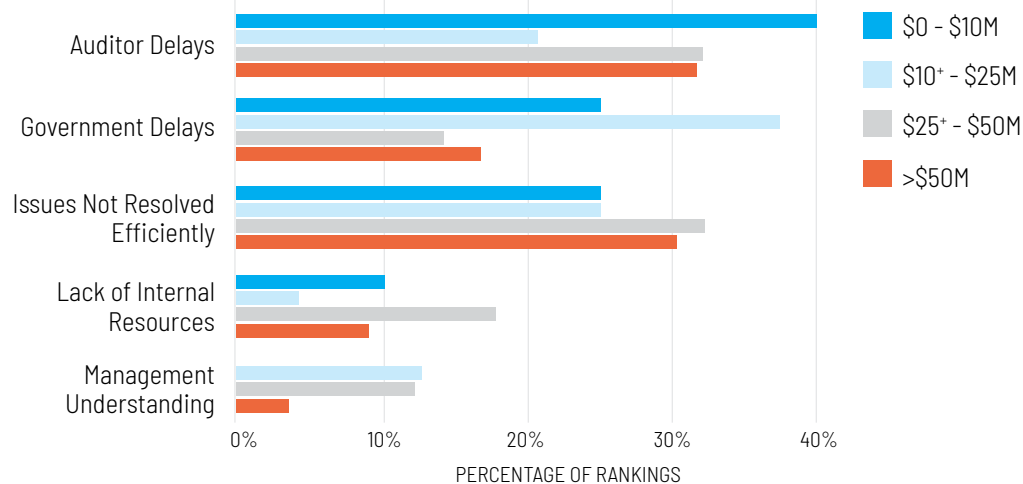
What was the amount of questioned costs from your company's last Incurred Cost Submission?



Rank the Government Audit challenges your company faced last year.



Rank the following issues with respect to their impact on slowing down the completion of your Incurred Cost Audit? (Ranks #1 and #2)



Compliance Monitoring Checklist

When deciding what compliance items to monitor, take a look at the list we've compiled from our experts:

- ☐ Adherence with business system applicability and criteria
- ☐ Interactive dashboard of key financial ratios
- ☐ Comparison of your financial actuals to budget and previous year at the same time
- ☐ Analysis of indirect rates and wrap rates and reasons for over/under running
- ☐ Organizational chart by function and legal entities with names
- ☐ Reporting of pipeline, backlog (funded and unfunded), and waterfall
- ☐ Types of contract audits performed, status, findings, and stakeholders
- ☐ Internal and external benchmarking by project manager or internal management
- ☐ Interactive listing of technology tools with expiration dates, abilities, usage, and cost
- ☐ Requirements of company training required by employee, such as conflict of interest, code of conduct, unallowables, IT, etc.
- ☐ Governance documents over internal controls and authority matrices for approvals

A. ACCOUNTING

Government contractors boasted an improvement with <15 days sales outstanding (DSO) appearing for the first time in the history of the GAUGE. These results underscore the impact of technology in driving down such critical metrics. >\$50M revenue size companies logged the greatest <15 day responses, due to the fact that they are more likely to invest in systems to optimize functions like invoicing, vendor management, and ultimate collections.

Evolving from spreadsheets to a formal accounting system platform can trim days off invoice cycles, and therefore DSO. While trimming days is important, the real impact is generated through reduced error rates. Reducing the number of invoices that are returned due to errors can chop 10%-30% off DSO. At a time when cash flow is more important than ever, automated tools can make a big difference in invoicing as we note 24% of our respondents are attaining a five-day or less invoice completion statistic. Overall, we are pleased to report that with the concerted effort of the government and assistance of FAR Class Deviation Orders, contractors are reporting cash collections NOT significantly slowing down post the COVID-19 shutdown.

Cost Accounting Standards (CAS) may emerge as a hot button with the rise of M&A activity coming out of the COVID-19 crisis. CAS disclosure statements will need to incorporate acquisition activity. Additionally, the CAS Board, which hasn't met in about two decades, has been meeting regularly to review conformance issues, and it is all but certain that changes will come out of those meetings. Overall, we haven't seen a preponderance of CAS audits in recent years, but we may see more going forward—with new requirements—as a result of CAS Board activity and decisions.

VOICE of the EXPERTS

The “new normal” isn't work from home; it's work from anywhere. To do this, workers need all kinds of mobile tools, cloud, and broadband. There are still thousands of companies wrestling on-premises software installations, and relying on passing files between coworkers. They are going to struggle to support that in a virtual environment.

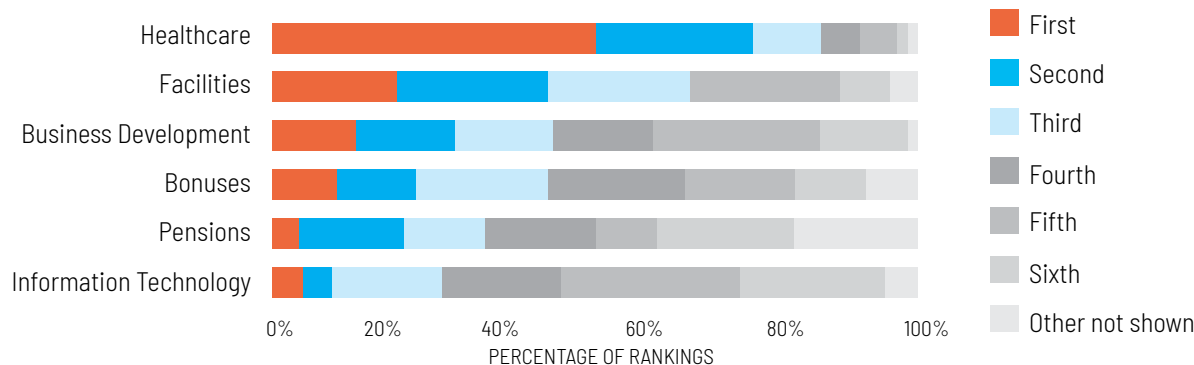
Key Takeaways

- Healthcare continues to be a burden, with 3 out of 4 identifying it as their #1 or #2 highest indirect cost outside of labor.
- Other hot-button costs are facilities and Information Technology (IT). Facilities dropped in the ranks by 4% from 2019 to 2020, and IT is on an upward swing, moving up by the same percentage. Companies were gradually moving to virtual work pre-COVID-19, and now all they can think about is how to work remotely and what it will cost. The elephant in the room for the second half of 2020 and 2021, with CMMC requirements and the likelihood of continued work-from-home

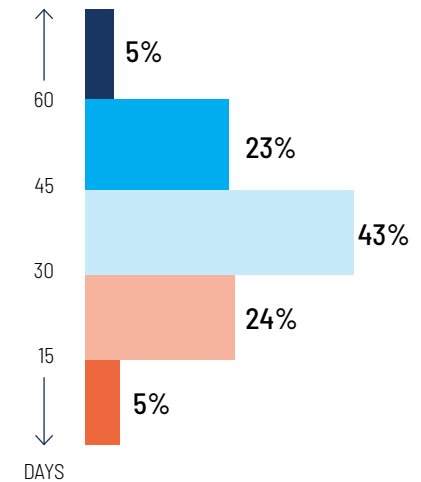
environments, is how will technology costs climb in your 2021 budget?

