

A woman in a white suit and a man in a grey suit are walking in a modern office building. The woman is on the left, looking towards the man. The man is on the right, looking forward. The background shows large windows and office equipment. The image is overlaid with a blue geometric design consisting of several overlapping triangles and lines.

Deltek | CLARITY

**Government Contracting
Industry Study**

**10TH ANNUAL
INDUSTRY STUDY**

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INTRODUCTION

The 2018 Deltek Clarity Government Contracting Industry Study told a story of major growth in the government contracting market, and provided evidence for continued optimism about the market for the following year. The 2019 report largely reaffirms that sentiment, with organizations of all sizes seeing growth in 2018 and expecting growth and revenue increases to continue for at least another year.

Declining costs resulting from disciplined project management and lower unallowable costs, overhead rates, and general and administrative (G&A) rates allowed profitability to increase even as competition intensified. The success of 2017 continued into 2018, and that success projects optimism into 2019. Nearly 70% of firms expect 2019's government sales to be higher than the previous years' and a majority of firms are still projecting double-digit growth into 2020. Initiatives from the current administration, such as Tax Cuts and Jobs Act, have eased tax and regulatory burdens on major corporations with no accompanying declines in spending. There is ample evidence throughout this report's findings of a robust market for the federal defense and civilian sectors.

Challenges arising from the overall health of the government contracting sector frequently stood out in each of this study's nine sections:

- Businesses cited the challenges of increased competition and limited resources for business development as they look to diversify into other government agencies.

- A clear emphasis on retaining top talent has emerged as firms are encountering difficulty sourcing quality candidates and offering competitive compensation in this tight labor market.
- As companies increasingly integrate human capital management (HCM) into their overall competitive strategy, key investments in both HCM technology and the adoption of modern, continuous performance metrics are improving the employee experience.

The 10th annual Deltek Clarity Government Contracting Industry Study is made up of the insight from more than 700 respondents from United States based businesses working in a variety of sectors. Please take some time to review the data and insights within this report to see how your own company's processes, challenges and growth areas compare. We hope this report will serve as a useful guidebook for your government contracting strategy throughout the upcoming year.



Results from our annual Deltek Clarity Government Contracting Industry Study show a market with abundant growth and increasing competition.

ABOUT THIS STUDY

Deltek conducted a survey of government contracting organizations to identify key issues impacting the market and forecast trends into 2020 and beyond. The survey was developed in consultation with industry experts and includes sections on business development, project and risk management, finance, financial compliance, HCM, and information technology (IT). Deltek is also pleased to feature three new sections in this year's Clarity study: contract management, procurement and manufacturing.

The survey was developed in partnership with Fors Marsh Group (FMG), which conducted the online survey with executive decision-makers at government contracting organizations. It was fielded over a 33-day period from January to March 2019 with 729 individuals completing the survey. The study features the descriptive statistics and correlations that were performed on the survey data.



Organizations of various sizes and specialties were represented in the survey.

- Thirty-eight percent of firms reported 2018 revenues under \$20 million (small organizations, for the purposes of this report);
- Thirty percent reported revenues between \$20 and \$99.9 million (medium-sized organizations); and
- Thirty-one percent reported revenues of \$100 million or more (large organizations).

A wide range of industries was represented in the survey. The three largest categories were professional services (24%), IT (21%), and defense, weapons, aerospace, or manufacturing (19%).

The survey was completed by government contractors across the United States. The largest portion of respondents (45%) was located in the District of Columbia, Maryland, and Virginia. Other regions of the country—categorized as the Midwest, Northeast, South, and West—each contained at least 10% of survey respondents.



EXECUTIVE SUMMARY

The 10th Annual Deltek Clarity Government Contracting Industry Study depicts a healthy market characterized by steady levels of government spending, continued growth and increased competition.

Deltek has been able to identify the most important trends, challenges and benchmarks in the government contracting sector. The trends and data points in this survey are designed to provide actionable insights into the sector as a whole while also capturing forecasts into the next year.



Growth and competition increases for most businesses.

The overall market for government contractors remains healthy as government spending has continued to increase. Businesses are seeking to make the most of the bullish spending environment by pursuing growth and profit-maximizing strategies. Competition is up as contractors are expanding into new government agencies and looking to grow their customer base.



Diversification into new agencies and pursuing new customers are increasingly successful strategies.

Diversification is increasingly important to all businesses. As firms are looking to increase revenue and mitigate risks associated with agency-specific budget cuts, firms are expanding into new markets. Diversification has challenged firms by exposing them to unfamiliar contracting vehicles, making opportunities more difficult to identify early and increasing the importance of selecting the right teaming partners.



Attracting qualified talent and retaining top performers continues to be a major factor for success—and a high priority among the most successful companies.

High-performing talent is increasingly hard to find, hire, and retain in this economy. Firms are challenged by the ability to both match qualified candidates to open positions and retain top performers. Accordingly, employee retention has emerged as a competitive response. Businesses are now increasingly focused on improving the entire employee experience with new HCM technology, continuous performance management and robust career development programs.



IT departments are prioritizing security, compliance, and cloud-based applications for the second year in a row.

Cybersecurity concerns continue to challenge contractors, especially as they transfer an expanding number of business functions to the cloud. About half of businesses reported that the number of cybersecurity incidents had stayed the same compared to last year, whereas 37% reported an increase. Accordingly, 48% of firms cited IT/data security as one of their top concerns. Strong interest in cloud-based applications continued for this year, with 46% of firms reporting that they have more than 50% of their business applications in the cloud. The expansion into the cloud has also introduced companies to new compliance standards, increasing costs, and regulatory burdens.



