# CLARITY

# GOVERNMENT CONTRACTING INDUSTRY STUDY

## 8th Annual Comprehensive Report

Deltek

CLARITY

# Government Contracting Industry Study

8TH ANNUAL COMPREHENSIVE REPORT • 2017

# INTRODUCTION

*This year's Deltek Clarity Government Contracting Industry Study finds an industry with its eyes on the future following a year of mixed results.*

For many firms, they can count on investments made over the past few years to start bearing fruit. Firms also seem encouraged that under the new administration, the defense market in particular—and GovCon along with it—is likely to strengthen.

This optimism even showed through with key metrics like growth and profitability trending down. Although many firms reported lower growth rates, the overall govcon market had a decided improvement in 2016. Companies are bullish on next year and continue to pursue diversification into new customers and markets as a means of growing their businesses. While the cost of compliance, in both time and manpower, expanded significantly for large companies—and for mid-sized organizations to a slightly lesser extent—there is widespread anticipation that the regulatory environment will ease in the coming years and lessen the audit burden.

While some challenges in HR have been addressed like work/life balance, the war for talent remains and retaining top talent is still top of mind throughout all functional areas of the firms. One-third of companies upgraded their HR information systems last year and everyone reduced the time it takes to fill open positions. Losing top talent makes compliance more costly, not providing development opportunities causes higher levels of voluntarily separation which disrupts project execution, and recruiting millennials to replace an aging workforce needs to be a top priority.

In this 8th annual Deltek Clarity Government Contracting Industry Study, you will observe an industry that has experienced extremes of both major triumphs and major challenges this year. But you will also find an industry united in its anticipation of a brighter future. We hope you will find the data and insights contained in this report helpful as your company moves forward into that future.


Optimism
shone through even where
results trended down.

# EXECUTIVE SUMMARY

*As this 8th annual Government Contracting Industry Study reveals, the GovCon industry has taken large strides forward in some areas in the past year—and it has taken large strides backwards in others.*

From 634 responses to more than 100 questions, we identified several key trends in the areas of finance, project management, business development, talent and compliance. These following trends and data points offer a high-level snapshot of today's government contracting environment.

Overall net profit fell 2 points while growth hit a 7 year low.

### *Net profit dropped to 8% while growth rate plunged to 6%*

After climbing last year, both profit and growth took a downward turn. Overall, net profit fell 2 points to 8%. Small firms drove this decline. While medium and large company profits remained fairly flat, small companies reported a drop of nearly 4 percentage points to 8.6%. Growth plummeted from 11% to 6% to reach the lowest level in 7 years. Profit dropped partly because firms are reinvesting in their growth engine, so we will be watching for both growth and profit to rebound in coming years.

Inexperienced project managers underly KPI drops.

### *Key Project Management indicators fell*

Government contracting firms reported drops in many critical project management metrics, including visibility, on-time/on-budget project delivery, PM maturity and others. In many cases, the drops were steep. Both on/under budget performance and on-time delivery fell by double-digit percentages at companies of all sizes. Firms pointed to inexperienced project managers—the #1 PM challenge facing government contractors in the next 2-3 years—as an underlying cause of their troubles. With more scrutiny in this area, we look for firms to shift back to a centralized PMO function to better leverage experienced resources, perhaps learning a lesson from years past where decentralization was popular.

Investments in business development paid off with a win rate rise of 2.6 points.

### *Win rate climbed to 44.6%*

Roughly 6 in 10 companies reported an increase in their win rate, which rose 2.6 points to 44.6%. This improvement is reflective of an overall uplift in the business development function. Companies are investing here: all segments reported an increase in the amount of revenue allocated to BD as a result of a bullish market outlook. Some of this investment is going toward staff additions as firms seek to remove the business development burden from their busy project managers. The shift is already paying off. This year for the first time, BD staff became the top source for new opportunities being added to the pipeline, displacing the PM function.

Headcount is increasing even as time to fill positions decreases.

## *Upgraded technology driving HR improvements*

In the past 12 months, 35% of GovCon firms upgraded their HR information systems, double the number who reported doing so last year. These upgrades are already bearing fruit in talent acquisition. Firms of all sizes reported a sharp reduction in the amount of time it takes to fill an open position. Today, no firms take more than 90 days to fill positions—including large firms, which reported a 10-point increase in headcount. That's not to say that finding workers is easy. Companies continue to report talent acquisition as being their #1 most expensive HR business process and the availability of good candidates remains their #1 talent acquisition challenge.

Number of hours spent on audits tripled and FTEs devoted to external audits doubled in large companies.

## *Heavy compliance burden for large companies*

Large firms $100M-$1B+ felt the burden of regulatory compliance most heavily this past year. The number of hours they spent preparing for and participating in government audits tripled. Incurred Cost Submission (ICS) audits were a particular challenge for firms of all sizes. Auditors are going deep, requiring more time and making ICS the most costly audits for contractors. Large firms doubled the number of hours spent on developing ICS reports. To handle this increased load, large companies more than doubled the number of FTEs focused on external audits.

67% of firms have applications in the cloud, spiking from 25% last year

## *Rush to the cloud*

One of the more noteable developments in this year's Clarity analysis revealed the rise in the adoption of cloud services. Firms more than double their reported adoption from 25% to 67% this year. The two applications that lead the way in growth of adoption—Human Resources and Talent Management—point directly to the lingering war for talent in the marketplace. Firms seem to be embracing cloud not only to improve cash flow and operationalize expenses, but also to provide a functionality boost to key areas of their business.

SECTION ONE

# BUSINESS DEVELOPMENT

*Regardless of one's position on the 2016 election, the outlook for government contractors is positive.*

**44.6%**

**win rate**

overall, up 2.6% from last year's average

**59%**

**of revenue**

is from prime work, as large primes accept more sub status and fewer prime positions are available

**#1**

**reason**

for not pursuing an opportunity is "Not a Good Fit," agan this year

Under the new administration, GovCon firms are projecting a return to a growth market and companies are starting to invest back in the business development function. After several years of decline, Defense spending is on the rise. New opportunities are emerging and firms know they need the resources in place to pursue and win those opportunities.

Firms cited limited BD resources as their #1 challenge, but they also revealed they are going after this challenge aggressively. All firms significantly increased the percentage of revenues they allocate to business development. This investment is likely to include people as well as infrastructure and tools as companies seek better/earlier identification and understanding of opportunities as their top initiatives in growing business. This year, BD staff became the top source for new opportunities being added to the pipeline, displacing the PM function and putting responsibility for developing business right where it should be: on the shoulders of business development personnel.

### *Key Data Points from the Survey*

- The breakdown of government contracting revenue continues to shift towards sub-prime work. Three years ago, 65% of revenues were from prime work; last year it was 61% and now it is at 59%. With more contracts going to small business, many large primes are having to accept sub status in order to get a share of the opportunity. Similarly, with agencies consolidating contracts, there are fewer prime positions to be had.
- The overall Win Rate rose to 44.6%, up 2.6% from last year's average. Roughly 6 in 10 firms of all sizes reported an increase in their Win Rate, reflecting a stronger market. 15% of large firms said their win rate decreased, possibly due to the shifting of funds to small businesses.
- Limited BD Resources and Customer Using Contract Vehicle We Are Not Associated With topped firms' list of BD challenges. Top initiatives centered on identifying opportunities earlier and better.
- Firms reporting by category on the number of competitive proposals they generated last year showed a shift from re-competes to new contracts, suggesting there are more new opportunities as the market recovers.

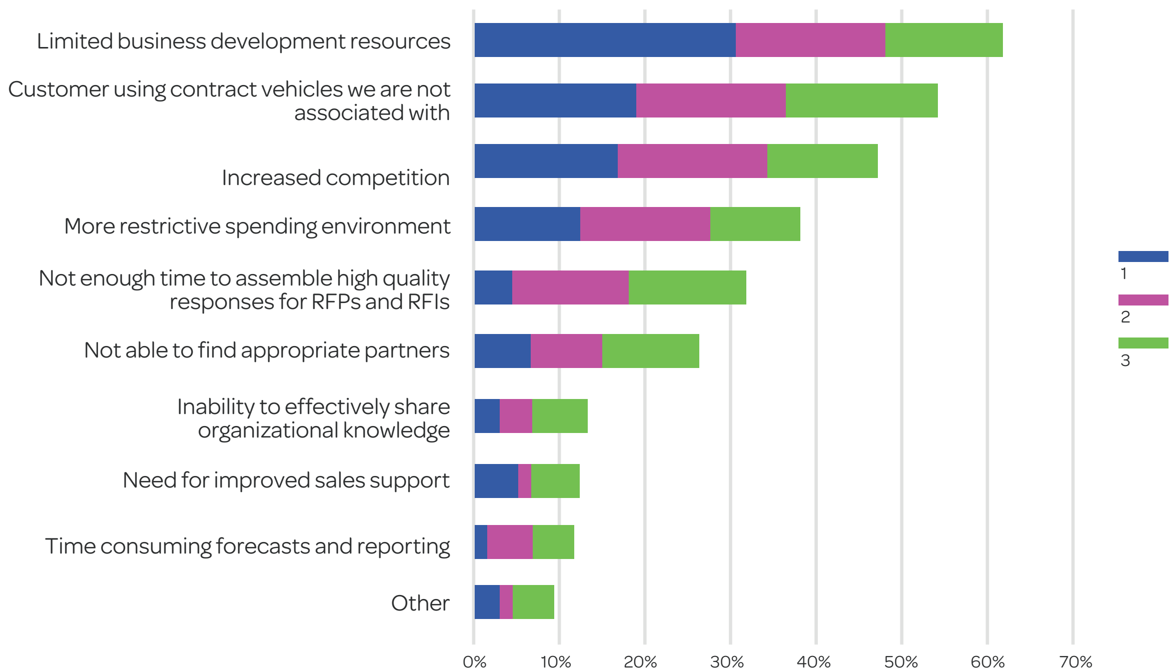
- 53% of GovCon firms manage task orders in a Centralized manner, continuing an upward trend. IDIQ contract positions are becoming a premium and companies are gravitating to centralized management to ensure they have the proper command and control to maximize their opportunities on them.
- Lack of Information on the Task Order remains the #1 challenge companies face relative to achieving success with task order vehicles. #2 was the Inability to Respond Quickly Enough to Task Order Response Dates. This contributes to the shift companies are making to centralized management of contract vehicles.
- Business development staff displaced PM staff as the top source for new pipeline opportunities. As growth returns to the market, companies are turning back to their hunters versus their farmers for revenue growth.
- The #1 reason firms cite for not pursuing a relevant opportunity continues to be Not a Good Fit For What We Do. In combination with the higher win rates firms experienced and the limited BD resources, it demonstrates companies are investing a lot of time in maximizing their probability of win scores and no-bidding those that they don't have a strong chance of winning.

### *Top Business Development Challenges*

Limited Business Development Resources remained at the top of firms' list of challenges facing the BD function. This in part explains the increased investment in BD, particularly at smaller companies <$20M. These smaller firms are seeing greater opportunities due to small-business set-asides. Small firms allocated 11.2% to business development last year, up from 8.7% the previous year. Mid-sized and large companies also increased their allocations, both to 6.6%. While this year's study reveals that firms have yet to recognize the impact of these investments, the increased allocations should ease some of the resource challenges companies are facing.

Other notable results here: Customers Using Contract Vehicles We Are Not Associated With jumped from fourth to second position. Firms are recognizing the long term challenge that is created for them when one of their key customers adopts an IDIQ contract vehicle that their firm doesn't have. And in a sign that the market is improved, both More Restrictive Spending Environment and Increased Competition fell lower down the list, perhaps reflecting increased DoD and civil procurement activity, the first upswing in both these areas since 2010.

**TOP BUSINESS DEVELOPMENT CHALLENGES**



### *Top Business Development Initiatives*

Earlier identification of opportunities continues to reign as GovCon's top business development initiative, followed closely by more/better opportunity identification. Both of these seem connected to the limited business development resources. Also, it reinforces the need for firms to drive efficiencies in their BD tools and processes to free up time for BD resources to focus on higher value activities.

Exploration of New Markets dropped a position, which suggests firms aren't looking outward with the same intensity as in the past due to more predictability and improved outlook in their current markets. However, as we point out in the Finance section, diversification is a top driver of future planned growth. This conflict between decreased emphasis on exploring new markets yet plans to diversify perhaps reflect the improved outlook for the overall govcon market, but uncertainty on the direction of individual agencies given the radical budget proposals from the Trump Administration.

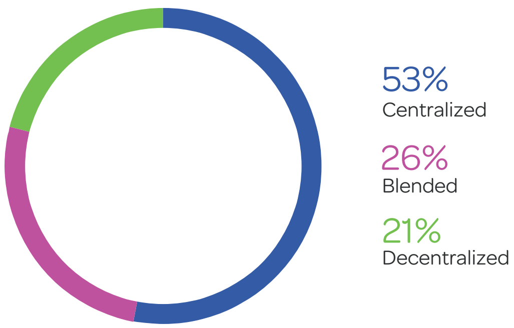
It is also noteworthy that while not cited by as many as "Very Important", Improved Use of Organizational Information received the most 4 ratings of all responses indicating that better leveraging the knowledge and information collected by the organization is top of mind for many firms.

## BUSINESS DEVELOPMENT INITIATIVES PURSUED

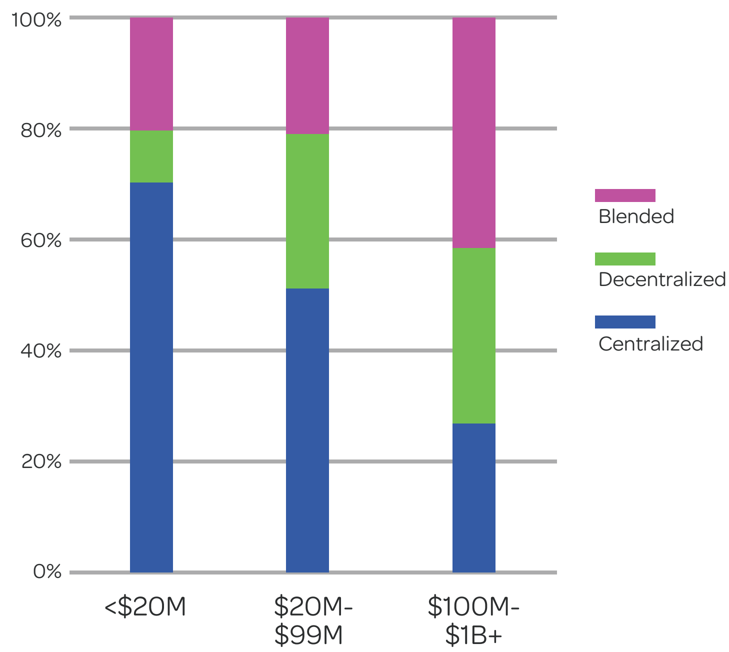
*Please describe how task order programs are managed at your firm*

Centralized management of task orders continues to expand. Two years ago, this segment came in at 40%, last year it was 50% and this year the figure has crept up to 53%. What we are seeing here is that companies are realizing that to maximize their performance on task order contracts, they are having to implement much better command and control.