- Similar to last year's results, >\$50M revenue size companies use location overwhelmingly as a basis for overhead rates, with <\$10M revenue size companies primarily using Product/Service.
- Gross margin is a key indicator of technology use. 38% of our respondents said their margins will be in excess of 45%.
- Nearly 8% of firms are considering an ESOP as a planned exit strategy, while 33% of the >\$50M respondents are looking to acquire in the next 12 months.

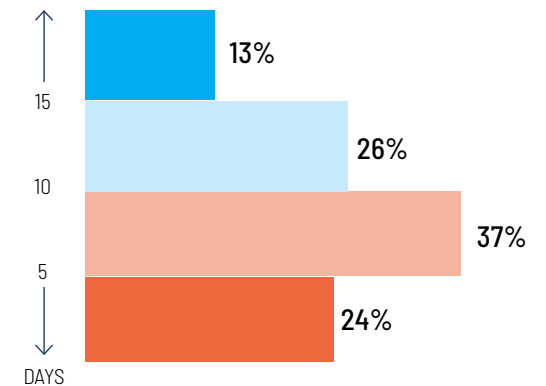
Rank the following indirect costs other than labor.



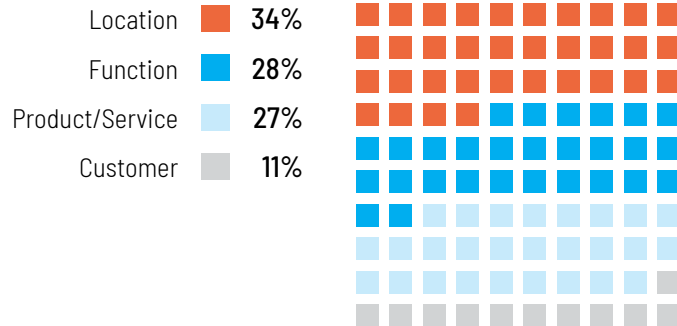
What is your approximate Days Sales Outstanding (DSO)?



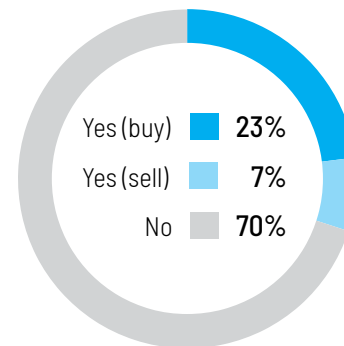
What is your average Invoice Cycle in days?



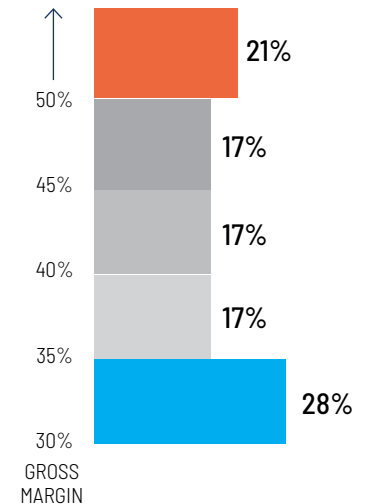
What do you use as a basis for overhead rates?



Are mergers and acquisitions (M&A) a priority for your company in the coming year?



What is your Gross Margin as a percent of revenue? (Direct Contract Cost/Revenue)



Timesheet and Expense Tool Checklist

When picking and implementing a Timekeeping and Expense Tool, look for these features:

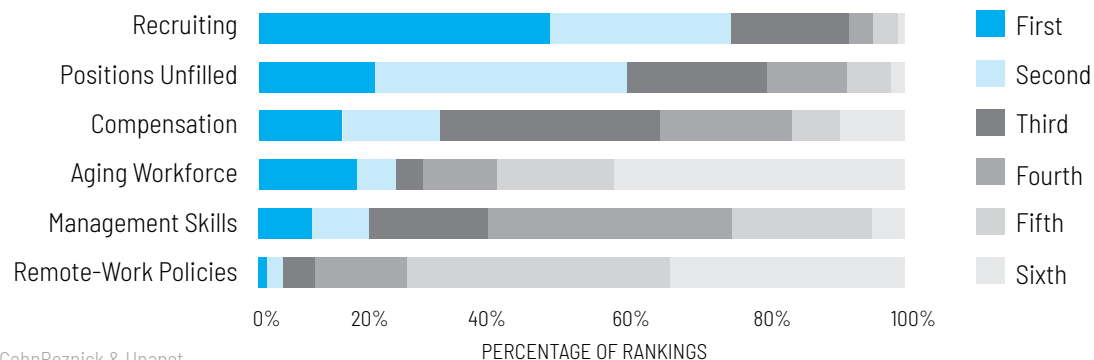
- ☐ Configurable timesheet application with information such as labor category, pay codes, and charge codes
- ☐ Effortless support of DCAA timekeeping requirements, facilitating auditability of time entered, for government contractors or other organizations
- ☐ Ability to capture comments and change reasons
- ☐ Customizable time periods that align to the accounting calendar
- ☐ Automatic population for holidays
- ☐ Labor dilution—total time accounting
- ☐ Enforcement of budgets, periods of performance, and other constraints
- ☐ Implementation of customized business rules on timesheet submittal
- ☐ Timesheet submittal and approval to confirm that time entered complies with corporate and project requirements. This is invaluable to avoid resubmitting timesheets and adjustments.
- ☐ Speed of payments for salary and expenses to improve employee satisfaction
- ☐ Produce invoices or charge-backs rapidly to increase cash flow

U. UTILIZATION

The final tally of top 2-ranked human resources challenges is: 1) Recruiting, 2) Positions Unfilled, and 3) Compensation. While filling open positions has been a challenge for the past few years, it also represents an opportunity to embrace evolving workforce expectations. As younger, tech-savvy employees come on board, they are quick to adopt (and even demand) mobile time and expense solutions as well as higher-level analytics and digital capabilities. We have seen these expectations fuel improvements in technology that enable businesses to function more effectively.

“Work from home” is one of the top buzzwords of 2020 thanks to COVID-19. Ironically, remote-work policies appeared at the bottom of the list of challenges this year. We expect to see these results shift in 2021. This year’s trial by fire experiment has forced firms to realize that remote work can be beneficial for both company and worker. It may even open up new talent pools, freeing companies to recruit independent of geography. We have recently observed progressive firms advertise themselves as 100% virtual in hopes of luring top talent away from competitors.

Rank your human resources challenges in order.



