

Top 10 Ways to Defend Incumbency

1. *Continuously green the staff to ensure the lowest price and highest credibility at recompetes*
2. *Replace mediocre performers as soon as they are identified*
3. *Do not wait until recompetes to extract cost savings from the program*
4. *Publicize high award fees and customer appreciation to thwart would-be competitors*
5. *Use the current PM as a special sauce, but never a main ingredient – they are too close to the deal*
6. *Staff proposals with disruptive thinkers, but stay within the bounds of Section L*
7. *Go open book with teammates to compel them to make the price concessions necessary to win*
8. *Forget what the team thinks the customer wants and focus instead on what will be evaluated*
9. *Know the PtW and design a solution that can deliver it*
10. *Use competitors' lack of incumbency to cast doubts about their cost realism*

The Perils of Incumbency

- ✿ Market tightness has turned the bidding paradigm on its head – from incumbents as sacred cows to incumbents as the choicest cuts
- ✿ Absent a clear definition, “innovation” is quickly being interpreted as a Government euphemism for contractor cost reduction
- ✿ Bidding the incumbent team is pricier than competitors bidding leaner labor mix solutions and junior, market-adjusted rates
- ✿ The cost realism narrative – a credible plan for how to deliver the solution on budget, backed by quantitative rigor – trumps the price itself
- ✿ The recompetes starts the day of program award and retention hinges on superior execution throughout the life of the contract
- ✿ Tendentious incumbent executives often have difficulty viewing their own work through the capture lens of those seeking to take it away

Winners' Curse

Just a few years ago, incumbents believed – often rightly – that recompetes were theirs to lose. They had customer intimacy, experience in the environment, people the customer loved, and working knowledge of the competition. Competitors would often shy away from even bidding against an incumbent, finding better returns on B&P investments elsewhere. This is not the case today, as a dearth of new program starts requires companies to take share to grow and taking share means displacing incumbents. The increased competition and pricing pressure make it difficult for the winning price to include incumbent personnel whose compensation has escalated for five years. Many Government customers believe that they will get the same people regardless of which company bids them and see no value in paying any more than the lowest bid. The result is a market in which incumbent contractors often lose and employees who flip badges find their salaries reduced upon award.

Recompetes Begins Day 1

The best way to defend incumbency is to perform well in the first place. The effort to win the recompetes begins the day of award and must carry through the life of the contract. Emphasize succession planning and use it to open billets at the lowest rate categories in order to keep junior roles filled with inexpensive staff. Replace mediocre performers as soon as they are identified and well before being told to do so by the customer. In addition to these internal efforts to stave off competition, nurture a cadre of exclusive subcontractors and grow them with the program, incentivizing them to stay loyal. Nothing breeds recompetes faster than roughly handling subcontractors, especially if the customer takes notice.

Don't Escalate, Innovate

The vast majority of existing programs are being awarded at significant reductions in total contract value. The knee-jerk reaction from many competitors is to sacrifice margin to win the work, vowing to make it back at recompetes or through change orders. Government buyers are increasingly aware of these tactics and are imploring contractors to operate more efficiently by lowering costs without the salary cuts that drive away the staff customers want to keep. In order to stay competitive, invest in finding ways to reduce customers' costs early and often, and show tangible results well before recompetes. Remember that cost realism is nearly as important as the price itself. The cost narrative and BOE must substantiate the price and clearly show how it can be executed without increasing customer risk. Absent clear direction from the Government on what is meant

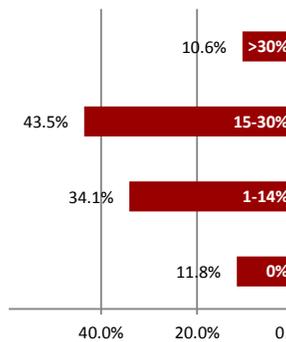
by “innovation,” cost reduction is a safer bet than new technology labs, marketing “tank ware,” or tarding up internal processes.

The Better Part of Valor

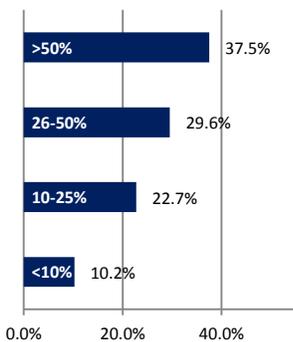
The degree of cost reduction required to win in the current environment is anathema to most incumbents because it is tantamount to cannibalism. Few companies are genuinely introspective, and aver-

sion to change often clouds their perception. The harsh truth is that “the way we've always done it” is a loser's strategy. Similarly, when complacency sets in and program reviews lack the rigor and sense of urgency of capture gate reviews, issues go unnoticed until it is too late. For companies that are too set in their ways, have performance issues, or cannot hit prevailing price-to-win, priming their own recompetes may be ill-advised. As a last resort, subcontracting can provide at least some of something, which is better than all of nothing.

Percent Price Erosion for Recompete Wins



Incumbent Capture as a Percent of Pipeline Value



In a recent survey of 500+ federal sector executives, over 37% said that the majority of their pipeline consisted of capturing incumbent work, and over half indicated price discounts greater than 15% were required to retain their own recompetes.

Source: Wolf Den Analysis