**TASK ORDER MANAGEMENT**




**CENTRALIZED VS DECENTRALIZED TASK ORDER MANAGEMENT**

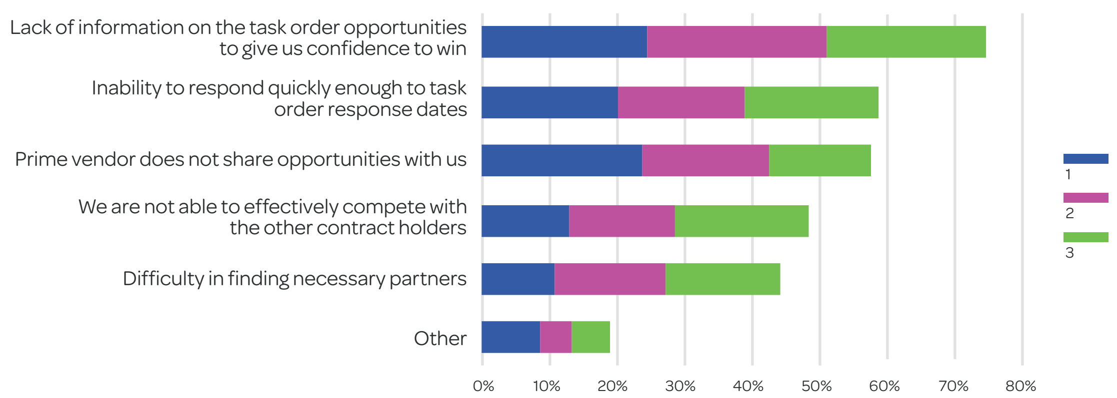


## *Top Three Challenges Relative to Achieving Success with Task Order Vehicles*

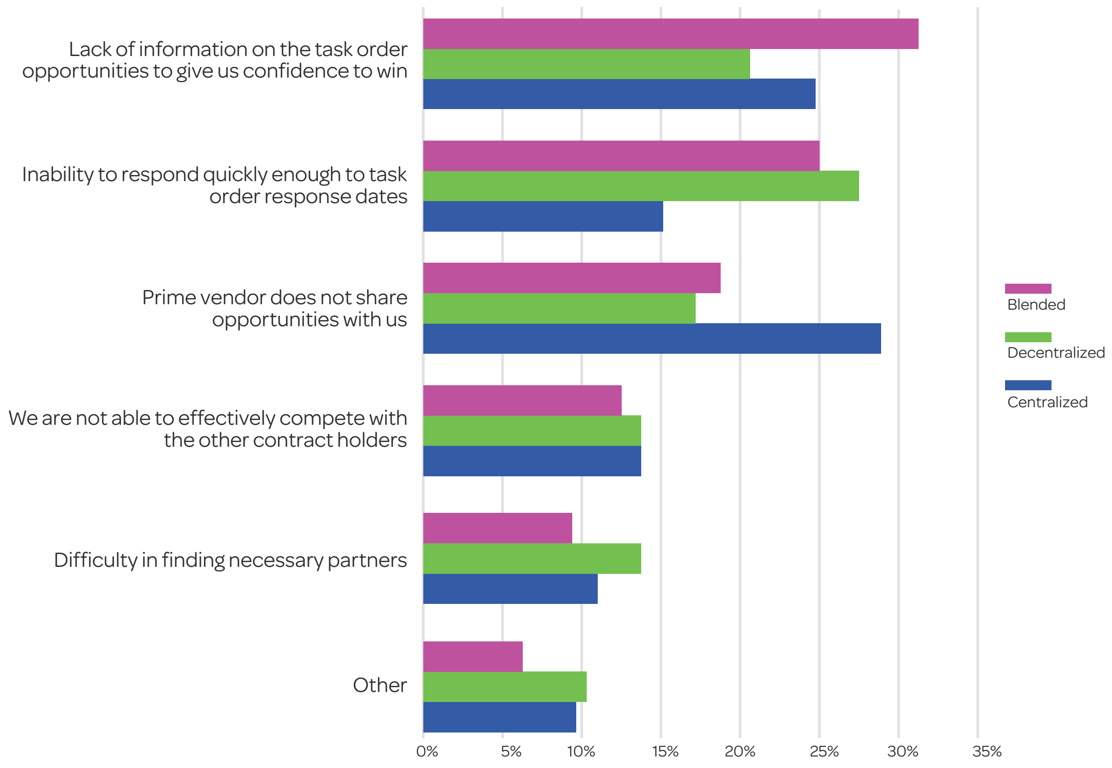
Overall, the challenges firms face relative to achieving success with task order vehicles remains unchanged, with Lack of Information on the Task Order Opportunities continuing its reign at the top. One notable shift was the movement of Inability to Respond Quickly Enough jumping two spots into the #2 position. This ties back to limitations in BD resources. Write-in comments frequently mentioned not having a large enough team or the resources to handle the response, which suggests this challenge is not just about time but about resource availability. The increased spend in business development, which will likely include hiring more people, should ease some of the pressure here. Companies also should be looking to implement tools and processes to help accelerate the response time, such as automated task order collection, distribution, and bid decision support as well as collaboration tools to improve communication.

It is worth noting that companies indicating that they had a centralized model for task order response were far less likely to report the challenge of not having enough time to respond to task orders. Companies with centralized management of IDIQs seem to be more effective at operationalizing an efficient and agile task order response system.

### TOP CHALLENGES FOR TASK ORDER VEHICLE SUCCESS



## TOP CHALLENGES VS BD STRUCTURE



## BUSINESS DEVELOPMENT

# CLARITY OUTLOOK

With the election behind us, companies are showing a cautiously optimistic attitude about new initiatives and their impact on government contracting. Firms are seeing an increase in new opportunities and are beginning to make investments in the BD function to go after those opportunities. The Defense market, in particular, is looking good although the civilian market is a bit of a mixed bag. If this bullish environment continues to play out along the same path, firms should continue investing in BD to drive growth and diversification.

SECTION TWO

# PROJECT MANAGEMENT

*We hate to be the bearer of bad news, but this year's project management results reveal a function that has taken a step backwards in the last 12 months.*

12%

of companies

have a Chief Risk Officer, up from just 2% last year for this specialized position

55%

of all firms

have a formal PMO, up from only 40% last year

50%

of companies

report High visibility into current project status, down 10 points from last year

Key measurements of PM effectiveness are down across the board. Visibility, on-time/on-budget project delivery, PM maturity at small and mid-sized firms—all saw moderate to steep drops this year. Much of this likely falls on the shoulders of inexperienced project managers, which were cited as the #1 challenge facing government contractors in the next 2-3 years. This showed up not only in the data but in many written comments that expressed frustration with the capability of project managers.

Some positive results from the survey came in the area of risk/opportunity management. For years, we have urged contractors to bolster their risk management discipline and this year's results suggest that is happening at last. Large companies $100M-$1B+ reported a spike in their risk/opportunity management maturity. We also saw a sharp increase in the number of companies employing a C-level risk manager as well as a majority of firms saying they now account for risk/uncertainty in all or most of their projects. While the industry still has a long way to go in this area, we are heartened that it appears to be moving swiftly down the right path.

### *Key Data Points from the Survey*

- Visibility into current project status dropped considerably. High visibility fell 10 points to 50% while Low visibility spiked 15 points to 18%. More telling: 5% of medium-sized firms reported Very Low visibility where no one reported this level last year.
- All sizes of companies reported double-digit drops in the percentage of their current projects being reported as on or under budget. This year, 70% of small, 59% of medium and 45% of large companies said their projects were on/under budget, down from 80%, 78% and 61%, respectively, last year.
- More project schedules are being overrun than a year ago. Last year, small companies said 78% of their current projects were on schedule; this year the figure is just 62%. Mid-sized firms dropped from 64% of projects on schedule to about 44% while large firms dropped about 13 points, from 63% of projects on schedule last year to just half of them this year.
- 35% of large firms $100M-$1B+ reported having a Very Mature project management discipline up from just 10% last year. Small and mid-sized firms reported a sharp decrease in this level of maturity.
- Medium-sized companies $20M-$99M doubled the percent of their program managers with PMP certification to 45% while large companies

$100M-$1B+ saw their percentage of PMP-certified program managers drop by about 16 points to 28%.

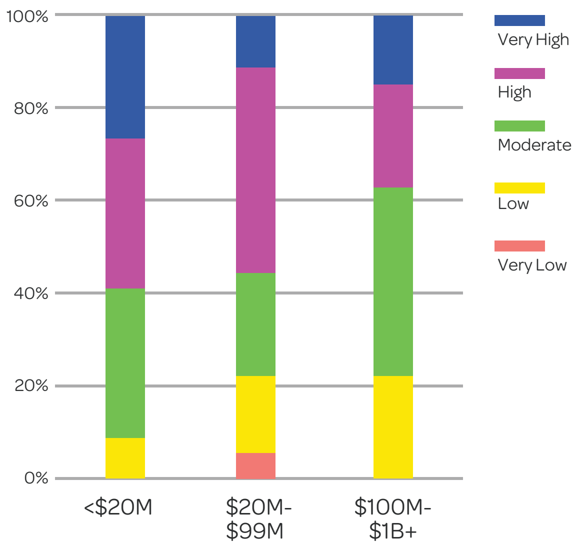
- 56% of firms said the importance of project management software will increase either slightly (37%) or significantly (19%) over the next 2-3 years.
- 83% of large companies $100M-$1B+ said their risk/opportunity management discipline was Somewhat or Very Mature, double last year's number.
- 55% of companies have a formal PMO, up from 40% last year.
- When asked who in their organization is primarily responsible for risk/opportunity management, 12% cited a Chief Risk Officer, up from 2% last year. Conversely, firms citing the COO has the primary responsibility dropped from 30% to 12% this year. This reflects a shift toward a more specialized focus on risk.
- More than 6 in 10 firms said the importance of risk/opportunity management will increase either slightly or significantly over the next 2-3 years. No one said it would decline.
- 60% of firms said they account for risk and uncertainty for all or most of their projects.

*How would you rate the visibility into the status of your organization's current projects?*

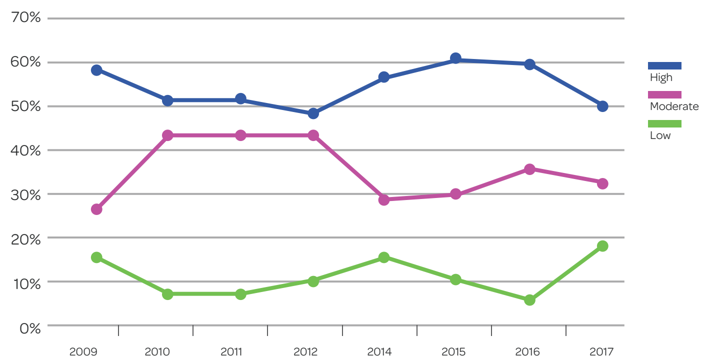
After two years of flat to upward improvement in Moderate and High visibility, this year saw a reversal of that trend with companies reporting a significant decrease in visibility into the status of their current projects. High visibility fell 10 points to 50% of firms while Low visibility jumped 15 points overall.

The reports of Low visibility increased in all categories. Where last year only 5% of small businesses reported Low visibility; this year, 10% of small, 15% of mid-sized and 20% of large firms checked that box. Even more concerning, 5% of medium-sized companies told us their visibility is Very Low where no firms made this claim last year. We urge companies to reverse this slide as clarity of project status drives many key metrics, including budget and timeline. Already, a considerably smaller percentage of companies are reporting their projects as being on/under budget and on schedule.

## PROJECT VISIBLITY BY SIZE



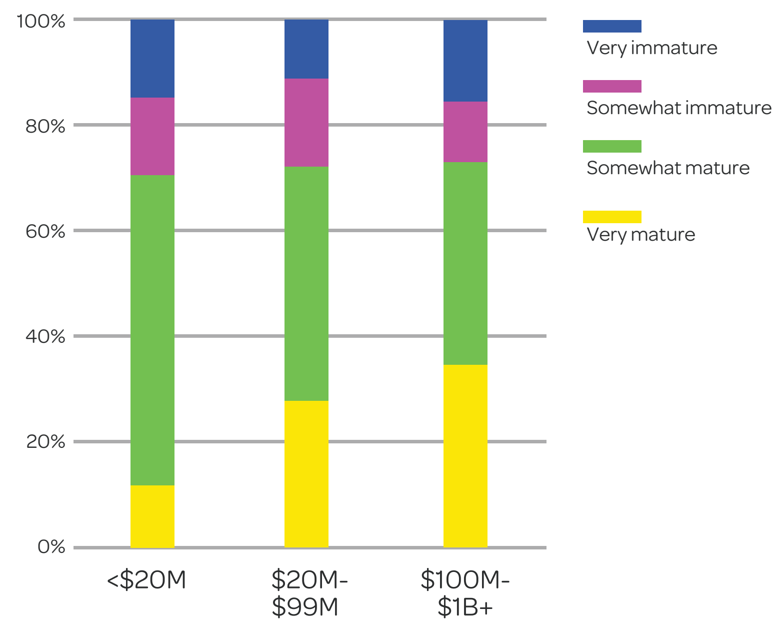

## HISTORICAL PROJECT STATUS VISIBILITY RATING



*Please rate the maturity of your firm's project management discipline*

Across the board, 7 in 10 firms of all sizes rated their project management discipline as being Somewhat or Very Mature, roughly the same number as last year. However, 35% of large companies $100M-$1B+ said their PM discipline is Very Mature, a 25-point year-over-year increase. We found this interesting in light of the reported decreases in visibility, on/under budget and on-time delivery metrics as these results would seem to indicate a maturity decline. Certainly that was the case for small and mid-sized firms which saw 15- and 20-point drops in the number reporting a Very Mature PM discipline. It may be that large firms saw recent gains in maturity but simply aren't yet seeing those investments pay off in improved project execution.

**MATURITY OF PROJECT MANAGEMENT DISCIPLINE**

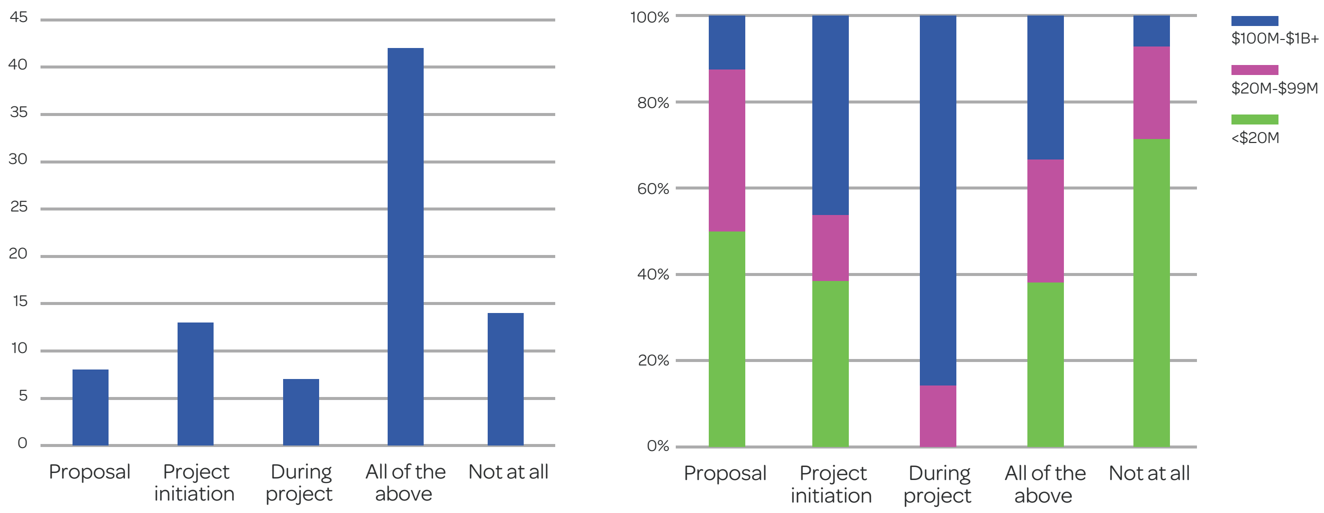


## *At what phase of the project lifecycle do you perform schedule risk analysis (SRA)?*

When we asked firms about the project lifecycle phases at which they perform SRA, their answers shed some light on the reported drops in key project metrics. First, the percentage of firms performing SRA at all stages of lifecycle fell about 10 points to 42%. Small companies, in particular, saw a significant erosion in SRA performance. Last year, of the companies reporting that they do not perform SRA at any phase of their projects, just half were small companies <$20M while this year 7 in 10 were small. And last year, of those companies reporting that they perform SRA during execution, half were small firms while no small companies made that claim this year.

All this said, there is a silver lining here: only 14% of firms told us they do not perform SRA at any phase of the project lifecycle, down from one-quarter of all firms last year. While this is a positive sign, the industry still has a long way to go. When the SRA performance figures trend back up, we will likely see a corresponding improvement in some of the survey's other data points.

