Practitioner Perspectives

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Top 10 Contract Vehicle Myths

1. ***As long as you have a GSA schedule, you can sell to the federal government***
2. ***Government customers can and will always find ways to reach their favorite vendors***
3. ***Work share on IDIQs is a function of Teaming Agreements***
4. ***Task order postings are a proxy for how much work is coming out under a vehicle***
5. ***Contracts typically consume all of their ceiling – and do so ratably over the Period of Performance***
6. ***A 1 year contract with 4 option years equals a 5 year contract***
7. ***The average cost to bid on an RFP varies little by customer or contract vehicle***
8. ***Novation decisions can be influenced by contractor business rationale***
9. ***If B&P is scarce, it makes sense to be a sub on a multiple award GWAC or IDIQ contract vehicle***
10. ***Contract vehicles have intrinsic value regardless of underlying level of effort***

Contract Vehicle Portfolio Theory

- Federal customers have different levels of contracting sophistication and varied preferences with respect to preferred contract vehicles
- Industry must now manage a more complex set of relationships and a higher pace of bid activity in order to yield the same volume of awards
- The best approach to contract vehicle management mimics the asset allocation approach to investment portfolio management
- Outperforming the proverbial indices requires more than merely holding a market basket of contract vehicles – even if some are sought after
- Wisely investing in marketing, capture, and B&P resources to win vehicles and to execute work under them will generate superior returns
- Pursuit and bid decisions should take into account longer-term opportunity cost and enterprise value implications for each vehicle

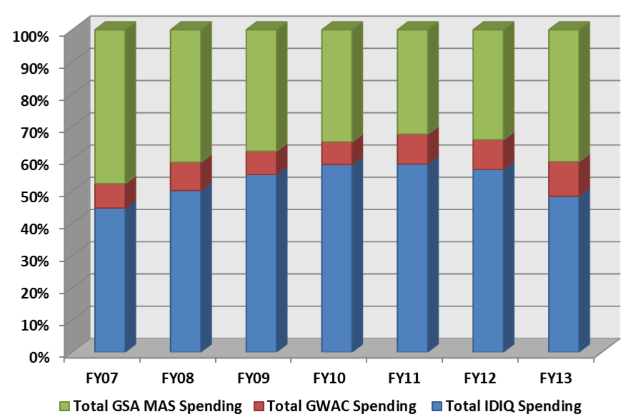
Market Dislocation

In recent years, there has been an ebb and flow in federal procurements between GSA Schedules, Government Wide Acquisition Contracts (GWACs), and agency-specific Indefinite Delivery Indefinite Quantity (IDIQ) contracts. This movement has fractured the procurement landscape and left both federal customers and industry scrambling to find the best ways to contract for mission critical goods and services. In the ensuing confusion, there have been clear market winners and losers. Savvy participants have won business in areas of sheltered competition, while others have seen their books of business and ultimate enterprise value diminish. Industry executives, investors, and buyers are left wondering which contract vehicles they "must have."

Asset Allocation

The most prudent approach is to manage a contract vehicle portfolio through asset allocation, just like an investment portfolio. The fixed income portion of the portfolio is comprised of schedules like GSA IT-70 and MOBIS. These vehicles are stable and can be used for a variety of goods and services across a wide range of customers but, like bonds, will generally not yield outsized returns. Moving up the yield curve brings us to blue chip names like Alliant and CIO-SP3. These are established GWACs with wide appeal, and provide more upside than other vehicles because they are tailored for larger task orders and operate under limited competition. The growth portion of the portfolio is comprised of agency-specific IDIQs like IRS TIPSS-4 and CMS ESD. These vehicles were awarded to very few companies and their scarcity value and growth potential marks them for superior returns potential.

IT and Professional Services Prime Obligations by Vehicle



The data is derived from federal spending (Civilian and DoD) for IT and professional services, based on the top 30 GSA Schedules, GWACs, and agency-specific IDIQs. All data was obtained from GovWin, FPDS.gov, and USASpending.gov.

Active Management

As with any portfolio, you cannot just "set it and forget it." Now more than ever, it is critical to actively monitor and manage your contract vehicle investments. Doing this well requires deep understanding of both fundamental and technical elements of value. With respect to fundamentals, managers must consider a contract's prevailing rates, margin profiles, period of performance, ceiling value, number of awardees, and presence of primary and secondary competition. More technical elements of contract portfolio management focus on budget and procurement trends, task order flow, presence of competing vehicles, and the perceived value of a vehicle to would-be acquirers. Contract vehicles without effective BD and capture will underachieve.

Quant Geeks

Many managers take a narrow view of contract portfolio management, basing pursuit and bid decisions on estimates of win probability, bid expense, and likely post-award work share. In order to make educated, long-term decisions, managers must also take into account opportunity cost and enterprise value creation. In many instances, missing a critical contract vehicle essentially closes a Department or Agency to a company for five years or more. Pursuit decisions should reflect the lifetime opportunity cost of not owning that customer's vehicle of choice, and a likely inability to prime that Agency's major programs for the next contract cycle. Similarly, managers must quantify the potential enterprise value implications, as all contract vehicles are not valued equally in the market. Wolf Den's Factored Enterprise Value Accretion (FEVA) model provides a quantitative tool to assist in making these decisions.

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