December 2013 (Vol. 2; Issue 12)

Top 10 Ways to Thrive in 2014

1. Get smart: it has never been easier to sell innovation that reduces costs
2. Get differentiated: new and specialized capabilities and relationships have enduring value in any era
3. Get cheap: PtW should shape solutions and staffing, not just pricing, as early as possible
4. Get brave: “what always worked” is a losing approach that opens the door for hungrier challengers
5. Get lean: start greening staff 18-24 mos. before recompetes
6. Get ruthless: if you can’t do the work at a profit, do not spend money to capture it
7. Get connected: strategic, symbiotic partnerships help build pipelines faster
8. Get real: when pursuing M&A targets, speed, certainty, and simplicity (more cash, less structure) are what carries the day
9. Get creative: JVs, CTAs, and SLOBs give large companies new ways to compete
10. Get invested: public-private partnerships, CRADAs, and cost-recovery models are “stickier” to cash-strapped clients

Defining the Age of Austerity

- Budget pain is manifesting itself in pricing and margin pressure, with LPTA driving commoditization up the value chain
- Anti-contractor sentiment and the shift in power to the procurement shops complicates traditional customer intimacy and advocacy
- Incumbency is a pricing liability with “more of the same” too expensive to win and big price decreases at odds with cost realism

Austerity and Anti-Contractor Sentiment

After a decade-long party, the bill finally came due. As part of a manic cost-cutting pursuit, civil servants, military personnel, and universities have all taken their lumps, but with mandatory entitlement spending remaining the sacred cow, contractors have become the scapegoat for spending excess. Industry has also not done itself many favors, with weekly tales of wealth and conspicuous consumption cataloged in the press.

Better, Faster, Cheaper

Companies that will survive and thrive in the current market are those that find ways to deliver “more for less.” Any incumbent can deliver “less for less” but they are being displaced by a burgeoning class of smaller, nimbler companies bidding innovative solutions to increasingly complex problems.

Less is More

In prior eras, bigger was better, size was a proxy for credibility, and “nobody got fired for hiring IBM.” Today large companies are increasingly viewed as expensive and unresponsive. Many are trying to “shrink to grow” while accelerating a variety of asset sales, JVs, spin-offs, mentor-protégé relationships, CRADAs, and venture investments in order to stay competitive.

Emerging Entrepreneurs

Amid this backdrop of anti-incumbency, cost reduction, and procurement democratization, an emerging class of entrepreneurs is taking root. They are returning from Iraq and Afghanistan, emigrating from Silicon Valley, and defecting from monolithic prime contractors to create new companies purpose-built to compete in the new normal. Their messianic pursuit of technical innovation, efficient operations, and customer intimacy is defining what it takes to succeed in this or future eras.

 Putting it All in Perspective

Many Federal market participants are relatively recent entrants who garnered the majority of their experience in the vibrant spending run up from 2001 to 2011. To them, the new normal looks fallow and change is a pricing liability with “more of the same” too expensive to win and big price decreases at odds with cost realism.

Cold War Births Hot Market

Cold War focus on aviation hardware, satellites, missile defense, and modeling and simulation drove technological advances in micro-processing power, personal computing, and visualization. “Whiz Kids” started consulting companies, government drove innovation, and the industry consolidated.

Cold War Focus on Aviation Hardware, Satellites, Missile Defense, and Modeling and Simulation

The Peace Dividend

The thawing world ushered in a government-wide push toward outsourcing non-core functions to a proliferation of systems integrators and PE-backed platforms. Foreshadowing aspects of the current era, a focus on DoD re-tooling coincided with drastic spending cuts across many segments. Y2K remediation provided some brief respite toward the end of this era.

Global War on Terror and the Big Bailout

September 11, 2001 shattered the Pax Americana, and initiated an almost blank check era of spending on all things related to intelligence analysis, C4ISR, homeland security, and global stabilization. IPOS flourished and an echo boom of M&A activity followed as companies rushed to keep their portfolios aligned with government pain points and funding priorities. Spending took off again in 2008 in response to the financial crisis, creating a boom on the civilian side of the ledger.