**PHASE SRA PERFORMED**

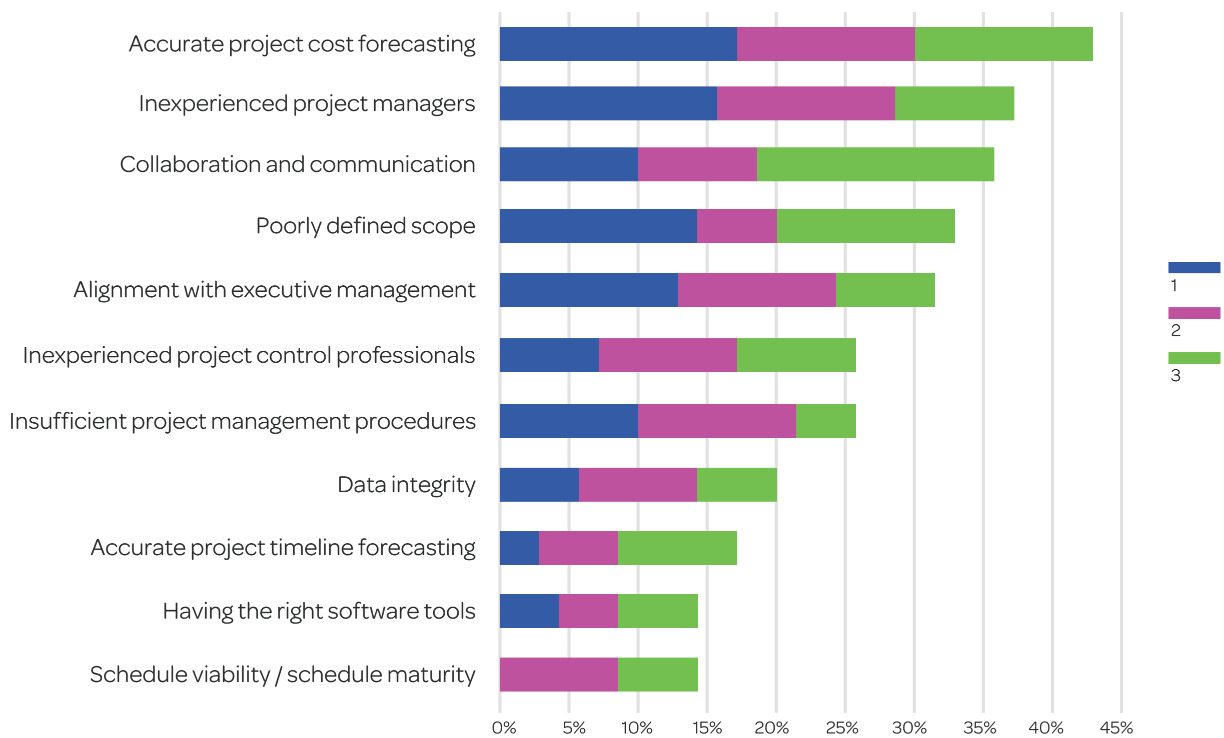


## *What do you think will be the top three challenges facing the Project Management function within your organization over the next 2 - 3 years?*

In a repeat of last year's results, the top four challenges remained firms' top four challenges. However, last year's #1 (Collaboration and Communication) and #3 (Accurate Project Cost Forecasting) issues swapped positions, putting accurate cost forecasting at the top of the list of challenges facing the PM function. Interestingly, this same flip-flop is exactly what happened last year so that this year's top four results now mirror those of two years ago, suggesting firms have made little progress in these areas. Poorly Defined Scope remained in the #4 spot and was cited frequently in write-in comments as being a major issue for contractors.

Inexperienced Project Managers has been a fixture in the #2 position for several years and write-in comments provided a more detailed picture of the "why" behind it. One firm noted that GovCon has seen significant attrition of skilled, mid-level PMs which has created a big gap between the older, soon-retiring PMs and the younger ones coming in. Another firm said their large turnover in experienced project managers was forcing them to place "unprepared" staff into the PM role. Inexperienced PMs, said another, were causing schedule and budget issues. But even in firms with experienced PMs, there are challenges. According to one firm, "Even our experienced project managers have difficulty understanding what work remains to be done and how much effort it will take to get it done." It is time to take a microscope to the PM function and overcome the challenges surrounding it.

### PROJECT MANAGEMENT CHALLENGES

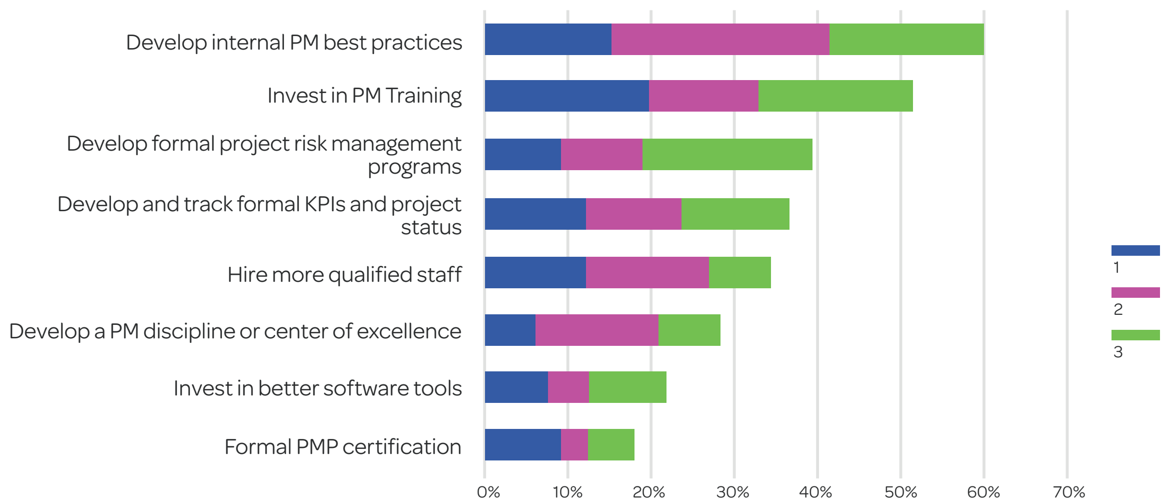


## *How do you plan to address the top PM challenges in the next 2 to 3 years?*

Although PM inexperience consistently falls second on our list of challenges, the top initiatives firms are pursuing to address those challenges typically center on solving this problem. Like last year, companies said they are focusing on development of best practices and PM training as solutions to improve the effectiveness of their project managers.

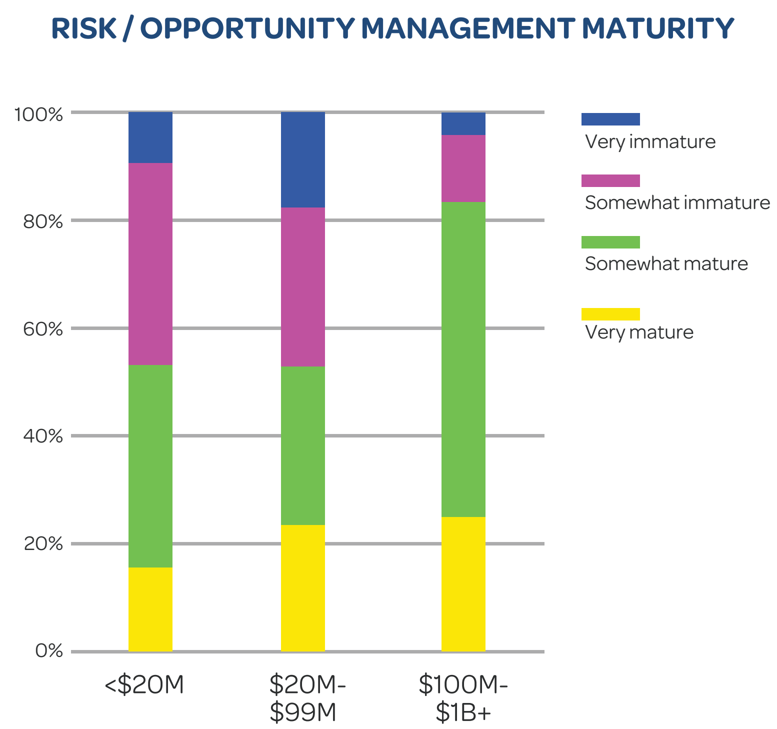
Formal project risk management programs, third on our list and cited by 1 in 10 firms as being their top initiative, speaks to this year's #1 challenge, accurate project cost forecasting. Good risk management programs identify potential issues early so PMs can implement corrective action before there is a major impact to the project. This ultimately keeps costs in line as problems that are not spotted early tend to escalate in severity, ultimately resulting in costs that are exponentially larger than they would have been early in the project cycle.

### PLANS TO ADDRESS CHALLENGES



## *Please rate the maturity of your firm's Risk /Opportunity management discipline.*

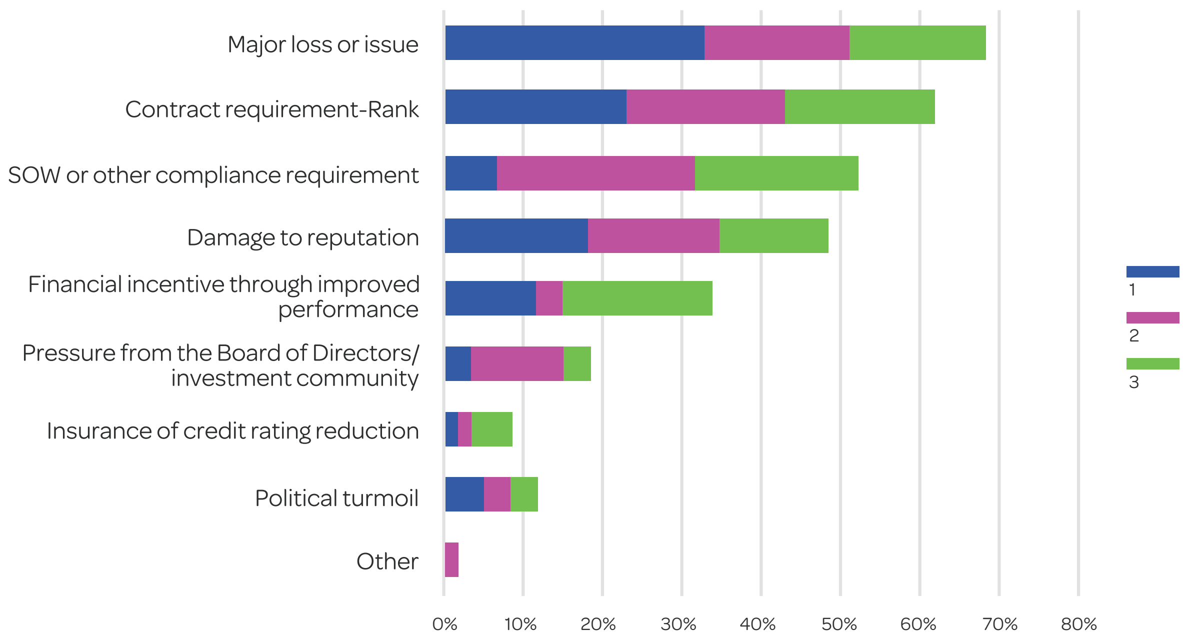
After a decline in maturity last year, large firms put a spotlight on their risk/opportunity management practices and it has paid off. The percentage of companies $100M-$1B+ who cited this discipline as being Somewhat or Very Mature doubled to 83%. Though small and mid-size companies are still struggling to mature this skill set, with both groups fairly evenly split between mature and immature risk/ opportunity management disciplines, large companies are putting more emphasis here. For example, large companies are adding a Chief Risk Officer responsible for managing risk throughout the organization. This new C-level role is growing fast in popularity. Last year, just 10% of large organizations—and no one else—had a CRO. This year, 21% of large companies have this position in place and we are starting to see small and medium-sized firms add it as well, suggesting their risk maturity will rise in the coming years.



### *What would most likely trigger a Risk / Opportunity initiative for your company?*

The top six triggers of a risk/opportunity initiative remained unchanged from last year, although the #1 and #2 answers switched spots. A Major Loss or Issue, second on our list last year, now leads the likely generators of a risk initiative. What's noteworthy here, as it has been in years past, is that the top triggers are reactive. Something needs to happen and then the firm will launch a risk/opportunity initiative after the fact. We continue to watch for proactive risk triggers such as pressure from the Board to play a bigger role in driving companies to get out in front of risk management before they experience a major event.

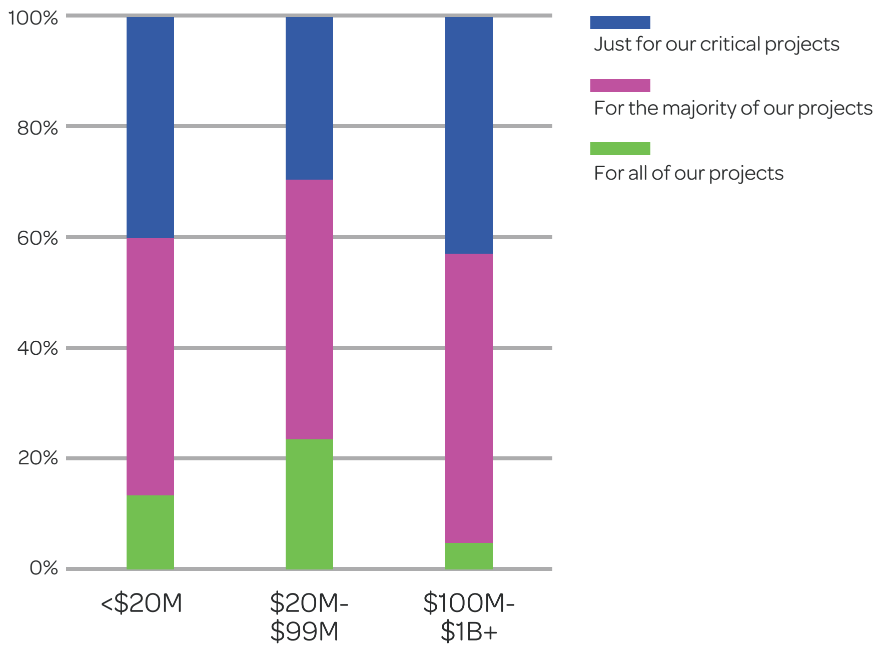
**RISK / OPPORTUNITY INITIATIVE TRIGGERS**



### *How often do you account for risk and uncertainty in your scheduling?*

Across the board, we saw an increase in the management of schedule risk. Last year's Infrequently and Never responses, which made up about one-quarter of all responses, disappeared entirely. Overall, roughly 60% of firms said they account for risk and uncertainty for all or most of their projects, an increase of about 10 points. The remainder account for risk for their critical projects. As more companies add Chief Risk Officers and improve the maturity of their risk/opportunity management discipline, we expect to see frequency of accounting for risk and uncertainty rise.

**FREQUENCY OF ACCOUNTING FOR RISK AND UNCERTAINTY**



## PROJECT MANAGEMENT

# CLARITY OUTLOOK

Risk/opportunity management is moving onto center stage for government contractors. Six in 10 companies said its importance would increase either slightly or significantly at their organization in the coming years while no one indicated a decline. At the same time, this year saw a double-digit spike in the percentage of firms creating a Chief Risk Officer position to oversee this critical function. Firms are recognizing the bottom-line benefits of managing risk well—and the high costs of managing it poorly.

They are also recognizing the high cost of poor project management. While firms continue to struggle with inexperienced PMs, PM maturity and budget/schedule overruns, they are actively seeking to address these problems. They are investing in PM training. They are investing in formal Program Management Offices. They are investing in project management software. But there is still a long way to go and we urge contractors to stay focused on improving the structure, software and skill sets of their project management function.

SECTION THREE

# FINANCE

*In Jim Collins' "Good to Great" he paints the picture of a flywheel. It takes great effort to get the flywheel moving when you first jump in it, but once it gets going it gains speed quickly. That is the sense we have of the state of the GovCon industry today by looking at the financial metrics.*

**8%**

**overall net profit**

is a 2 point drop from last year

**6%**

**growth rate**

is a sharp decline from 11% last year—its lowest level in at least 7 years

**30**

**point**

drop in overall composite overhead rate, to 40%

Yes, profits are down as is growth. But other indications suggest that this is reflective of the investment required for the next wave of growth. Firms say they are diversifying into new customers/markets as means of offsetting unpredictability in federal spending and driving future expansion. Though diversification is initially costly, many firms identified cost control as an area of focus this year.