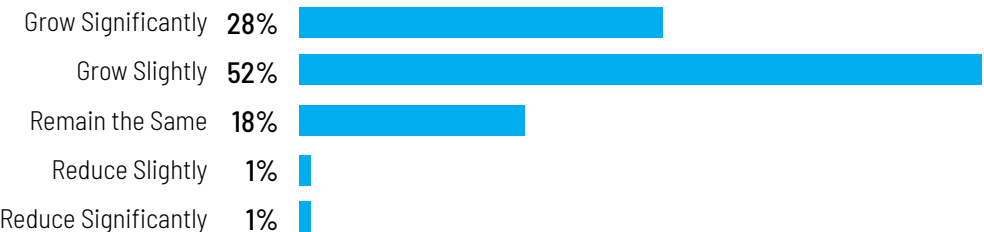
VOICE of the EXPERTS

The 2020 quarantine will forever change the way government work is done. Firms should be planning now for attracting, tooling, and retaining more remote workers. Outsourcing may become a core competency. Be prepared to place additional demands on systems to collect, analyze, and distribute necessary information.

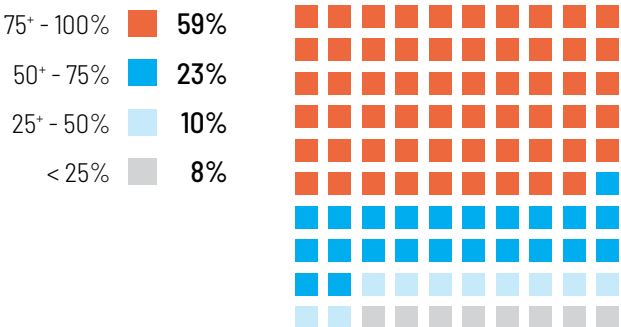
Key Takeaways

- Companies are getting better at managing project budgets. 59% reported 75+ - 100% of their projects as being on or under budget, an improvement over prior years.
- There was a drop from 69% last year to 65% in contractors reporting 75+ - 100% of their projects being on time. This is a signal that we may start to see more cost awareness vs. incurring unnecessary costs to stay on schedule.
- A robust 80% of companies are growing their workforce, 2% are shrinking, and the remaining 18% plan to hold steady.
- Resource management maturity rose, with 55% reporting a high level of maturity, but we also note many companies are using spreadsheets and manual processes for resource management. Refer to our Resource Management Maturity Model (RMMM) to perform your own self-assessment of maturity level.
- The ever-popular FTE by function is included again this year as a benchmark for your organization.

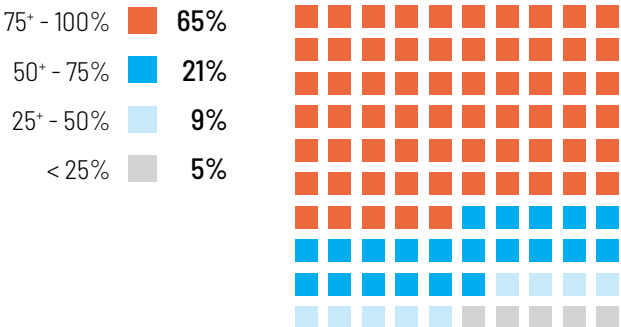
What change in your company's workforce size do you expect in the upcoming year?



What percent of your firm's projects are reported as on or under budget?



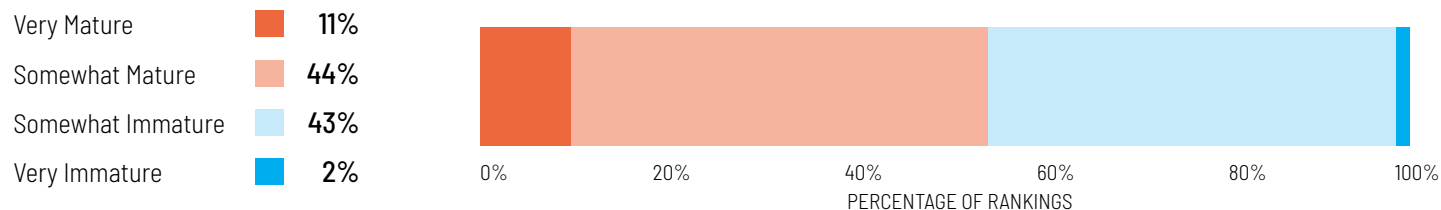
What percent of your firm's projects are reported as on time or sooner?



Resource Management Maturity Model (RMMM)

	Level 1: Ad-Hoc or Initial	Level 2: Project-by-Project	Level 3: Org. Wide	Level 4: Data-Driven	Level 5: Continued Improvement
People/ Training	Minimal training on process or tools—no focus	Training is project-specific on policies and procedures. Some ad-hoc tool training.	Enterprise role-based training on policies, procedures, and tools.	People are trained regularly and certified on skills and tools.	The enterprise is attracting top talent and providing career paths.
Policies & Procedures	Very basic guidance that is not enforced. The resource management world is the Wild West.	Most policies are for a single project. Resourcing procedures are project-by-project.	Policies and procedures are enterprise-wide and all understand the need for a comprehensive resource planning discipline.	The organization uses metrics to drive business decisions around hiring and resource usage across the enterprise.	KPIs and metrics are rightly coupled with organizational goals to continue to advance the success of the business.
Tools/ System	Use of spreadsheets and combo of tools (silos).	Use of project-based ERP with fully integrated time/resource management. Combination of manual and automated operations.	Enterprise use of project-based ERP. Resource plans are loaded, and the enterprise can see supply and demand.	Enterprise use of project-based ERP at an expert level. Stakeholders access role-based dashboards and reports in real time.	The ERP provides all necessary resource management info to everyone in the organization as part of the fabric of the business.
Culture/ Vision	“We have always done it this way.” “Spreadsheets are cheaper.”	The need to improve project performance and resource planning is seen as a way to help improve execution.	Resource management is a key part of overall project and org. management. Operating as a matrix organization.	Resource management metrics are reviewed daily, and the information is reliable and trusted for decision-making.	Resource management is seen as a discipline with a career path. C-suite has the desire to continue to improve based on results.

How would you rate your company's resource management practice?



For each of the following functions, list the full-time equivalent (FTE) headcount in your company.

	\$0 - \$10M	\$10+ - \$25M	\$25+ - \$50M	> \$50M
Human Resources	1.1	1.6	2.1	4.7
Recruiting	0.9	1.3	1.5	3.3
Contracts	1.2	1.4	2.1	4.3
Business Development	1.3	2.4	3.8	8.2
Project Controls	0.7	1.9	2.3	3.6
Information Technology	0.7	0.9	4.4	7.5
Accounting/Compliance/Audit	2.9	3.6	5.5	10.3

Project Management System Checklist

When picking and implementing an automated Project Management System, look for these features:

- ☐ Constrain budgets/dates at the project, task, and person level
- ☐ Estimate opportunity value to improve company forecasting
- ☐ Optimize critical resources while forecasting future demands, costs, and planning capacity
- ☐ Review historical project results for future project planning
- ☐ Earned value management facilitates on-budget, on-time execution
- ☐ Provide rate flexibility and date effective values—person, labor category, or any project or task level rate override
- ☐ Utilize powerful reporting capabilities including graphical dashboards, summary, detailed, and periodic reporting using custom accounting calendars
- ☐ Calculate fully burdened project costs with a suite of reports showing direct and indirect costs associated with a project



The federal government remains one of the most secure buyers in the world. This is good news for owners, management, and business development (BD) professionals. Contractors working on mission-critical programs are likely to feel minimal impact from the one-two punch of the pandemic and the upcoming election. While programs may not keep the pace as fast as originally forecasted, they will continue to move forward. Non-essential contracts may already be experiencing a slowdown if the work has to be done in-person. In the midst of incredible political, socioeconomic, and technological swirl, the federal government stands as a steady buyer of goods and services.

