Practitioner Perspectives

WOLF DEN ASSOCIATES, LLC

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Biggest 2016 Budget Request Surprises

1. ***DoS increases related to one-time private email server migration and document redaction efforts***
2. ***Federal highway funding offset dollar for dollar by marijuana tax revenues***
3. ***Energy budget decrease driven by phase-out of incandescent lightbulbs***
4. ***Big gains at DoL to prepare for impact of immigration reforms***
5. ***DoEd funding flat to 2015 reflects STEM-based boredom***
6. ***Massive Department of Treasury increase to fund the Orwell Act's increased oversight of Wall Street***
7. ***NASA budget cuts (third year in a row) threaten U.S. standing as a second-rate space power***
8. ***SSA budget increases tied to 2016 "get out the vote" money***
9. ***Army funding restored to Korean War levels***
10. ***Silicon Valley lobbying paying off with advent of "ObamaChrome" and "Windows for Welfare"***

2015-2016 Federal Market Outlook

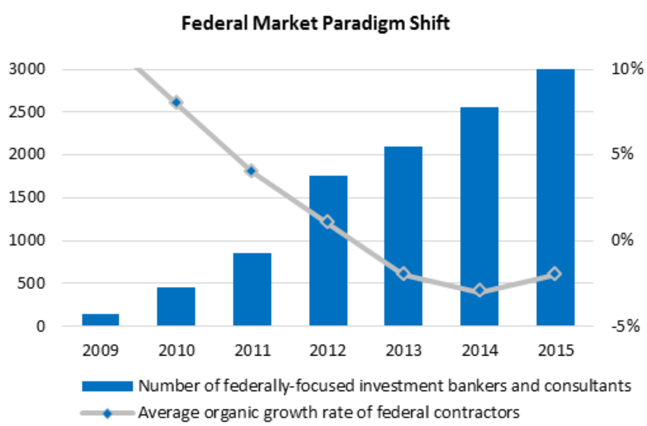
- The federal market is definitely shrinking, at least according to all federal companies who are shrinking and their advisers
- While all awards are not LPTA these days, the price-insensitive segments of the market are through the rainbow gate to the unicorn farm
- The key to improving government procurement maturity and efficiency is greater industry assessment and influence
- A moratorium is being placed on federal achievement awards, whereby only previous winners will be eligible for future awards
- The Tysons Ritz and McLean Hilton have filed in Fairfax County for injunctive relief of the previously mentioned moratorium
- Consensus amongst industry consultants and investment bankers is that 2015 will mark the 15th consecutive year of "up and to the right"

Award Apothesis

The resource constraints and deficit of experienced procurement professionals in the federal government are well documented. RFP amendments are increasingly being released late in the contract award calendar and contract awards are getting pushed farther to the right. Worse still, many awards are being cancelled altogether within days of or immediately after proposal submission. Combine these factors with increasingly protracted protest proceedings and neither federal customers nor contractors are satisfied with the state of affairs. In response, the Government Accountability Office (GAO) has proposed reforms ranging from consulting with Roger Goodell on his successful challenge policies, to enabling companies to protest their protests.

Contractor Contortions

The current movement towards transparency and cost savings has caused government and industry alike to reconsider traditional prime and subcontractor roles. Tiering of contractors can compromise transparency and efficiency. As competition increases, it has enabled the federal buyers to drive down costs by reducing overall fees, but also by dictating limits on fees between contractors. Contractor team arrangements (CTAs) grew out of this intent and enable federal buyers to reach underlying subcontractors without paying any fee to a prime contractor. More recently, the National Security Agency (NSA) has taken it a step farther by inviting consortia of contractors to bid in teams around a single prime, with the intention of then awarding second-tier prime contracts to key subcontractors. This clears the path for federal agencies to pick winners now and paper the competitions later.



Federal business organic growth rates continue to plummet despite the logarithmic proliferation of available advisers

Source: GAO, Table 12 at the Tysons Palm, and The Greenbrier Hospitality Suite

Pricing Perdition

Time and materials (T&M) and firm fixed price (FFP) contracting used to be very much en vogue. The rationale was that these bounded the government's risk by effectively capping their costs and placing the burden of delivery on the contractors. Outsized contractor profits led to a reversal of this trend in favor of cost plus contracting that shifted some risk back to the government and limited contractor profits. After being burned by several years of cost overruns and requests for rate relief, there is movement afoot for a new hybrid approach to contracting that will have contractors bearing all the delivery risk, in return for capped profits. This latest development from Office of Federal Procurement Policy (OFPP) is called Estimating Formula for Fee Uncertain (EFF-U).

Burnishing the Brand

Branding is a critical element of differentiation in a competitive market. This sector is still awash in a sea of three and four lettered company logos. Branding around Greek and Latin words, mythological figures, mashups of two unrelated words, and the introduction of colors other than red, white, and blue marked forward progress. One company had so much fun with the text reflection feature in PowerPoint that the logo is now a shadow of its former self. Against this backdrop of incremental progress, SAIC's launch of Leidos is a quantum leap forward and is an affirmation of the power of a brand. Those who questioned the wisdom of spending so much money to rebrand surely did not expect the outpouring of calls that the new name would engender. While most callers are requesting the pepperoni and sausage toppings, a quick glance at the pizza sector suggests superior book:bill and recurring revenue metrics.

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