Other numbers point to stabilization and improved performance in the industry as well. For instance, this year saw a sharp reduction in the number of days from invoicing to payment. As firms create more accurate invoices, cash is coming in faster. Finally, nearly 2 in 10 mid-sized and large companies said they have plans to expand through acquisition. Despite some of this year's less-than-rosy financial results, under the surface the industry is in good health and is optimistic about its performance in the coming years.

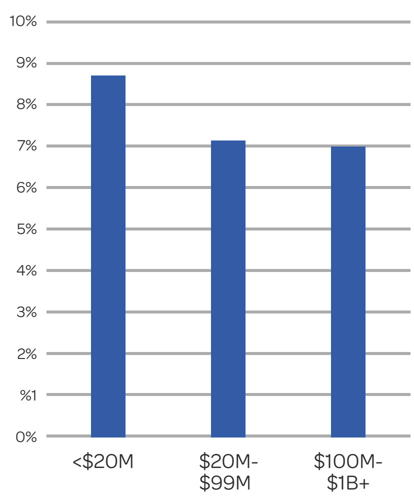
### *Key Data Points from the Survey*

- Overall net profit dropped 2 points to 8.0%.
- After spiking to an average 3.5% last year, unallowable costs have dropped back down below 2%, a figure more in line with the benchmark.
- After climbing for two years, G&A reversed direction and fell 2 points to 18%, driven entirely by a drop in G&A at large firms.
- Growth rate fell sharply, from 11% to 6%, its lowest level in at least 7 years.
- The overall composite overhead rate plummeted 30 points to 40%, reversing a long climb that began in 2013.
- After two years of increases, overall composite fringe rate fell 4 points to 31%.
- The Average Monthly Invoice Cycle remained flat at 15 days while Days Sales Outstanding plunged 10 days to 40 days.
- When asked about their M&A plans, 17% of firms said they have definite plans to buy while 4% said they have definite plans to sell.
- The top three challenges facing financial leaders over the next 2-3 years include Decreasing and/or Unpredictable Federal Spending Environment, Organic Topline Growth and Increasing Profitability. Firms overwhelmingly pointed to diversification—primarily into new customers, secondarily into new markets—as their solution to these challenges.

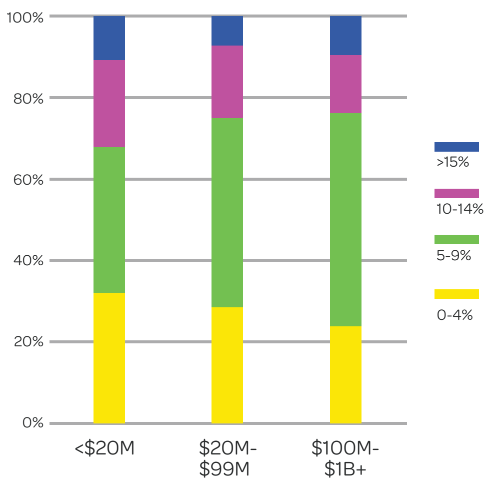
## *Net profit*

Overall net profit for firms' most recently completed fiscal year dipped two points to 8.0%. While down, that figure is nearly exactly the average of the previous six years' results. However, the overall results are less telling than the results by segment. While medium and large companies remained fairly flat year over year, small firms' net profits dropped sharply, to 8.6% from 12.3%, revealing that small firms are dragging the overall decline. There are a few potential explanations for this hit to small firms' profit. First, it is more expensive for a small company to achieve NIST 800-171 compliance than larger companies. Due to fewer available resource, they are more likely to have to take billable resources out of the field to build their security plans for compliance. Second, small businesses are reporting that they are increasing activity in costly areas such as hiring and updating IT systems. Finally, competitive pricing pressures as well as an increase in CPFF type contracts could also be factors that hurt profitability. Across the board, we noted a number of write-in comments that indicated firms are investing more in marketing/branding to communicate their message to external audiences and appeal to different markets. While all of these dynamics negatively impact near-term profitability, they also represent investments in future growth. We will be watching to see if the profitability flywheel takes off soon.

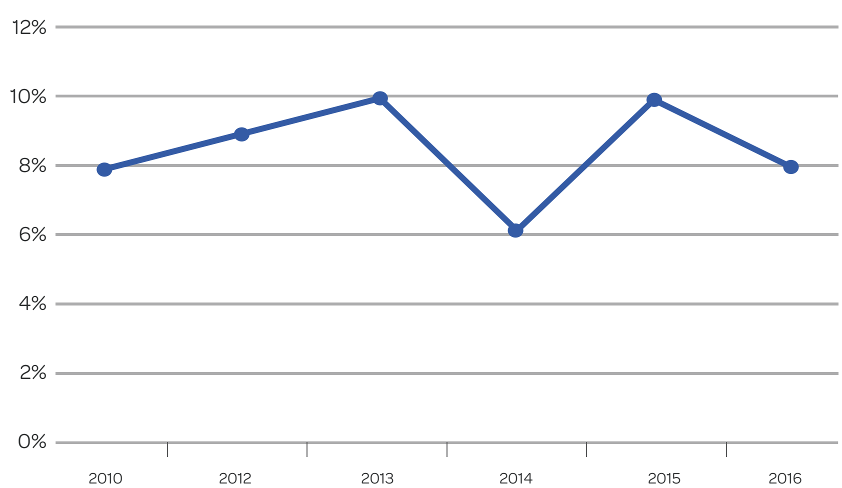
### NET PROFIT




### NET PROFIT BY SIZE



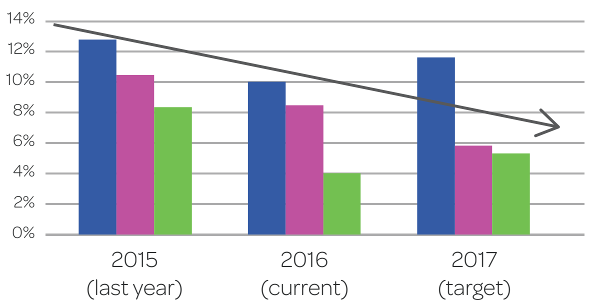

### 6-YEAR NET PROFIT TREND



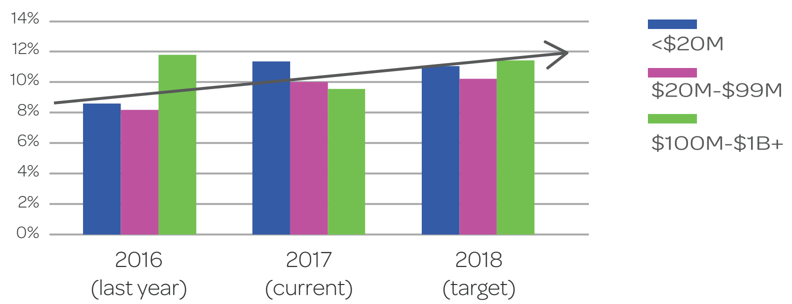
### *Actual Growth Rate*

Optimism has been restored, although it seems a bit guarded. Last year we noted a never-before-seen phenomenon where GovCon firms were predicting less growth in the future than they actually registered in the previous year. This year the line is turned up again, although not as dramatically as seen in previous years with 7 out of 10 small and medium sized firms predicting single digit growth. This optimism is likely fueled by hopes that the new administration will generate increased activity in the GovCon space, as well as a confidence that investments in human capital and talent acquisition will start paying off.

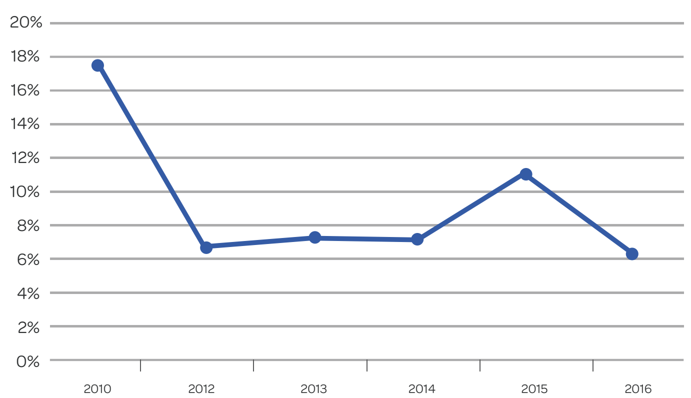
## CLARITY 2016 PROJECTIONS




## CLARITY 2017 PROJECTIONS




## AVERAGE GROWTH RATE OVER TIME



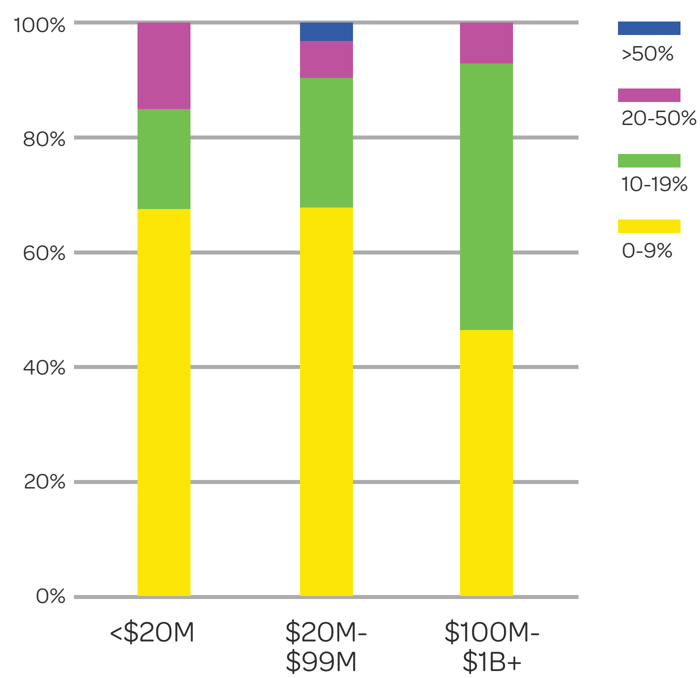

## 6-YEAR GROWTH VS. NET PROFIT

## *Growth Rate Projections*

When we asked firms for their outlook on future growth, their predictions aligned with current performance. Small and mid-sized firms, which saw some negative growth both last year and currently, turned in more modest outlooks than they did a year ago. Nearly 7 in 10 firms in these segments are predicting single-digit growth. Last year, just 42% (small) and 55% (medium) of businesses said they were projecting growth in that range while all others turned in double-digit predictions.

Large companies $100M-$1B+ are more bullish. With roughly 4 in 10 large firms reporting double-digit growth both last year and currently, 54% of this group are now predicting growth rates of 10% or more next year—a far more optimistic outlook than last year when just 1 in 10 predicted double-digit growth and all others forecast modest single-digit expansion.

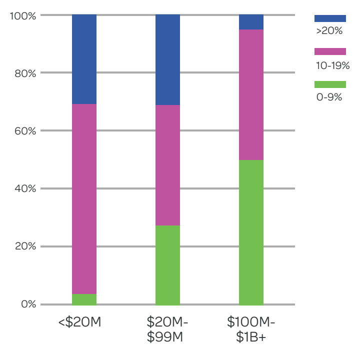
**NEXT YEAR'S GROWTH RATE - BY SIZE**



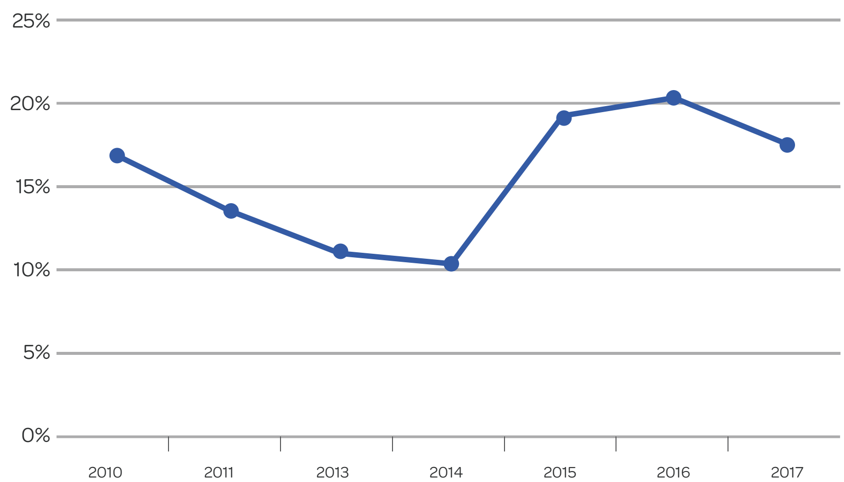
## *G&A Rate*

After climbing for two years, G&A corrected itself and fell 2 points to 18%. But the overall figure is misleading. When we examined G&A by segment, we discovered the rate is being pulled down by large companies, where it fell by half. At small- and mid-sized firms, G&A was unchanged year over year. We suspect the drop in G&A at large firms is due to greater price pressures on large businesses. Some respondents indicated a movement to shut down offices in favor of home offices as a way to lower G&A rates. As some of their market share is pushed down to smaller firms, big companies are having to rein in G&A as much as possible to stay competitive.

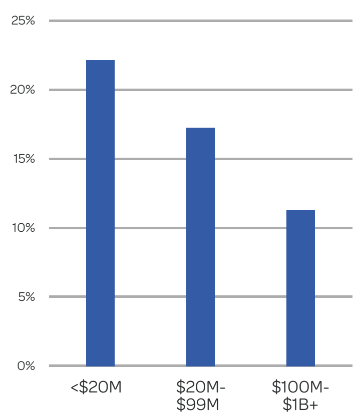
### G&A RATE - BY SIZE




### 6-YEAR G&A RATE




### G&A RATE

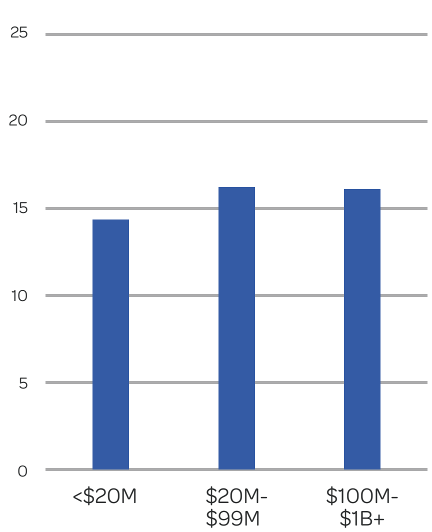


## *Average Monthly Invoice Cycle and Days Sales Outstanding*

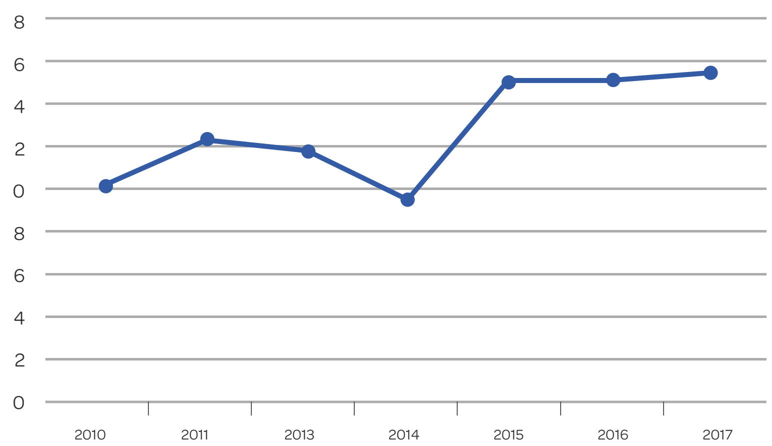
Average Monthly Invoice Cycle remained flat at 15 days, suggesting firms have leveled off the rate at which they turn labor into cash. We are unlikely to see this number return to its 2014 lows any time soon as invoices undergo closer scrutiny today than they did in the past. Companies want to be sure their invoices are right before they go out the door and this takes time.