BD professionals have recently been forced out of their comfort zones as they redefine how they interface with clients and generate business. Many are struggling to adapt. Long accustomed to selling and building relationships in person at live events, they now face changes with the new world order requiring a new set of skills. The new BD generation must be more prepared and analytical. Their success relies upon their ability to analyze and recognize spending trends, pinpoint who has the money, and focus on fruitful contracts. Walking the halls must be augmented—if not replaced by—technology.

Notable was the overall upward trend in technology used to streamline processes and operate more effectively. Whether it's managing pipelines, managing opportunities, or improving other unique functional areas, organizations are increasingly relying on digital tools to help them do it well. As a result, they are able to drive critical decisions with readily available data replacing gut and guesswork. While Excel remains a persistent response (over 40% of firms claim it as their Pipeline Management solution), these teams risk falling behind competitors.

VOICE of the EXPERTS

"The right tool for the right job" is a rule that applies well to government contracting. If growth is the goal, then a high-performing project-based ERP platform is a mandatory tool.

Key Takeaways

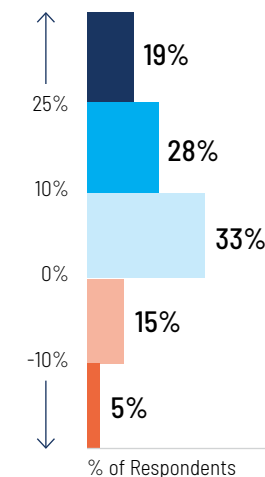
- Over 20% of contractors said they had a current negative growth rate in 2020, more than triple the previous year. The irony is that nearly three quarters of respondents in 2019 predicted growth rates above 10%, therefore the bullishness from 2019 did not come to fruition.
- LPTA procurements made up 28% of total contract bids for the respondents versus Best Value. These results have been fairly consistent from one year to the next, suggesting LPTA contracting is not on the decline despite guidance to use them in only very specific instances by DOD.
- Year over year, there was a small decline in the percentage of companies performing under a MOBIS, Alliant, GSA Schedule 70, OASIS, ASTRO, and other similar type of contract. Mid-sized businesses \$25-50M reported the highest usage of these, with more than 32.5% of their revenue coming from these vehicle types.
- DOD continues to provide the largest budget and is the favored agency to do business with.
- More than half of all companies identified

limited funding for BD and personnel as their top business development challenge. The smallest and largest companies pointed to lack of past performance as a close second.

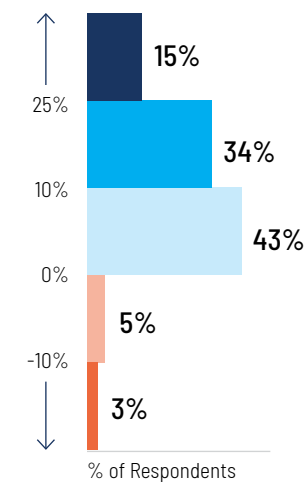
- Companies with the highest win rates identified lack of reporting tools as a business development challenge at 3x the rate of their peers with lower win rates. Firms that are winning recognize the need for more sophisticated technology, further evidenced by the 66% that report using Excel to conduct their estimating.
- Nearly 7 in 10 companies win less than half the contracts they bid on. 9% of firms have a win rate between 75-100%. For 62% of firms, there was no change in win rate year over year.
- There was a slight increase across the board in the types of contracts/vehicles that comprise contractors' revenues. Individual awards came in on top, with 77% of firms identifying them as a key source of revenue, up from 64% last year.

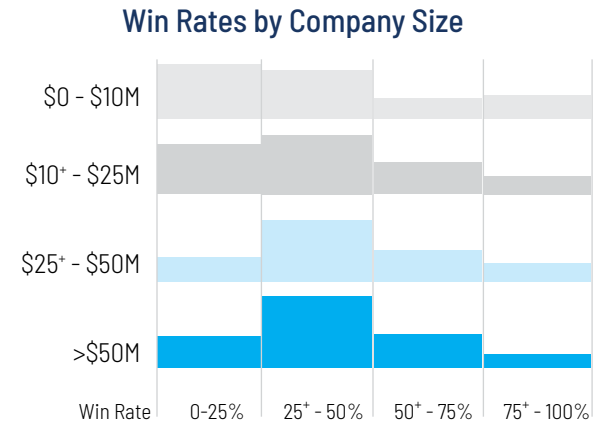
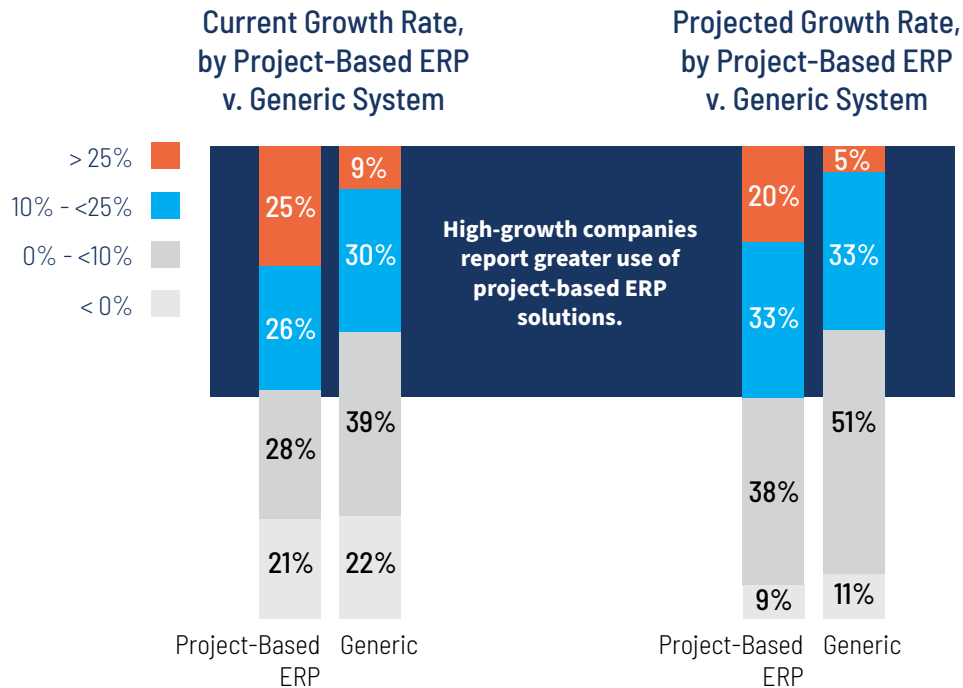
For each of the following metrics, please indicate your company's performance for the previous year.

