

# DISRUPTION IN FEDERAL CONTRACTING

Impact of Government's Agile Focus

## CONTRACTING TRENDS:

Federal Priorities Taking Unexpected Toll on Traditional Growth Strategies

As the White House and federal agencies push to modernize and become more agile, the contracting environment has shifted to favor smaller players better positioned to compete for multiple, smaller task orders – leaving larger incumbents to face tougher competition for remaining large opportunities.

### ADMINISTRATION PRIORITIES

#### Agile, Adaptable Solutions

Customers increasingly want agile, easily adaptable IT and other product solutions to avoid stand-alone, rigid solutions that will quickly reach obsolescence.

#### Decreased Administrative Burden

The White House is pressuring agencies to better manage administrative burden by using existing and "best in class" contract vehicles, limiting excessive costs in the contracting process to bring higher value to taxpayers.

#### Set Aside Requirements

Customers face pressure to meet small-business, woman-owned, service-disabled veteran-owned, and other set aside requirements.

### RESULTS

Greater use of smaller task orders, through GWACs, GSA Schedules, and agency IDIQs rather than large, standalone contracts

Greater competition for remaining large contract opportunities

Increase in awards to small businesses, both on set-aside and full & open contracts

## BY THE NUMBERS:

Bidding More Often for Smaller Pieces of Work

The numbers underlying the shift in contracting behavior are stark – for example, a 31% increase in use of task orders combined with a whopping 35% decrease in task order ceiling value across health care agencies – and result in significant strain on contractor resources to qualify opportunities and mobilize Bid & Proposal resources in order to capture historical dollar values.

**+31%**

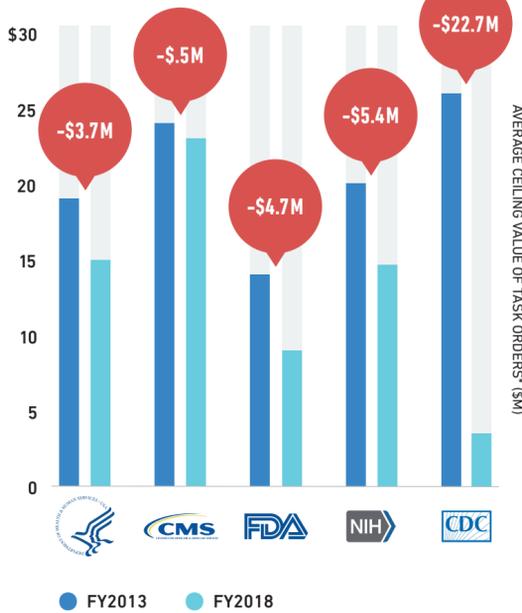
Total Task Orders Awarded

979

1,285

**-35%**

Average Ceiling Values of Task Orders by Award Year



Source: GovWin (includes task orders \$1M or greater, with primary requirement for Professional Services and/or Information Technology)

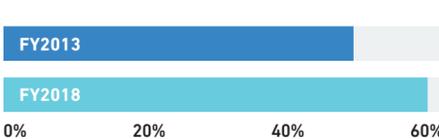
Note: Representative HHS Agencies; CMS ceiling value excludes 1 large outlier in both FY13 and FY18

## RISING COMPETITION:

Traditional Bids Require Non-Traditional Approaches

Unsurprisingly, competition for standalone contracts and major task orders is rising in this environment. At the same time that the field of large-scale primes is rapidly growing, the rates of awards to small businesses are also growing – leading top firms to lean on strategic partnerships and alternative partnering strategies to access work.

Task Orders Awarded to Small Businesses



**+14%**

DEPARTMENTS



Sources:

GovWin; Avascent Analytics

Note: Includes task orders \$1M or greater, with primary requirement for Professional Services and/or Information Technology

Companies With Greater Than \$1B in Federal Services Revenue

FY2013

26

FY2018

33

**+27%**

## THE EMERGENCE OF A LASTING "NEW NORMAL"

Traditional, large scale primes face a new contracting environment considerably less favorable to them. Continued growth requires an understanding of the "new normal" – and a focused set of strategies to adapt to it.

PAST STATE

### FAVORING SCALE / STABILITY

- Scale requirements for large, marquee programs often limited number of competitors capable of delivering on customer need
- More stable, slower-moving set of customer demands – allowed for easier forecasting for capture efforts
- Straightforward justification for mobilizing capture efforts due to expected ROI on high-value contracts
- Small businesses often took role of subcontractor/team-member rather than pursuit of prime position
- Past performance and scale were critical win themes for bid proposals

PRESENT / FUTURE STATE

### FAVORING AGILITY

- Emergence of numerous smaller but viable competitors, increasing competition on F&O bids and need to further prove differentiation
- Available opportunities for traditional primes limited by government SBSA goals
- Rise in scaled competitors increases competition for the remaining large-scale programs
- Difficult to justify mobilizing capture resources for smaller-sized, quick-turn opportunities – illuminating importance of qualifying bids
- Less clear growth paths as large firms are increasingly challenged to deliver on expected topline growth

## A CALL TO ACTION: Setting Strategy for the Agile Era

A lack of ability to adapt to the new environment and win contracts in it can outweigh capabilities, past performance, and ability to execute – hampering growth. The Agile Era is mandating that industry develop a new set of strategies to maintain (and accelerate) growth.

### POTENTIAL RESPONSE STRATEGIES



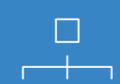
MOVE TO MORE ATTRACTIVE MARKET

Dedicate BD and capture resources towards adjacent or other markets with more favorable dynamics – though this is often easier said than done



PARTNER WITH/ SHAPE THE CUSTOMER

Increase customer engagement to shape requirements and contracting methodologies ahead of RFIs



MAKE STRUCTURAL CHANGES

Realign organization to enable ability to go after smaller and nuanced opportunities (e.g., innovation incubator, capture strategy & organizational adjustments)

## QUESTIONS FOR INDUSTRY

Do we have a fully determined strategy for how to respond to this market change?

Does our speed of adaptation match the speed of evolution?

How can we effectively implement more structural change within our capture practice to position for the long-term?

What barriers are we likely to face, and how do we overcome these obstacles?

What near-term activities and changes should we execute?



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