It appears to be time well spent. Days Sales Outstanding (DSO)—the number of days from invoicing to payment—is at nearly its lowest point in seven years. Over the past year, it went down 10 days on average which, in a cash collection cycle, is significant. The message here is clear: getting the invoice right the first time helps cash flow. The increased invoice scrutiny that has led to overall longer invoicing cycles is paying off on the back end.

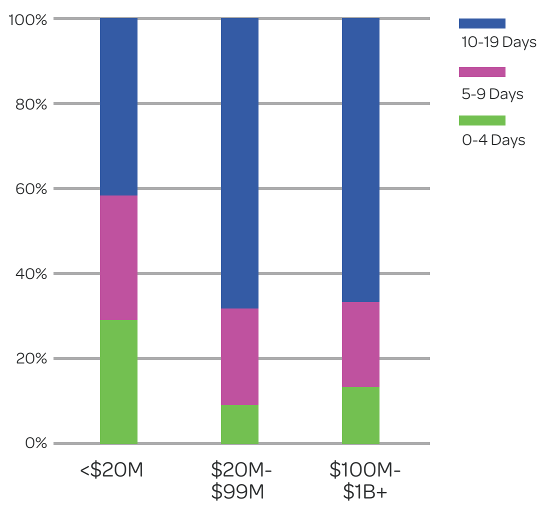
### MONTHLY INVOICE CYCLES



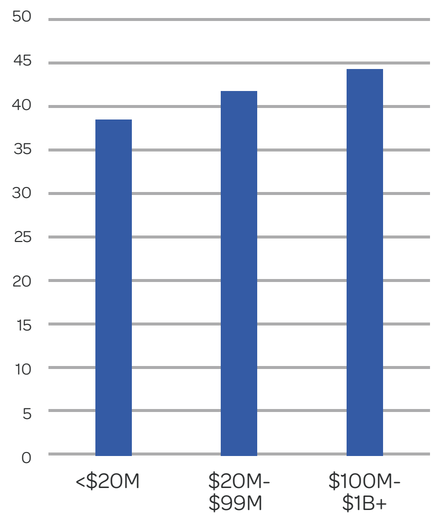

### MONTHLY INVOICE CYCLE TREND



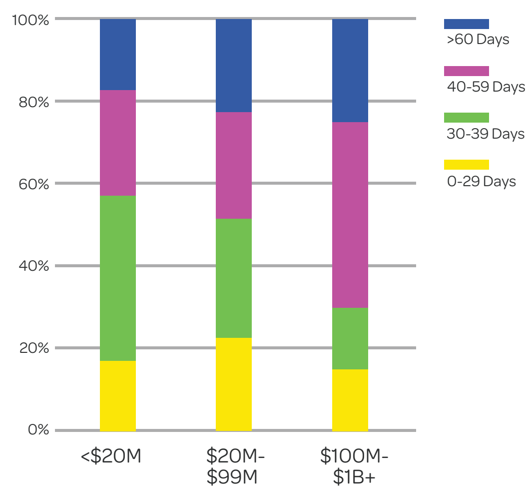

### MONTHLY INVOICE CYCLES - BY SIZE



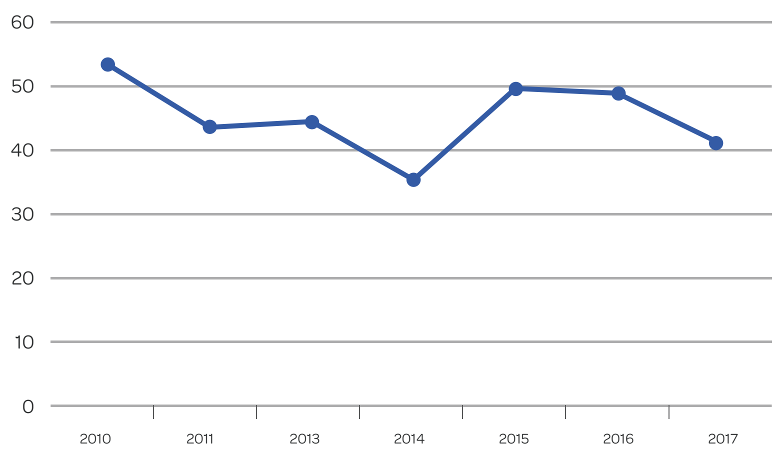
## DSO




## DSO - BY SIZE




## DSO TREND



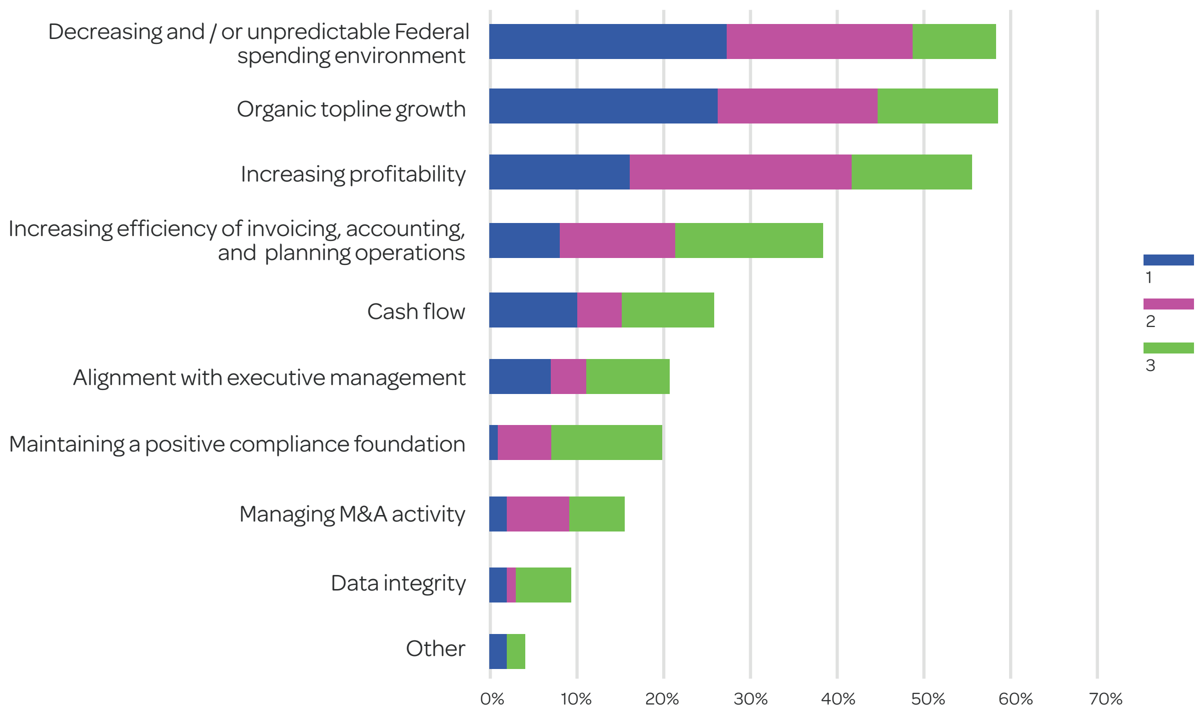
## *What do you think will be the top three challenges facing the financial leaders of your organization over the next 2-3 years?*

Not surprisingly in an election year, we saw some reshuffling of the challenges facing financial leaders over the next several years. Despite a dip in overall profits, Increasing Profitability, which has been the runaway top challenge for the past two years, slid down to the third spot this year. Just over half of firms cited it as a top-three issue (down from 65% last year), and only 16% of firms said it was their #1 challenge, down from 24% last year.

Instead, firms told us that the unpredictable federal spending environment and topline growth are top of mind. Nearly one-quarter of all companies cited these two challenges as being the #1 issue their financial leaders are facing and nearly 6 in 10 firms put it in their top three. It is no surprise that they are coming in neck-and-neck as they are closely related. When federal spending is declining or uncertain, companies must find alternative means of growth.

In the face of other priorities, Cash Flow, which has been a top-three challenge in our last two studies, dropped down to fifth position. Several write-in comments also cited HR-related issues such as staffing, training and hiring as being challenges that will impact the finance function.

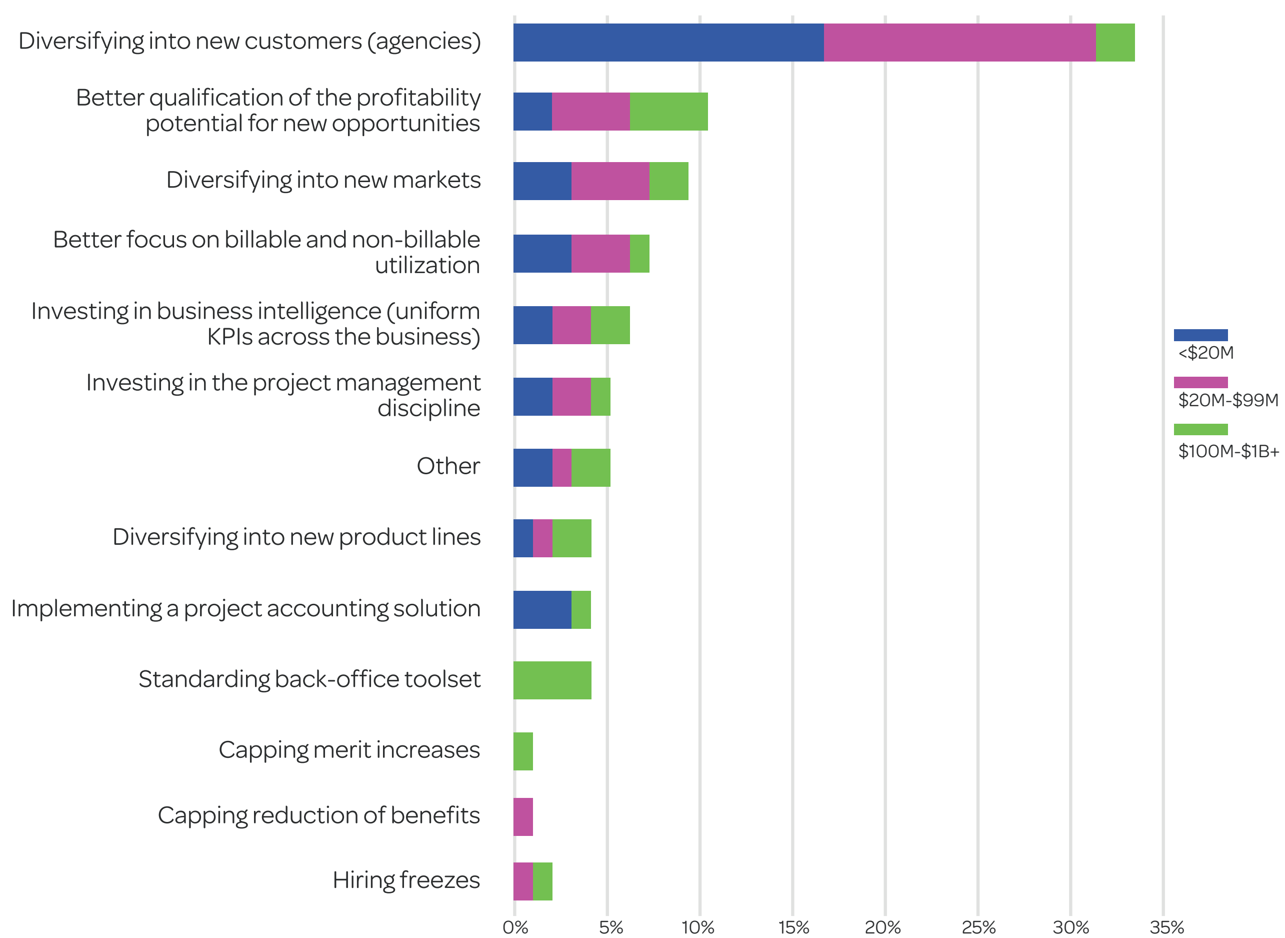
### FINANCE CHALLENGES



## *Actions to Address Challenges*

For the second year in a row, we asked firms to share the actions they will be taking to address their top financial challenges. Like last year, diversification remains overwhelmingly the top solution to the problems facing financial leaders today. This was a theme throughout the "solutions" part of our survey. In one question, we asked firms to write in their long-term strategy for continued growth given the unpredictable nature of the federal spending environment. Firms pointed most often to diversification into new customers and markets. Other strategies included merger/acquisition plans, better cost management, and project execution excellence. Many write-in comments pointed to the need to protect and win re-competes until the new administrations spending gets more clear. This can also be seen as a short-term strategy towards financial strength. Bottom line: addressing the financial challenges in today's GovCon environment depends on getting the basics right internally and branching out into new customers and markets externally.

### ACTIONS TO ADDRESS CHALLENGES



## ACTIONS TO ADDRESS CHALLENGES

FINANCE

# CLARITY OUTLOOK

While rear-looking signs such as profits and growth are both down, signs point to the notion that companies are gearing up for growth. Certainly, the growth rate forecasts indicate a guarded optimism for the next two years. Many of the comments we received shone the spotlight on this ever important target of growth. While GovCon firms may have a highly active administration to thank, they can also thank themselves. Investments in human capital will start paying off in increased growth numbers. These things, in conjunction with the hope that the current administration will take a favorable approach to deregulating key areas of the business, have many GovCon firms anticipating an market ripe and ready for increased growth.

SECTION FOUR

# FINANCIAL COMPLIANCE

*Two different pictures of today's compliance environment emerged in this year's survey, divided along the lines of company size.*

**2.5**
**FTEs**
at large companies are focused on external audits, up from 1.1 last year

**82%**
**of firms**
were audited, down 10% from last year

**1200**
**hours**
were spent preparing for government audits by large firms—a 253% increase

Overall, 82% of responding firms reported they had experienced an audit last year. That was down by 10% from the year before, which should be a source of encouragement. However, these same firms also reported that they were dedicating more time and resources in this area of their business, which was especially true in large firms. Large companies more than tripled the number of hours spent preparing for and participating in government audits and more than doubled the number of FTEs focused on external audits. While audits appear to be touching slightly fewer companies, those they do touch are clearly experiencing very thorough and extended audit. Incurred Cost Submission (ICS) and Internal Controls audits came up repeatedly as areas of challenge. After these two stalwarts, firms reported moderate levels of activity in CPSR and CAS and fewer, but nonetheless present, activity with ACA and Executive Compensation compliance.

Firms reported that the level of government oversight remained relatively unchanged for all companies year over year. Small firms did not feel the burden of this the same way large firms did, with firms >$20M noting a reduction in the time and manpower burden of compliance. This may be in part, because smaller firms reported a more diversified book of business not as dependent on federal contracts and thus, not as visible to auditors. Firms across the board are eagerly anticipating delivery on the new administrations promise to reduce regulatory pressure.