Current Growth Rate

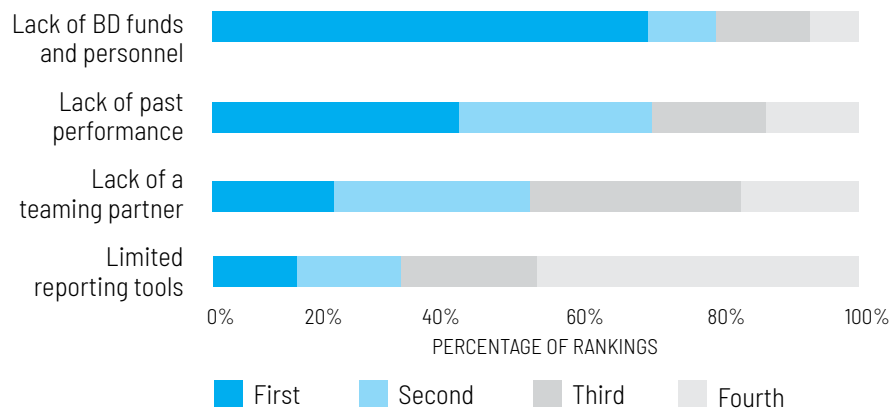


Projected Growth Rate

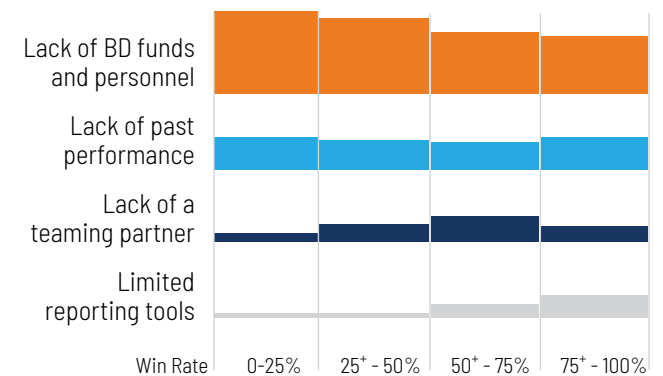




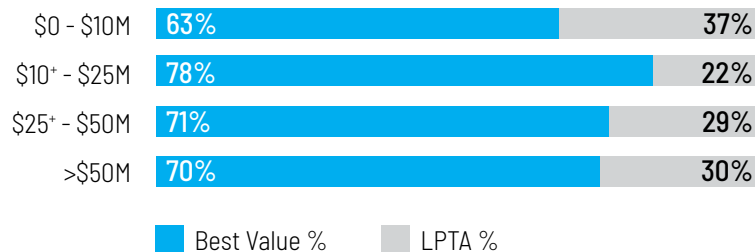
Rank the following business development challenges for your company.



Win Rates by Business Development Challenges

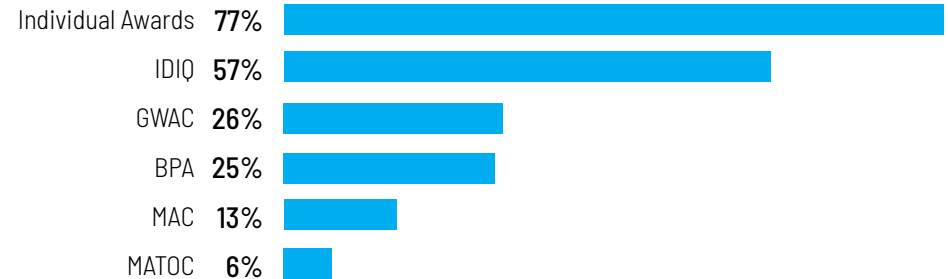


What percent of total contract bids fall into each of the following categories?



Select the contract/vehicle types that comprise the majority of your company's revenue.

(Multiple allowable selections mean responses will sum to > 100%)



Pipeline and Customer Relationship Management (CRM) Tool Checklist

When picking and implementing a Pipeline and CRM Tool, look for these features:

- ☐ The tool is 100% integrated with the project-based ERP system you select
- ☐ CRM—track your customer interactions
- ☐ Contact categorization for easy reference (decision-maker, geographic location, golf buddy, etc.)
- ☐ Workflow optimization, assigning tasks and providing notifications
- ☐ Opportunity tracking by phase
- ☐ Easy-to-use reporting, dashboards, and metrics to direct business decisions
- ☐ Real-time data
- ☐ Resource demand planning with both current and TBD resources
- ☐ Ability to shift forecasts to the right or left
- ☐ Ability make Pwin adjustments as opportunities move through the funnel
- ☐ One-click transformations from proposal project to an executable project
- ☐ Cloud-based system so there is 24/7/365 access to your information

E. EFFICIENCIES

With such a high level of uncertainty and variability across the entire business landscape, government contractors are being pushed to find solid ground where they can. Project Management is one of those areas in which—with the right people, processes, and technology—leaders can reasonably expect accurate forecasting and data. While modest improvements were logged in the GAUGE this year in areas like labor utilization rates and projects operating on or under budget, other areas like on-time projects saw a slight slip.

Firms must keep their eye on the ball. More people are working from home—and likely to remain there for some time—so companies must re-examine many aspects of their business. Technology is at the top of the list. Contractors not only require technology that enables workers to meet, share files, manage projects, and continue running the business smoothly, but most also need solutions that provide secure, remote access to sensitive information. Firms that were behind in implementing these and other critical technologies are now scrambling to catch up.

There are other technology impacts reverberating through the industry as well. With workers at home, the need for physical office space is being reduced and reviewed, and their usage will likely shift, impacting costs and possibly indirect rates in the future. The talent squeeze is loosening as many positions are no longer tied to geography. For these same reasons, talent may become easier to lose, forcing increased scrutiny on retention and benefits. Government oversight is increasing as many audits are forced to shift to a virtual format, adding new urgency to the need for data to be digitized and organized. Supporting virtual and remote business and remaining agile will be the calling cards of firms that emerge strongly from 2020.

VOICE of the EXPERTS

In government contracting, the fundamental premise is: time in, cost in, bill out. No matter what layer in the pyramid—whether it's time and expense tracking, more intelligent forecasting, or better understanding obligations—companies need a turnkey solution that delivers more visibility, intelligence, and agility.

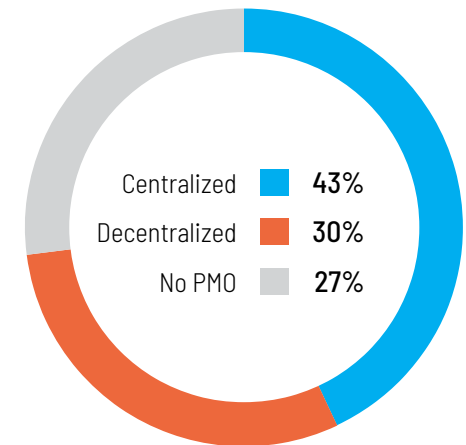
Key Takeaways:

- 38% of firms ranked inexperienced project managers as their #1 project management challenge, putting it back at the top of the list after its one-year displacement by forecasting in 2019. Lack of visibility into project status grew to 16%, up from just 10% the previous two years.
- Contractors characterized their project management maturity to be on the decline, dropping to 60% this year from 75% in 2018.
- Centralized PMO models bumped up to 43% from 41% in 2019, continuing their steady growth in popularity. 73% reported having a PMO, up from 63% last year. This is great to see the attention being paid to project management.
- This year we saw a tight clustering of Fringe and G&A indirect rates. From small to large companies, there was relatively insignificant variance in these numbers. In the new normal, we believe customer

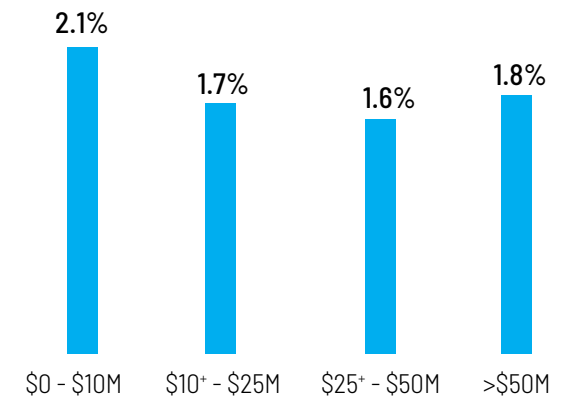
site pools will shrink to statistically insignificant. If remote work continues, less real estate will be needed, which could lead to a drop in rates.

- 40% say they have changed their indirect structure in the last year. Get ready for that number to explode with the new remote workplace trends.
- 27% of firms claim to use Robotic Process Automation (RPA) for functions like accounting and contracts.

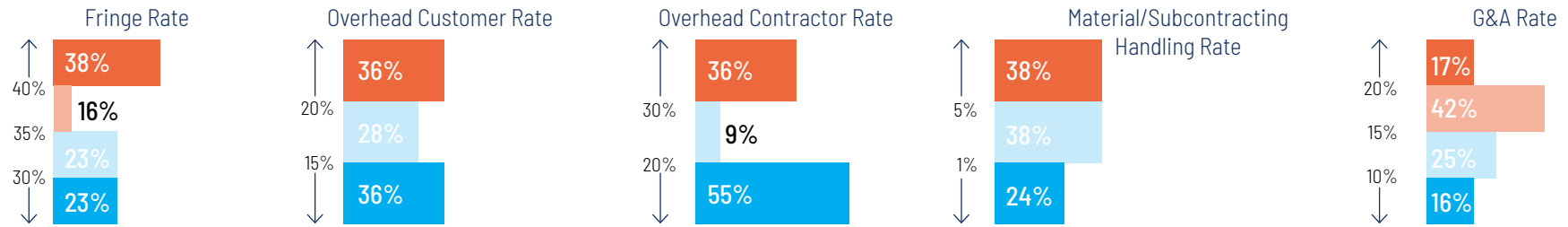
Select the option that best describes your Project Management Office (PMO) model.



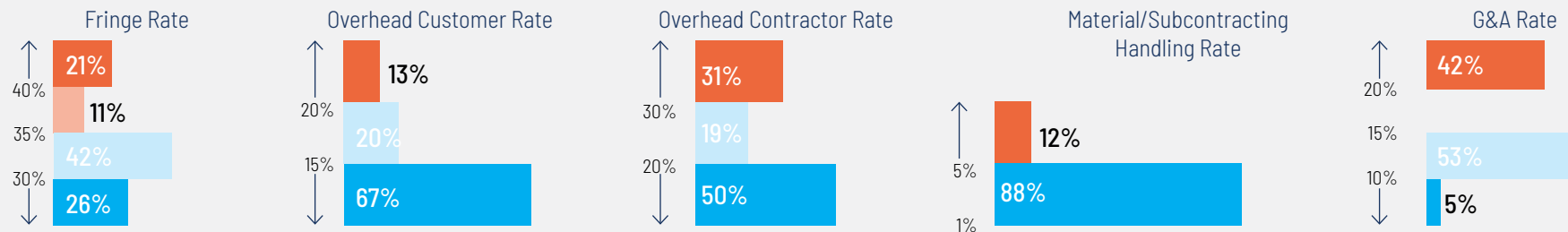
Wrap Rate without Fee, by Company Size



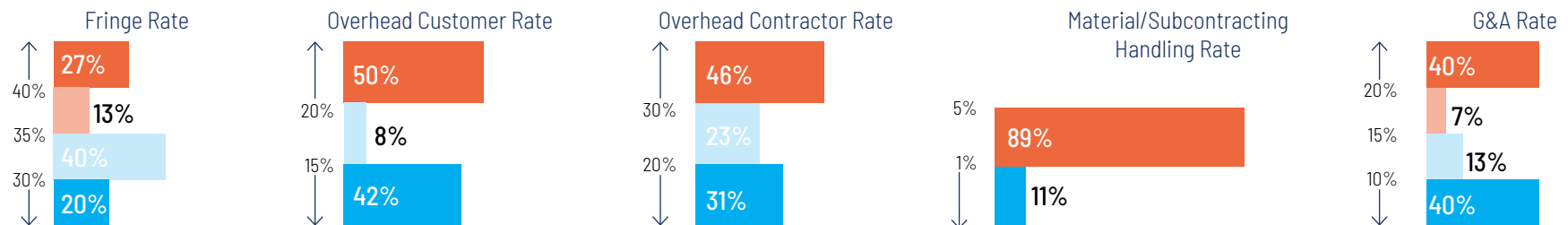
Indirect Rates for Companies \$0 - \$10M



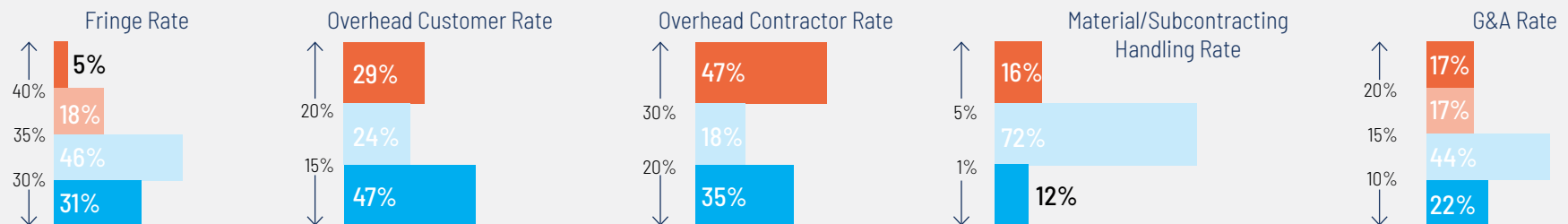
Indirect Rates for Companies \$10+ - \$25M