### *Key Data Points from the Survey*

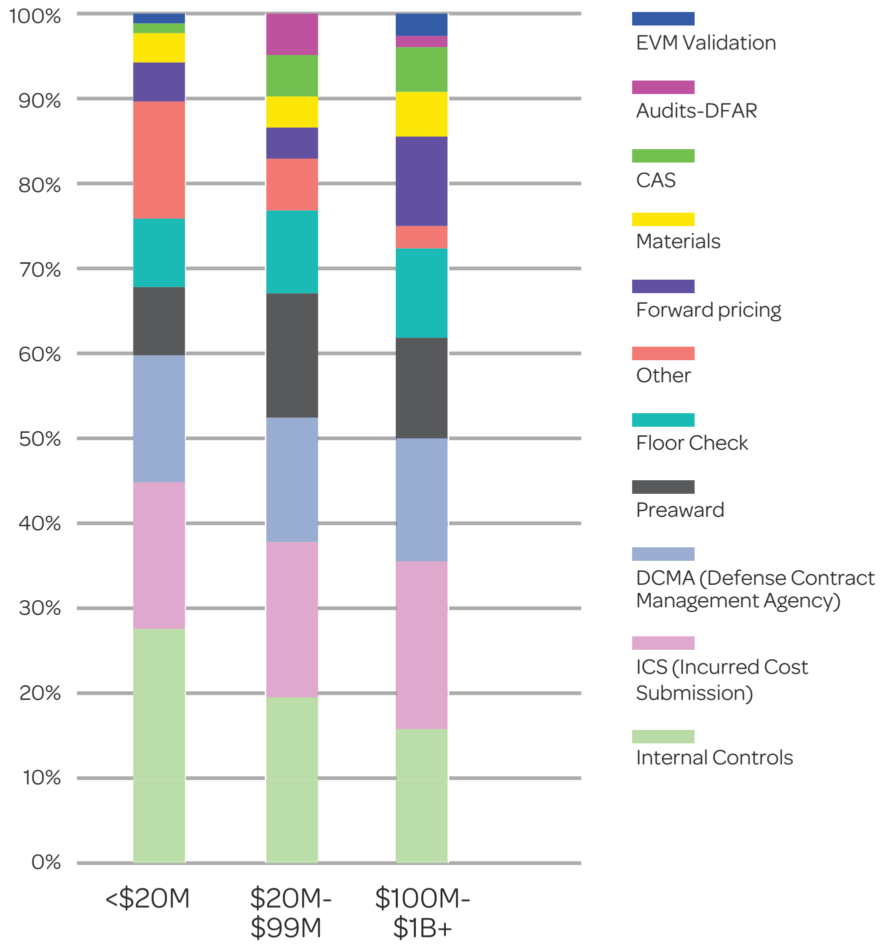
- The top three audits companies have undergone in the past two years—Internal Controls, ICS and Defense Contract Management Agency (DCMA) audits—comprised about 55% of total audits, just slightly higher than last year.
- ICS and Internal Controls audits continue to be the most costly for contractors in terms of compliance.
- Overall, the level of government oversight on firms remained steady year over year.
- Large firms $100M-$1B+ saw a huge spike in the number of hours per year spent on developing ICS reports. This year, they spent 275 hours on average, up from just 137 hours last year. At the same time, the number of hours large firms spent preparing for and participating in government audits of all types ballooned from 340 to just over 1200 hours—a 253% increase. Mid-sized companies $20M-$99M also saw an increase in the number of hours spent preparing for and participating in government audits. Last year, it was 150 hour; this year, that figure more than quadrupled to 700 hours.
- At large companies, nearly 2.5 FTEs are focused on external audits, up from about 1.1 last year, while 2.2 FTEs are focused on regulatory compliance, up from 1.2 last year. Mid-sized firms doubled the number of FTEs focused on regulatory compliance to 1.8.
- Contractors' top three audit challenges over the last year were Indirect Rates, Labor & Timekeeping and Internal Control Systems (ICS).

## *Which audits has your firm undergone within the last two years?*

The big question for contractors each year is: which types of audits are increasing or decreasing? In other words, in which areas of their business should they be looking for auditors to come calling? This year saw little change in the amount and types of audits firms are undergoing. Overall, Internal Controls, Incurred Cost Submission (ICS) and Defense Contract Management Agency (DCMA) audits comprised about 55% of total audits, just slightly higher than last year. It is worth pointing out that last year's report called out a 20-point spike in the amount of Internal Controls audits firms are experiencing and that elevated level is holding steady. Pre-award audits and labor audits in the form of Floor Checks are still being reported by 1 out of 5 firms.

One noteworthy observation was that CAS audits crept up across the board this past year. Reports of having to move from modified CAS to full CAS due to contract requirements increased from prior years. This shift requires firms to move from 4 standards to 19 standards and mostly focuses on the allocation of indirect rates. This often requires some business process reengineering, an upgraded accounting solution that can provide the necessary cost pool structure to meet the new additional standards.

**AUDITS IN PAST TWO YEARS**



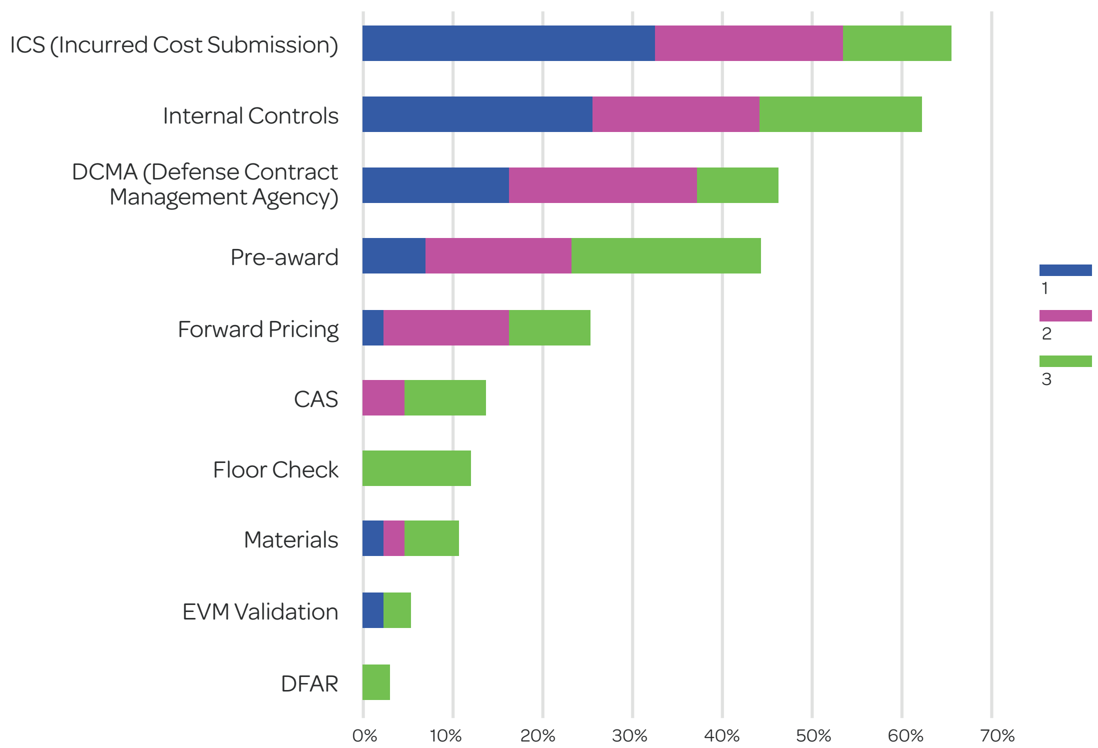
## *From the audits selected above, in what order would you rank them in terms of cost of compliance?*

ICS and Internal Controls audits continue to rein as the most costly for firms in terms of compliance. There is a lot of policy and procedure that goes into preparing for these audits and, because they scrutinize the grey area of indirect rates, we don't foresee the number or cost of them decreasing. In fact, a larger number of organizations cited these in their top three most costly audits. Last year, 55% of firms identified ICS in their top three while 49% put Internal Controls on their list. This year, those numbers jumped to 65% and 61%, respectively. These elevated costs in terms of both time and resources support the trend we are seeing with overall DCAA audit behavior. In its latest report to Congress, the DCAA reported doing fewer ICS audits but are examining more dollars which in turns translates into longer audits for those firms who are selected - driving up costs for the firm.

Pre-Award, though now in the fourth spot, was selected as being among the most costly audits by roughly the same number of firms as last year. If these audits expand in the future, companies using generic accounting solutions may want to consider implementing software designed specifically for government contracts, which eases the time and cost of these audits.

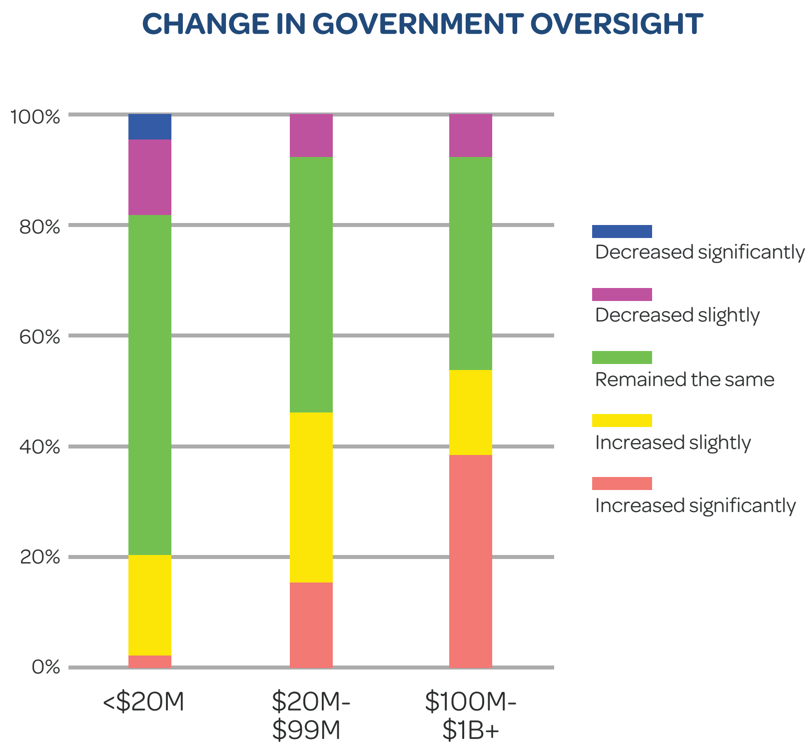
DFAR, in the seventh spot last year, dropped down to the bottom of the list, likely because defense contract audits were virtually nonexistent and didn't cost companies very much when they did occur.

### COST OF COMPLIANCE



*How would you characterize the change in the overall level of government oversight of your organization over the last year?*

After plateauing last year, the level of government oversight has remained constant year over year. Beyond the 10% of medium-sized companies who said they saw a slight decrease in the level of government oversight where none did last year, we saw little to no change in any of the categories. Overall, 82% of firms reported experiencing an audit last year, which is down 10% from the previous year. There has been a lot of talk about deregulation and reduced compliance in the new administration. If that becomes reality, we would expect the next few years to see a significant expansion in the Decreased Slightly and Decreased Significantly bands.



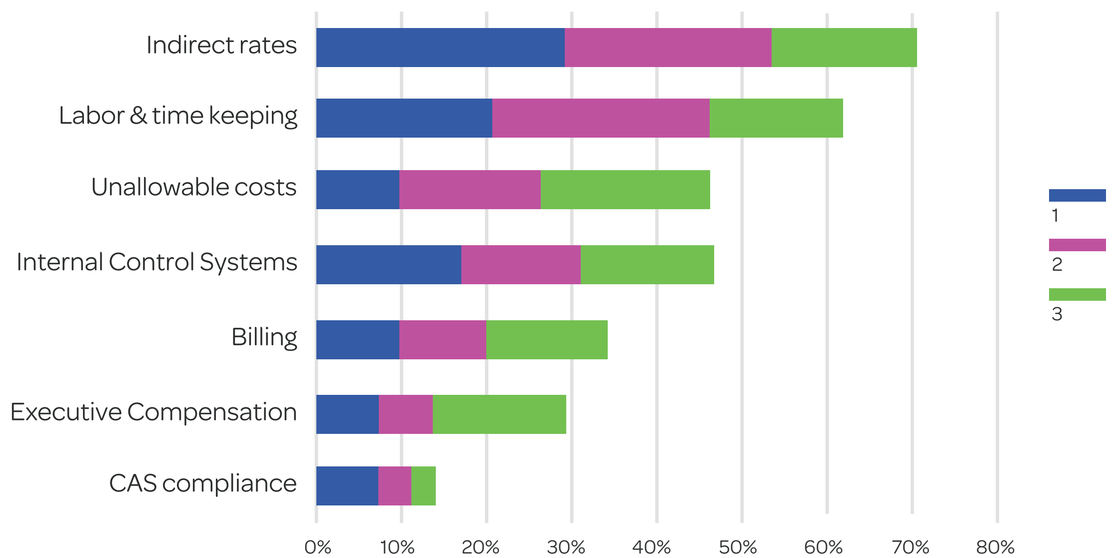
## *What are your top three financial audit challenges over the last year?*

Indirect Rates and Labor & Timekeeping topped firms' list of top audit challenges for the third year running. Where we saw movement was in Internal Control Systems (ICS). Last year, ICS was fifth on the list with 35% of companies putting it in their top three issues; this year, 46% of companies put it in their top three, pushing it up to the third spot. It is tied overall with Unallowable Costs, but many more firms cited ICS as their #1 challenge. While DCAA is doing fewer audits as a whole, they are examining more dollars, and being more thorough with each one, creating additional challenges for contractors. To make it even more challenging for contractors we are seeing a trend in human capital management where they are struggling to retain top talent with detailed knowledge of both their accounting practices and compliance requirements. ICS audits can go back a decade, requiring much more time and digging, responding to those audit requests becomes particularly challenging when those with firsthand knowledge are long gone.

One issue we found interesting is that while Executive Compensation came in sixth overall and just 6% of firms cited it as their #1 challenge, the topic was raised repeatedly in write-in comments. Companies told us it is difficult to effectively compensate executives and that they spent more time last year than in previous years justifying/proving that compensation. As one company lamented: "Executive compensation is a difficult issue because not all of our contracts are covered by the limit. Essentially, we are having to operate two different pool structures and then use the burden cost override to adjust the rates for the contracts that are covered." More than 25% of firms also reported the resurgence of CPSR audits. After not having gone through this audit for a number of years, firms reported having to provide auditors with information about their purchasing system – everything from subcontractors to materials was examined.

In a separate question, we asked firms what they are doing to address their top Compliance challenges. Their top answer: they are re-engineering their business processes to accommodate the changing auditing requirements. This response jumped from #5 last year into the #1 position this year, by far the biggest movement on the list.

### TOP FINANCIAL AUDIT CHALLENGES



## FINANCIAL COMPLIANCE

# CLARITY OUTLOOK

After a spike in the learning curve to absorb the changing regulations and procedures, contractors have made the necessary adjustments and the learning curve has leveled off. That's not to say the compliance environment is any easier—it's not. But there is a new optimism around it. With the tone of the current administration promising to reduce regulation, there is reason for hope that the compliance environment might become less onerous. The general consensus seems to be that the backbone of auditing will remain; it just may be on a lesser scale with fewer auditors. It likely will also move in some new directions. Many write-in comments pinpointed cybersecurity as a forthcoming IT compliance challenge for their firms. Despite today's general mood of calm, compliance remains a real and costly issue.

SECTION FIVE

# HUMAN CAPITAL MANAGEMENT

*Finding and keeping talented professionals continues to be a top challenge facing Government Contractors and is driving many of the HR trends and concerns that surfaced in this year's study. As a result, Human Capital Management, which includes workforce planning, core HR and talent management, continues to be a very hot topic.*

10
point growth
in headcount in large firms, primarily from large numbers of new hires

35%
of companies
upgraded their HRIS system in the last year—double that of last year

7 in 10
companies
said their HR budget is decreasing

Several data points tied together to paint a compelling picture of improvement. First, more than one-third of companies reported upgrading their HR information systems in the past 12 months, double the number last year. Second, an increased percentage of companies said they are tracking as a KPI the time it takes to fill an open position. As a result of this focus, we saw an across-the-board reduction in the amount of time it takes to fill an open spot. Everyone now has this number under 90 days. This was particularly impressive at large companies, which reported a 10-point increase in headcount.

Another series of data points illuminated the challenge firms face in adapting to the influx and needs of Millennial workers. Employee engagement rose up three spots to the top of firms' list of challenges in managing HR as companies seek to connect with their youngest workers in the medium, frequency and channels they prefer. At the same time, open enrollment for benefits moved up four spots to become the number-two most-expensive HR business process, due in part to younger workers needing more time and guidance on benefits issues. Effectively managing the younger workforce is a hot issue for small companies where Millennials make up one-quarter of workers. Large companies are keeping an eye on their best practices as the 4 in 10 Baby Boomers who make up their workforces will soon be retiring, to be replaced by a younger employee group.

### *Key Data Points from the Survey*

- 7 in 10 companies said their HR budget is decreasing, up from just under 6 in 10 last year. We expect that to level off or shift back in the "increasing" direction as companies invest in a promising growth environment.
- Each year, we ask firms how many people are currently in their HR organization. Last year, 15% of mid-sized companies said they had 21-50 people; this year, no one in the mid-tier selected this response. This result may be due in part to companies outsourcing part of the HR function, a growing trend.