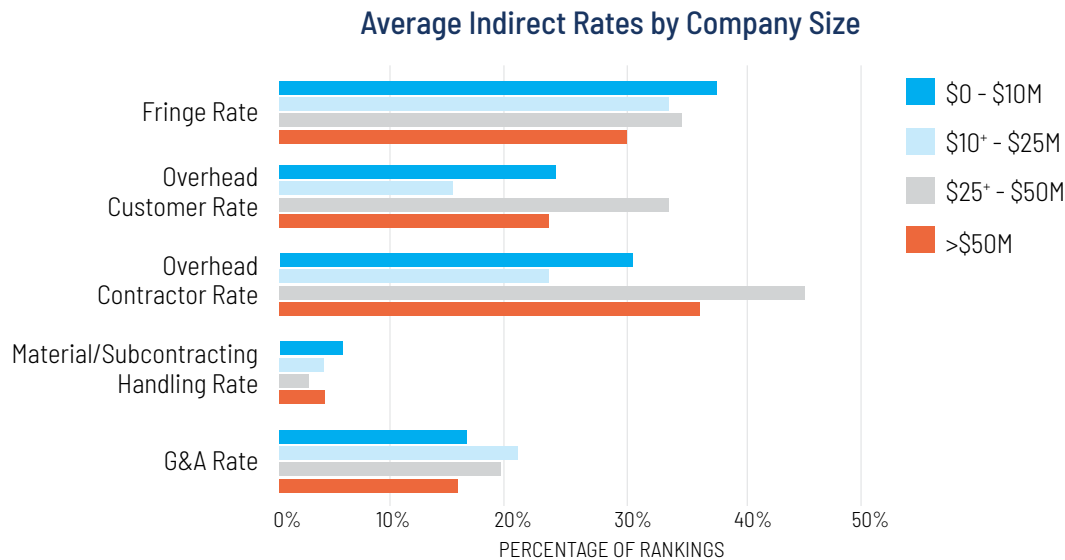


Indirect Rates for Companies \$25+ - \$50M

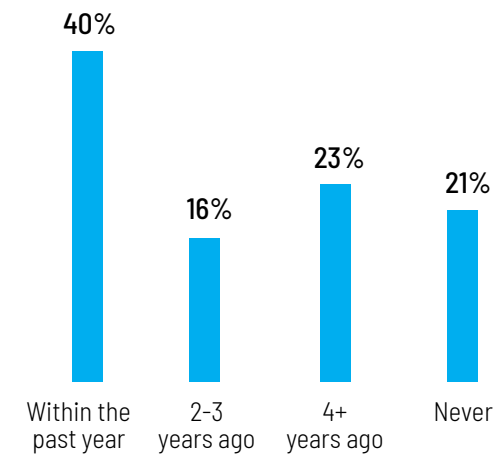


Indirect Rates for Companies >\$50M





When was the last time you changed your indirect rate structure?



Integrated Business Intelligence Tool Checklist

When picking and implementing an Integrated Business Intelligence Tool, look for these features:

- ☐ Clients gain full access to their ERP data with a seamless experience
- ☐ Data-savvy clients can quickly build needed custom reports
- ☐ Ad-hoc data discovery allows user to easily get role-appropriate information
- ☐ An optimum user experience is provided with best-of-breed report writing and formatting
- ☐ Data analysis results are consistent with other ERP reports
- ☐ Uses real-time data
- ☐ Updated data is immediately reflected in reports

Extended survival plans for continued COVID-19 impact



Mission critical items to check on or do immediately

- ☐ Evaluate your cash position
- ☐ Assess any delays on your contracts
- ☐ Establish COVID-19 charge codes on your contracts and indirect costs
- ☐ Document reduced productivity due to COVID-19 for employees and subcontractors (subs)
- ☐ Understand rights to teleworking (OMB); issue essential letters to employees



Steady the ship after you have solved for your immediate needs

- ☐ Assess remote collaboration capability and tools
- ☐ Engage with your contracting officers—ALL of them. Assess 3610 applicability
- ☐ Reach out to your banker
- ☐ Monitor Accounts Receivable and get invoices out ASAP
- ☐ Apply for PPP if you have not; or document if you did receive PPP



Enhance your competitive position or respond to future concerns

- ☐ Evaluate supply chain agility; check in with subs often
- ☐ Keep up/gear up your BD machine
- ☐ Stay on top of stimulus funding. What agencies can you work with?
- ☐ Monitor guidance, class deviations, review COVID-19 resource centers, etc.
- ☐ Maintain your business system compliance, and don't forget CMMC requirements are still on the way
- ☐ Create a reopening or re-exiting committee to start determining options



INDUSTRY INSIGHTS

How Technology Can Increase M&A Value

By KippsDeSanto & Co.

In recent years, it has become nearly impossible to avoid technology buzzwords when reading press releases on mergers & acquisitions (M&A) or more general articles regarding preeminent companies and contract awards in the government services marketplace. Next Generation IT (NextGen IT) offerings have become “must-have” capabilities for contractors in the space. These include cybersecurity, cloud computing, big data, mobility, and more recently artificial intelligence (AI) and machine learning (ML), to name a few. This trend has been driven in part by an increase in consumption of these technologies by federal agencies. The DOD, along with civilian agencies, has dramatically increased spending on NextGen IT services. Major first-of-their-kind contracts highlight the importance of these capabilities during a time when the U.S. government is exceptionally focused on increasing its technological edge. All this is happening amidst growing global uncertainty and concerns regarding cyber and space warfare. These mega awards include the pending \$10B DOD Joint Enterprise Defense Infrastructure (JEDI) cloud computing contract that has IT heavyweight Amazon protesting the government’s award to fellow tech titan Microsoft, and a recent \$800M award to Booz Allen Hamilton to deliver AI-enabled products to the DOD. This increase in

funding is driving companies to expand competencies in these areas to differentiate in a competitive environment and to pursue noteworthy contracts.

Recent Federal Budgetary Trends Prioritize NextGen IT Capabilities

The federal IT budget has been increasing since GFY2015 and is expected to surpass \$87.8B in GFY2020, representing a rise of more than 21% over the past five years, and 14% over the last two years. The DOD’s GFY2020 IT budget request makes up approximately 58% of the overall federal IT budget, and the remaining 42% is split across civilian agencies. Current federal IT spending is heavily focused on IT modernization to improve mission delivery and effectiveness. This encompasses several different technology verticals: enterprise architecture; cybersecurity; cloud computing; DevSecOps and software development; data analytics/visualization/management; mobility; and emerging NextGen technologies, such as AI and ML. Two of the highest priority segments of the IT budget are cybersecurity and cloud computing, which are growing annually at approximately 5% and 20%,

respectively. As part of its enhanced focus on NextGen IT, the federal government has increased its willingness to purchase commercially developed products and software, or third-party intellectual property (IP). Historically, the federal government has preferred a model where contractors develop solutions for the government and the government maintains the property rights. In this newer and emerging model, contractors license solutions to federal agencies and retain the IP rights, which makes contractors with embedded IP significantly more critical to ongoing mission operations and more difficult to displace.