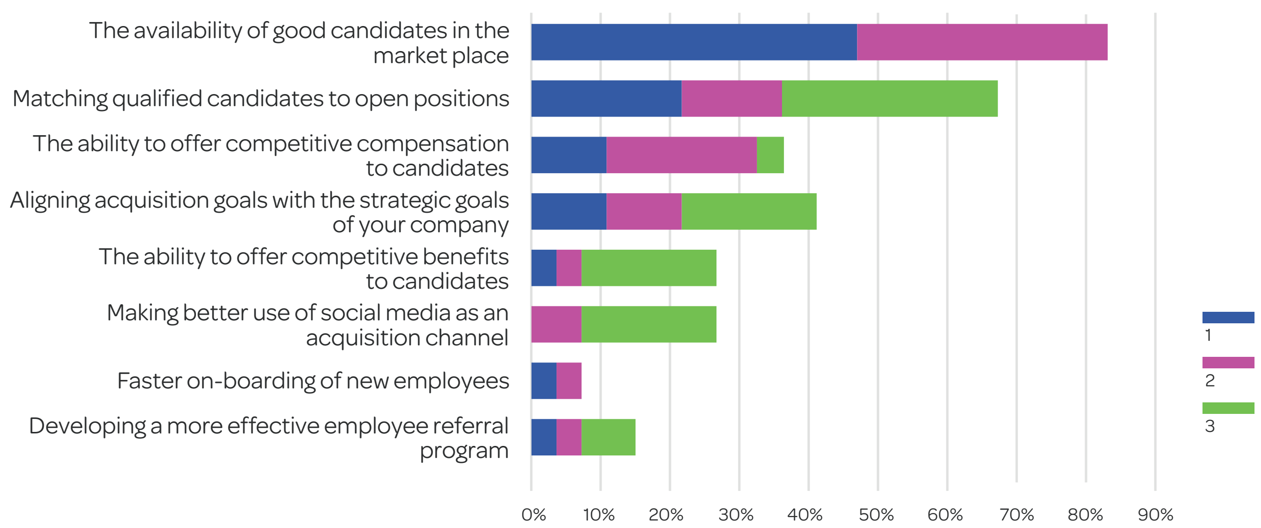
- When asked by what percent their headcount grew or shrank in 2016, large firms stood out with a 10-point growth in headcount. This growth came from large numbers of new hires and a high Voluntarily Terminated segment, the latter possibly due to retirements of older workers or employees leaving the government contracting industry for the commercial sector.
- Employee engagement and workforce capacity and planning tops companies' list of challenges managing HR, up from #4 last year.
- When asked how open positions have changed in their organization, responses fell along segment lines. Small firms overwhelmingly (80%) said the number of open positions stayed the same; mid-sized firms were evenly split between decreased, increased and remained the same; and large firms unanimously said their open positions increased, up from just 30% who made this claim last year. Contributions to the large number of open positions could include aging staff and overall industry growth.
- The top three challenges firms face in acquiring talent include (1) the availability of good candidates in the marketplace, (2) matching qualified candidates to open positions and (3) aligning acquisition goals with the strategic goals of the company. The first two were unchanged from last year; the third one moved up from the #4 spot last year.
- The talent acquisition process remains GovCon firms' most expensive HR business process. This is unchanged from previous years. Open Enrollment for Benefits, last year's #6 response, moved up to the second spot, likely due to a growing number of younger workers entering the workforce.
- The percentage of firms that upgraded their HRIS system within the past 12 months doubled to 35% from just 17% last year.
- Across the board, organizations of all sizes are filling positions more quickly. In particular, 45% of mid-sized companies say they are filling positions in 0-30 days, up from none last year. And 50% of large companies are filling their open spots in that timeframe up from 20% last year. With more than one-third of all companies upgrading their HR Information Systems in the past 12 months, they are already reaping the benefits of that investment.
- Large companies employ a higher percentage of Baby Boomers (38%) than small (24%) and medium-sized (19%) firms while smaller companies employ more Millennials. Millennial employees comprise 24% of the workforce at small companies versus 17% at mid-sized and 15% at large firms. The year-over-year growth of Baby Boomers at large firms is possibly driven by tier two and tier three companies hiring more Millennials and pushing out older workers who tend to be more expensive. Baby Boomers are instead bringing their expertise to large companies who can better afford them.
- The primary KPIs firms are tracking include Voluntary Turnover (23%), Involuntary Turnover (21%) and Time to Fill Positions (16%). The latter expanded from last year, which makes sense considering that every size segment reduced the time it takes them to fill open positions.

## *Challenges in Acquiring Talent*

Government contractors face the same talent acquisition challenges that have plagued them in past years: finding good talent. This issue could be one explanation for the overall increase we saw in the number of open positions year over year, particularly at large companies.

The likelihood this challenge will go away in the near future is not good. Talent availability will remain a challenge for GovCon. The bigger question here is, what are firms doing about it? The problem has been less about lack of talent and more about GovCon's inability to attract talent when they are competing for talent in the commercial sector. By focusing on employment quality and by leveraging technology to improve effectiveness throughout the entire hiring cycle, firms better position themselves to compete with the private sector and ease their top hiring challenges. Companies that do not embrace technology to aid the talent acquisition process will find themselves facing an increasingly steeper uphill battle.

### CHALLENGES IN ACQUIRING TALENT



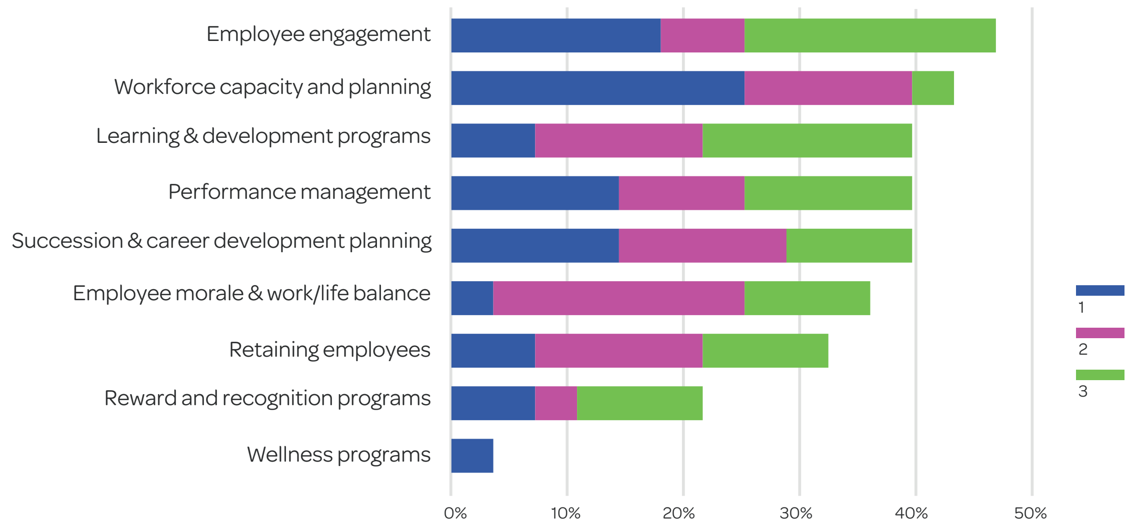
## *Challenges Managing HR*

When we asked firms about their top challenges in managing HR over the next 12 months, we saw some significant movement in year-over-year results. Interestingly, workforce capacity and planning moved from the bottom of the challenges to the top—pointing out the struggle government contractors have planning for the workforce they need and making sure they have their people properly utilized. We see this a lot when a contract gets awarded and within a short time frame the organization has to increase their workforce by a large amount. Many times it is a struggle to hire quickly, onboard, and get a team member on the project. In the future, organizations who do this well will have an advantage.

Last year's top two answers—Employee Morale and Work/Life Balance and Succession and Career Development Planning—plunged to the 6th and 5th place respectively. Retaining Employees, last year's third-ranked answer is now is now in the 7th spot.

These results beg the question: if morale and work/life balance have improved, why is Employee Engagement, which ranked fourth last year, the #1 challenge for companies? Normally these issues go hand in hand and we would expect them to move together. Possibly, the underlying challenge here is how to engage with a younger workforce. Typically, the newest generation of workers wants to engage more frequently, through more channels and get more feedback more often. Companies must find means of engaging with this group in ways that are meaningful to them.

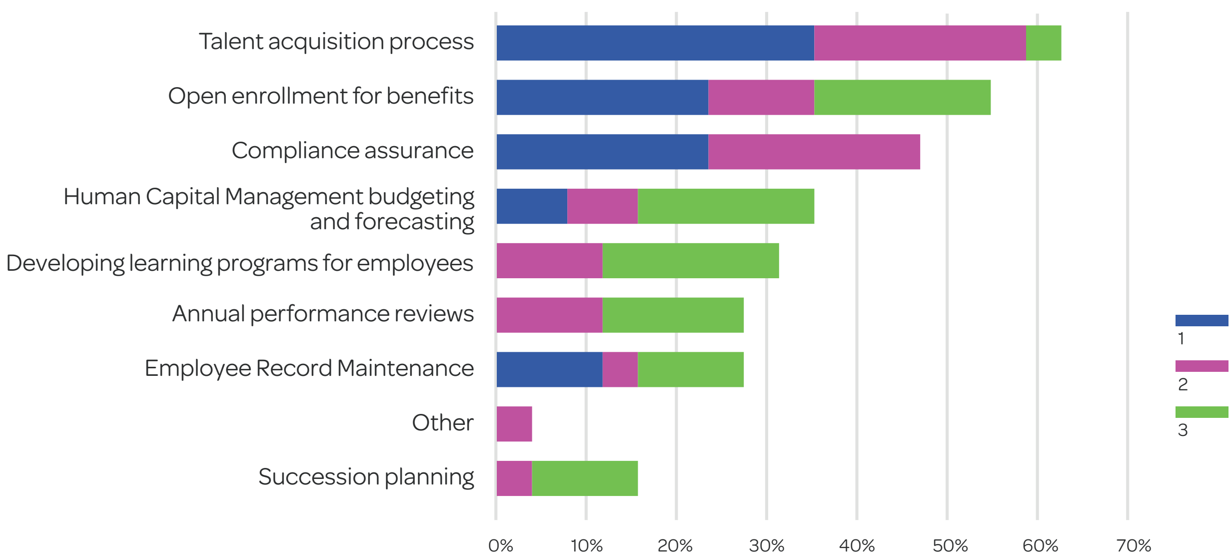
### CHALLENGES MANAGING HR



## *Most Expensive HR Business Processes (Time and Cost)*

The talent acquisition process remains the most costly HR business process in terms of time and expense. This is not surprising considering the increase in open positions and the top HR challenge of finding and placing good candidates. These are expensive issues. One response that did surface as a surprise was Open Enrollment for Benefits. Last year, this process ranked sixth on this list with just over 3 in 10 companies putting it in their top three. This year, it shot up to #2 with more than half of firms selecting it in their top three and nearly one-quarter of firms citing it as their most expensive HR business process. The reason here could be tied to issues with a younger workforce, as we saw earlier in the report. Where older employees simply check the boxes they have always checked during open enrollment, younger employees must be led through the process and educated on all their options. Navigating the complexities of the Affordable Care Act may be contributing to the greater time and expense here as well.

### MOST EXPENSIVE HR BUSINESS PROCESSES

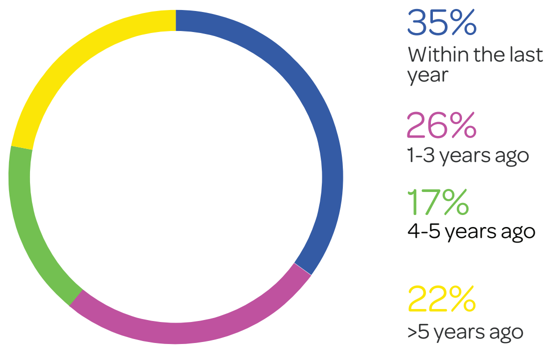


### *Last HRIS Upgrade*

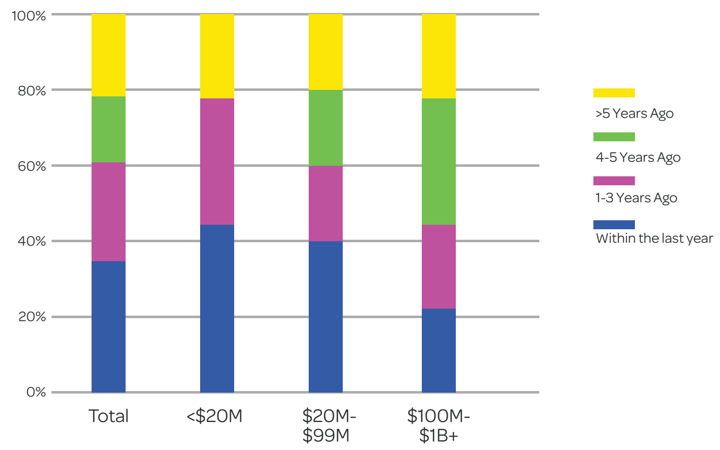
This past year saw a wave of HRIS upgrades. Overall, the percentage of firms that upgraded this system within the past 12 months doubled to 35% from just 17% last year. Most of these improvements came at large and mid-size companies, which makes sense. These groups are growing; they need better systems in place to manage that growth and remain competitive.

The number of companies reporting their last HRIS upgrade was more than five years ago dropped to 22% from 29% last year. Within the next year or two, we would expect to see that slice of the pie, along with the 4-5 years ago slice, shrink considerably as firms will be unable to stay competitive with technology that is older. At the same time, we should see a significant increase in the 1-3 years ago segment as more and more companies modernize their systems.

**LAST HRIS UPGRADE**




**LAST HRIS UPGRADE BY SIZE**




## HUMAN CAPITAL MANGEMENT

# CLARITY OUTLOOK

Government contractors are focused on finding good talent and convincing good talent to work in the government contracting industry vs. the commercial sector. Organizations are focused on getting good talent hired fast. Under the new administration, most contractors anticipate growth and, to keep up with that growth, they are closely tracking the time it takes to fill positions and honing their processes for doing so. Contractors are facing the questions of: How do we keep our employees? How do we better engage with our Millennial workers? How do we scale our workforce up and down very quickly based on contracts? How do we improve our internal processes? These are some of the pressing questions facing today's GovCon HR professionals. Those firms that answer them well will be the ones who win the talent war.

SECTION SIX

# INFORMATION TECHNOLOGY

*Information Technology is the heartbeat of many Government Contractors. With the distributed nature of many firms—some operating in project-heavy, asset-intensive environments—technology is how they maintain a view into business performance, distribute information, and stay in touch with their workforce and customers.*

**67%**

**of firms**

are in the Cloud, with HR and Talent Management leading the way

**40%**

**of firms**

are leveraging SaaS to address IT challenges, up from 15% last year

**75%**

**of firms**

cite IT security as the #1 challenges

This year's results continue to illustrate the importance of the IT department. Spending remains strong, in spite of the fact that budgets have shrunk a bit. Firms have indicated a continued drive to push systems into the cloud, likely for both performance and financial reasons. The IT teams are being stressed this year in particular as the race to ensure NIST 800-171 compliance is on. Based on the new FAR and DFAR regulations, IT must find a way to comply by the end of the year—and many IT professionals are turning to cloud vendors to help them bear this responsibility. As hosted systems become more connected and provide an even better view into the business, it is likely that IT sees an increased demand for their involvement in compliance and regulatory activities.

The following section offers a snapshot of the state of IT in the Government Contracting industry today.

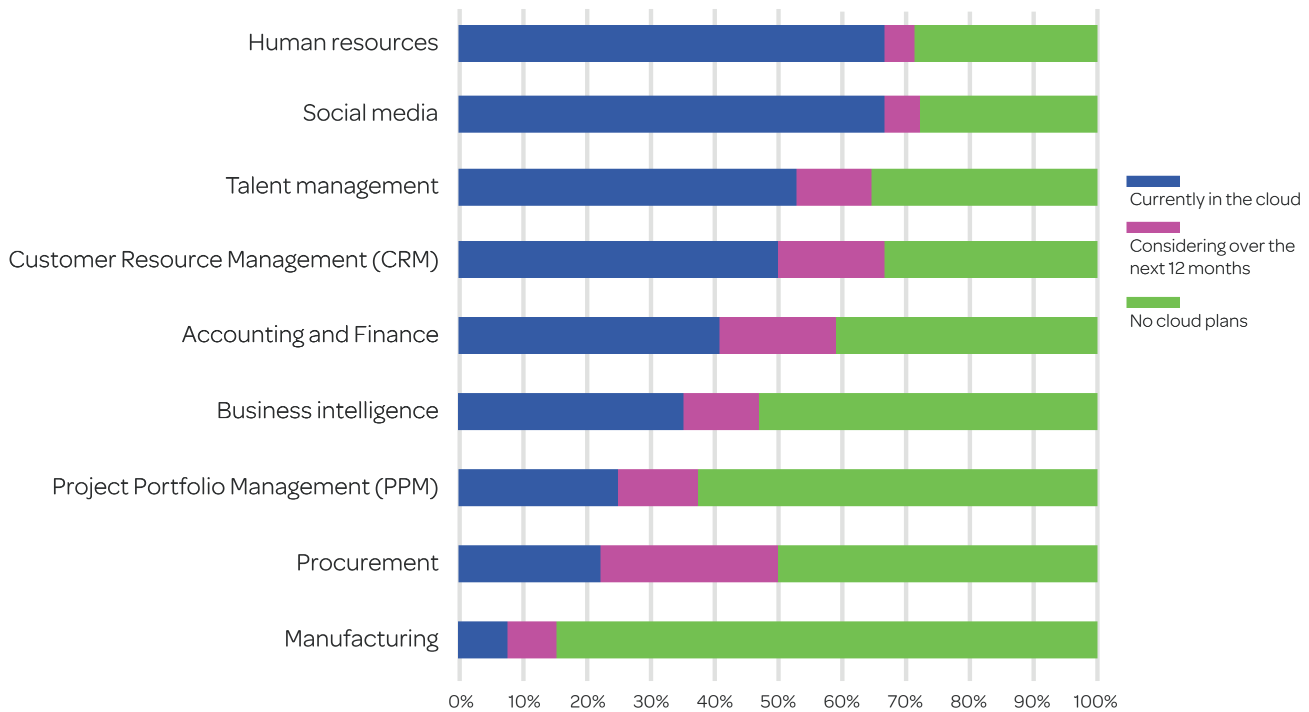
### *Key Data Points from the Survey*

- IT budgets saw a pullback this year to 7.4% of their revenue, down from 9.4% last year. One potential explanation is the big rise in pushing systems to the cloud, which has the effect of operationalizing the cost and spreading it out over time
- Cloud adoption spiked across the board. Social media still leads the way, but jumped from 25% of firms in the cloud to 67% this year. Other notables include HR also at 67% this year up from 19%, and Talent Management at 53% this year up from 17%
- For mobile devices supported, iOS stole market share from everyone spiking from 38% last year to 55% this year. Not a single firm indicated they support Blackberry, which has seen a rapid decline over the past years.
- Satisfying Regulations, a new selection this year, vaulted into the second spot for Top IT Challenges. Managing Mobile Devices and BYOD have made their way down to the bottom of the list

### *Which of your current systems are in the Cloud?*

Cloud adoption got a big boost this past year with Government Contractors. We have been watching cloud for some time, and it may have finally come into its own in the industry. Human resources was actually tied this year with social media, which represents a jump from fourth place last year when just 19% of respondents claimed HR was in the cloud. Other noteworthy jumps include Talent Management, which spiked from 17% last year to 53% this year. Why the huge shift? We have seen a number of other signs across the GovCon firms that they are investing in anticipation of growth, and we think that this is another stark example. Companies have come to realize that they have a lower overall total cost of ownership with cloud and they can focus their valuable IT resources on solving the companies' business challenges rather than upgrading, hosting, and patching enterprise software.

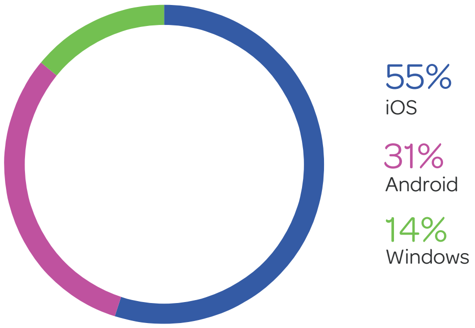
## CLOUD ADOPTION



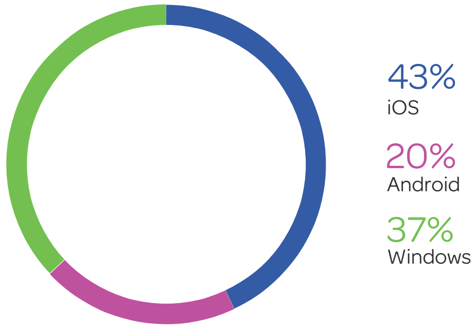
### *What type of mobile devices and platforms are supported by your IT organization?*

The death knell has rung. Out of all of our IT respondents, not a single firm indicated their organization supported Blackberry. We have seen the squeeze on for the past few years, and it is finally over. Windows has made concerted efforts over the years to penetrate the enterprise space. While Windows share of the tablet market held fairly steady, it gave up some share of the smartphone market dropping from 20% to 14% this year. iOS steals the show as well as a big chunk of the smartphone market this year, jumping from 38% to 55% this year. While Apples iPhone sales dropped for the first time ever in 2016, clearly their allure to Government Contractors is getting stronger.

**MOBILE DEVICES SUPPORTED - SMARTPHONES**



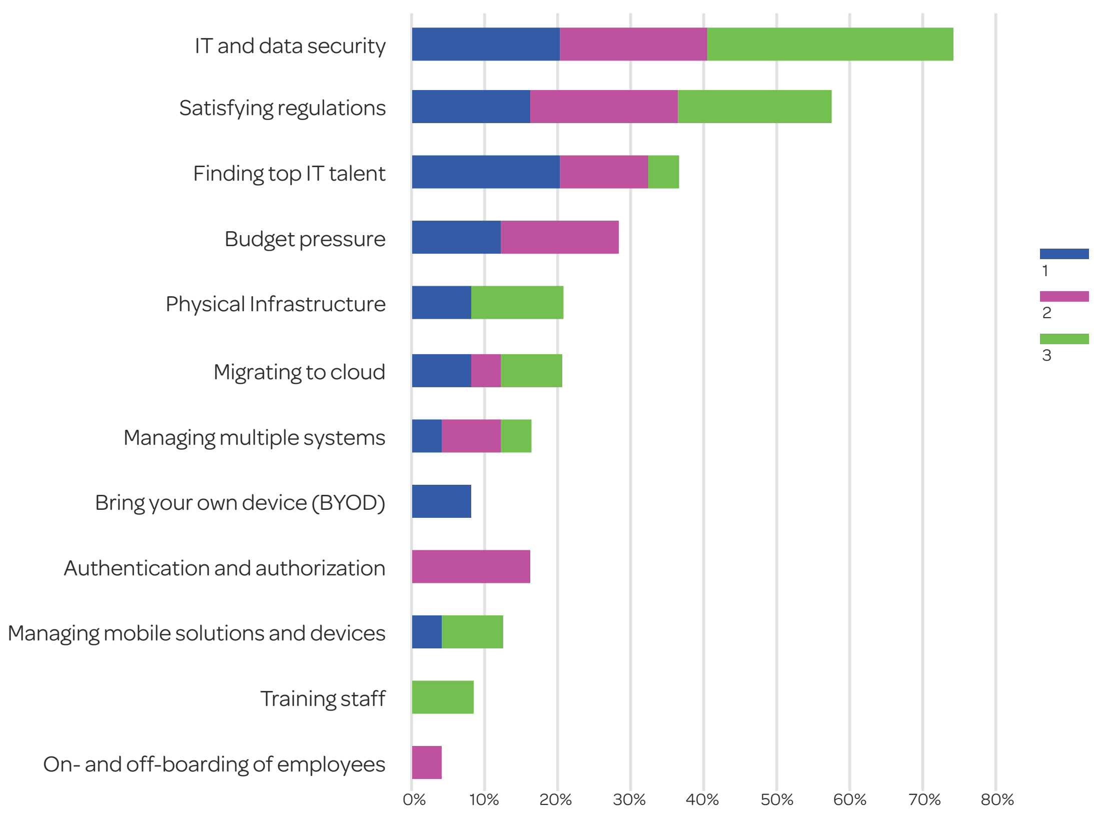

**MOBILE DEVICES SUPPORTED - TABLETS**



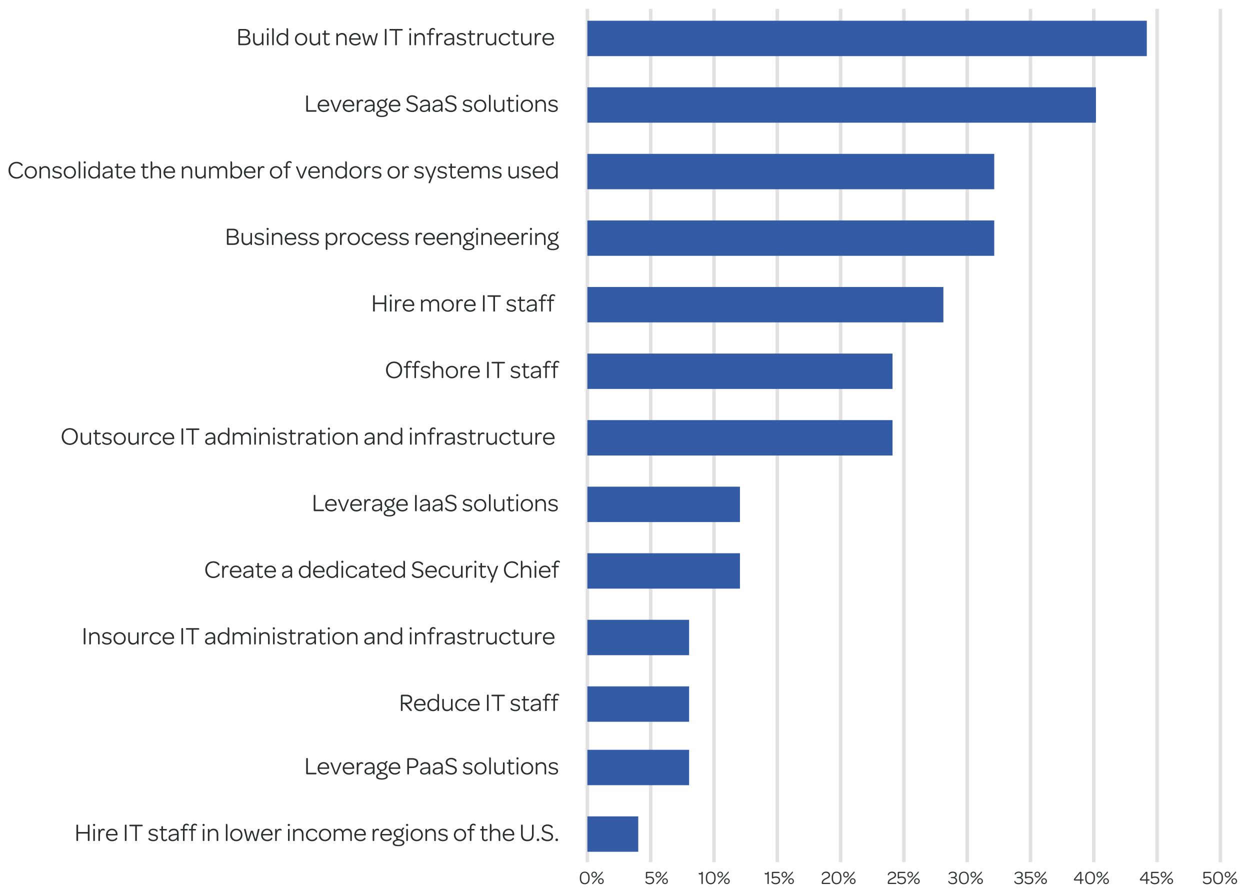
*What do you think will be the top three challenges facing the IT leaders of your organization over the next 2-3 years?*

IT and data security took the top spot again among challenges, and even grew a few percentage points from last year. A new item this year leapt into the second spot as 55% of respondents pointed to Satisfying Regulations as a top three challenge. This is a good reminder that regulations and compliance hits all corners of the organization, and could be a key driver of why so many business applications are moving to the cloud – let someone else keep up with the regulations. Finding Top IT Talent jumped from fifth place to third this year as 20% of respondents called it their top challenge, tying IT and Data Security. Interestingly, Managing Mobile Solutions and Devices, and BYOD both dropped down near the bottom of the list this year. Perhaps this issue has finally settled down and companies have established their policies and culture surrounding mobile.

### IT CHALLENGES



## ADDRESSING TOP IT CHALLENGES




## INFORMATION TECHNOLOGY

# CLARITY OUTLOOK

When used well, IT can be a great business-enabler. Government Contractors are clearly embracing technology towards this end. With the spike in cloud computing, firms have signaled their intention to embrace software as a service (SaaS) across the entire business, and potentially from fewer vendors. We expect this trend will continue. With more cybersecurity regulations (like NIST 800-171 and DFARS 7012) enacted, we repeat our warning from last year about cyber security. As firms become increasingly connected, they will become bigger targets for cyberattacks. Investments and attention in this area would be wise.

APPENDIX

# STATISTICS AT A GLANCE

| | SMALL | MID-SIZED | LARGE |
|---|---|---|---|
| **Business Development** | | | |
| Win Rate | 47.5% | 41.6% | 44.8% |
| **Project Management** | | | |
| Project Status Visibility | High 25%<br>Moderate 14%<br>Low 4% | High 13%<br>Moderate 5%<br>Low 5% | High 13%<br>Moderate 14%<br>Low 8% |
| Risk Management Maturity | Very Mature 7%<br>Somewhat Mature 16%<br>Somewhat Immature 16%<br>Very Immature 4% | Very Mature 5%<br>Somewhat Mature 7%<br>Somewhat Immature 7%<br>Very Immature 4% | Very Mature 8%<br>Somewhat Mature 19%<br>Somewhat Immature 4%<br>Very Immature 1% |
| Top Project Challenges | Accurate project cost forecasting<br>Inexperienced project managers<br>Collaboration and communication | | |
| **Finance** | | | |
| Growth Rate | 8.5% | 8.1% | 11.8% |
| Days Sales Outstanding (ave. days) | 38.1 | 41.3 | 43.8 |
| Invoice Cycle (ave. days) | 14.2 | 16.1 | 16 |
| Net Profit (ave. %) | 8.7% | 7.1% | 7.0% |
| Top Finance Challenges | Decreasing and / or unpredictable Federal Spending<br>Organic topline growth<br>Increasing profitability | | |
| **Financial Compliance** | | | |
| Top Audit Issues | Indirect rates<br>Labor & Timekeeping<br>Internal control systems | | |
| **Human Capital Management** | | | |
| Top Challenges in Acquiring Talent | The availability of good candidates in the market place<br>Matching qualified candidates to open positions<br>The ability to offer competitive compensation to candidates | | |
| **Information Technology** | | | |
| Top IT Challenges | IT and data security<br>Satisfying regulations<br>Finding top IT talent | | |

## Deltek for Government Contractors

For more than 30 years, Deltek has offered unique solutions for the government contracting marketplace.  Deltek customers include 98 of the top 100 federal contractors who use our solutions to:

- Access over a trillion dollars of federal business opportunities
- Improve financial performance to drive company growth
- Complete projects on time and on budget
- Ensure project, IT and corporate governance
- Find, recruit and retain the best and brightest talent

Deltek is the leading global provider of enterprise software and information solutions for professional services firms and government contractors. For decades, we have delivered actionable insight that empowers our customers to unlock their business potential. Over 20,000 customers and millions of users in 80 countries around the world rely on Deltek to research and identify opportunities, win new business, optimize resources, streamline operations and deliver more profitable projects.

**Deltek – Know more. Do more.® deltek.com**
**Follow us on Twitter @Deltek or like us on Facebook at www.facebook.com/deltekinc**



deltek.com info@deltek.com +800.456.2009