Public Company NextGen IT Focus

Given the federal government's increasing demand, and allocated funding, for NextGen IT technologies and solutions, it is no surprise that government contractors are looking to expand related IT capabilities. Ten of the largest 12 public companies in the government services marketplace highlight both cybersecurity and cloud as core competencies, respectively. Additionally, 11 firms have acquired at least one company with either cybersecurity or cloud capabilities over the past three years, and nine have noted in recent earnings calls a desire to acquire in one or both areas. Several noteworthy transactions in the sector are described in the following paragraphs.

In addition to expanding NextGen IT offerings, government services companies are ramping up investments on IP, both via Internal Research & Development (IR&D) and M&A. By selling solutions to federal customers, contractors increase their “stickiness” with a customer. Companies that own the IP can become embedded in

INSIGHT

Two of the highest priority segments of the IT budget are cybersecurity and cloud computing, which are growing annually at approximately 5% and 20%, respectively.

programs, and as a result, significant switching costs can arise if an agency selects a new contractor to provide a similar solution. As a result, over the past few years, several historically service-focused companies, like CACI and Leidos, have begun making sizeable investments in developing and acquiring technology products. CACI

spent approximately \$1B acquiring LGS Innovations and Mastodon Design, two companies that collectively specialize in the development of C4ISR, cyber, Signals Intelligence (SIGINT), and Electronic Warfare (EW) products and solutions for the DOD and Intelligence Community. Similarly, Leidos acquired Dynetics for \$1.65B, Perspecta acquired Knight Point for \$250 million, and Parsons acquired QRC, OGSystems, and Polaris Alpha, for a combined total of \$1B. All of these acquisitions were in

efforts to add NextGen IT capabilities and IP. Out of the Top 12 public companies in the sector, seven have developed a suite of IP and nine have cited a desire to acquire companies with IP, signifying a continued focus on expanding proprietary solutions.

M&A Trends Support a Growing Appetite for NextGen IT Targets

Private companies in the government services market are also focusing on NextGen IT to follow federal budget trends, provide customers with “stickier” solutions, and in many cases position for future M&A exit events. Because NextGen IT is an evolving and rapidly growing market segment, it has become a critical driver of M&A, as buyers can add meaningful depth in specific technologies more quickly than through organic investments. In 2013, 51 companies in the sector were acquired,

and 18, or 35%, offered NextGen IT solutions. In 2019, 111 transactions were announced, and 77—or ~70%—provided NextGen IT capabilities.

Recent Valuations Highlight Increased Value for NextGen IT Businesses

The desire to expand NextGen IT capabilities and offerings has led to an M&A valuation gap between NextGen IT businesses and more traditional services businesses. From 2015 to 2019, the median M&A transaction value increased from approximately 7x to 9x, while valuations for NextGen IT companies grew from 8x to nearly 10x. Over the same period, median cybersecurity company multiples held relatively stable around 10x, fluctuating between 9x and 11x, and big data company multiples increased from approximately 7x to nearly 11x.

Conclusion

As the federal government continues to leverage NextGen IT to expand mission effectiveness and augment capabilities, it is likely that public companies and dealmakers in the sector will continue to leverage IT and invest in IP to drive value. In doing so, they are likely to remain focused on M&A to develop more depth and breadth across in-demand and emerging technologies and products. To take advantage of this trend, business owners looking at near- to medium-term exit events may want to evaluate internal NextGen IT offerings and IP. By enhancing service offerings around established and emerging technology areas, companies can position themselves to benefit from federal budgetary trends, provide sought-after differentiation, create stickier revenue streams, and maximize value in the context of M&A.

Sources: Publicly Available Data, Whitehouse, OMB, KippsDeSanto's Internal Research

About KippsDeSanto & Co.

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BENCHMARKING TOOL

Introducing: Our New Benchmarking Tool

We are proud to announce our new GAUGE Benchmarking Tool, coming soon! Plot your business performance against hundreds of your peers in the government contracting industry.

For the past four years, the GAUGE has been a critical asset for government contractors to understand where the industry is going and how similar firms are performing. Intelligence gathered over the years—spanning Business Development metrics, Audit & Compliance trends, and Program Management best practices—has been offered through the GAUGE to guide decisions on how to invest resources and tackle tough challenges. Our new GAUGE Benchmarking Tool brings this intelligence to life. Simply enter some basic information about your organization and hit “Submit” to receive the visualization of how your company stacks up against others in the industry.

Check back with us in September of 2020, when we will unveil this fantastic tool we’ve built for you. Start the journey toward a better understanding of how you rank among your government contracting peers, and dive into suggestions for how to reach the next level!





AFTERWORD

A Word of Thanks

A very special thank you to our respondents and contributors for participating in our fourth annual survey and providing valuable insights and suggestions. We continue to listen to our readership, incorporate feedback, and stay up-to-date with current events for the report. We hope that you find it a useful benchmark and source of insights.

About the Voice of the Experts

Our experts are leaders in their fields, which span knowledge of technology, capture, accounting, risk, governance, business development, and project management. Interviews were conducted as we curated the data from our survey results. The experts engaged with us to provide their overall summary and analysis of the information. They provided valuable reactions and opinions on the state of technology, the pandemic, and the government contracting industry. Kim and Christine would like to thank the experts, listed here with the specific areas they focused on in the GAUGE.

VOICE of the EXPERTS

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Technology & Efficiencies, Unanet

Alex Griffis

Technology & Utilization, Unanet

Amy Allen

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Growth & Utilization, CohnReznick

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About CohnReznick

As a leading advisory, assurance, and tax firm, CohnReznick helps forward-thinking organizations achieve their vision by optimizing performance, maximizing value, and managing risk. Clients benefit from the right team with the right capabilities; proven processes customized to their individual needs; and leaders with vital industry knowledge and relationships. Headquartered in New York, NY, with offices nationwide, the firm serves organizations around the world through its global subsidiaries and membership in Nexia International. For more information, visit www.cohnreznick.com.

About Unanet

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Contacting Us

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CohnReznick & Unanet used information gathered from the government contracting industry survey participants referenced in the “Respondents” section of the 2020 GAUGE. The information provided to us has not been independently tested or verified. Thus, we have relied exclusively on the 2017-2020 GAUGE survey participants for the accuracy and completeness of the data. No survey can be guaranteed to be 100% accurate, and errors may occur. CohnReznick & Unanet do not guarantee the completeness or the accuracy of the data submitted by GAUGE survey participants and thus do not accept responsibility for your reliance on this Report or any of the information contained herein. The information contained in the 2020 GAUGE includes estimations, approximations, and assumptions and is not intended to be legal, accounting, or tax advice. Please consult a lawyer, accountant, or tax advisor before relying on any information contained in this Report. CohnReznick & Unanet disclaim any liability associated with your reliance on any information contained herein.

4TH EDITION



Industry Roadmap of Benchmarks and Trends
for Government Contractors