Cost of compliance for Contracting Purchasing System Review (CPSR) audits are on the rise.

CPSR audits were indicated as a significant cost for firms in 2018, with 83% of respondents indicating it as a “moderately” or “more costly” compliance to meet. This is a relatively significant increase of 17 points from respondents last year.

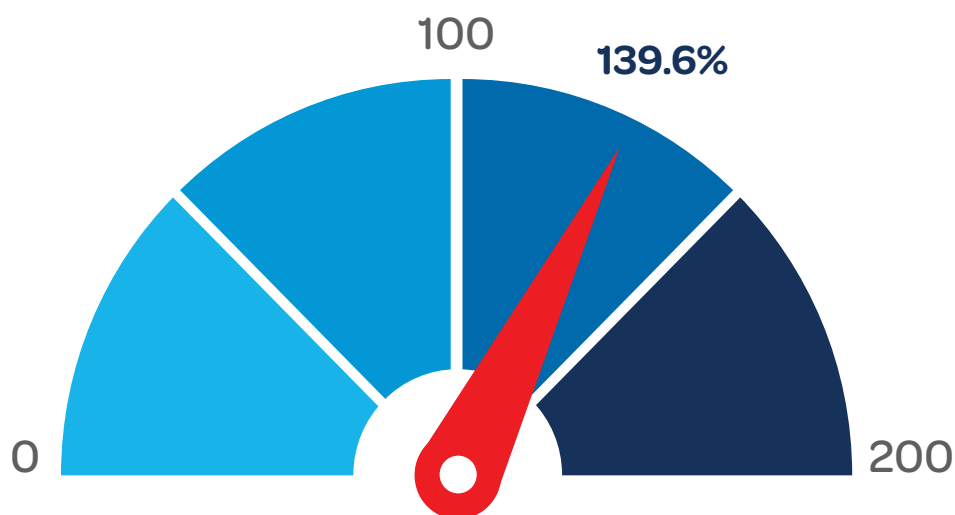
Government Contractor Confidence Index

A new composite metric for this year's Clarity study reveals there is high confidence in public sector sales in the next year.

To help mark the 10th anniversary of the Deltek Clarity Government Contracting Industry Study, this study incorporated a successful measure of the industry from legacy Onvia surveys and modernized it for Clarity. The Government Contractor Confidence Index (GCCCI) measures overall confidence that government contractors have in their ability to grow their public sector sales over the next 12 months. The GCCCI ranges from 0 to 200, in which 0 means "extremely low confidence," 100 means "neutral," and 200 means "extremely high confidence" in the market. This calculation comes from a series of three questions asking businesses about their government sales in the past 12 months, expectations for sales in the next 12 months, and overall impression of the spending environment.

This year's study reveals a GCCCI score of 139.6, which indicates robust confidence in the market, with business leaders believing there will be sustained and continued growth in government sales. Future Clarity studies will continue to track the year-to-year change in this composite metric to best gauge how the overall confidence in the government contracting market is shifting and impacting your business.

GOVERNMENT CONTRACTOR CONFIDENCE INDEX (GCCCI)



SECTION ONE

BUSINESS DEVELOPMENT

Growth remains steady in an already healthy market. Businesses are seeking to diversify while encountering challenges in the form of unfamiliar requirements and business development resource limitations.

Steady government spending has resulted in strong continued sales and an optimistic, bullish outlook for next year. Nearly all businesses are expecting already strong government sales to stay the same or increase.

Although win rates are steady, competition appears to be increasing and large firms are pulling away with higher win rates, more dedicated business development professionals, and lower qualified pipeline multiples. As a result, a majority of small- and medium-sized businesses are expecting to increase their investment in business development to stay competitive. Businesses are increasingly looking to diversify into other government agencies, including federal, state, local, and education, and to identify and respond to new opportunities more efficiently and earlier.



Key Takeaways

The top three business development challenges (“Limited business development resources,” “Increased competition,” and “Customers using contract vehicles we are not associated with”) are consistent with last year’s results. The top three business development initiatives (“Better understanding of opportunities and their requirements earlier in the process,” “Expanding into other government agencies outside of our existing client base,” and “More or better opportunity identification”) to addressing challenges are also consistent with last year.

Overall, proposal win rates have remained steady, but small- and medium-sized businesses have reported declines while large businesses have reported large increases in the past year. Large businesses are still outpacing small and medium businesses in investments in business development.

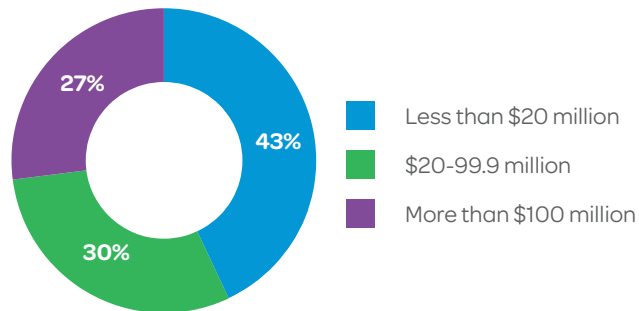
Increased competitive pressure is causing organizations to expand their work with other government agencies as they seek to diversify their customer base. These forays into new agencies have driven the need to better understand unfamiliar requirements, identify opportunities earlier and more effectively and improve teaming partner selection processes.

Revenue from Government Business and Areas of Government Business

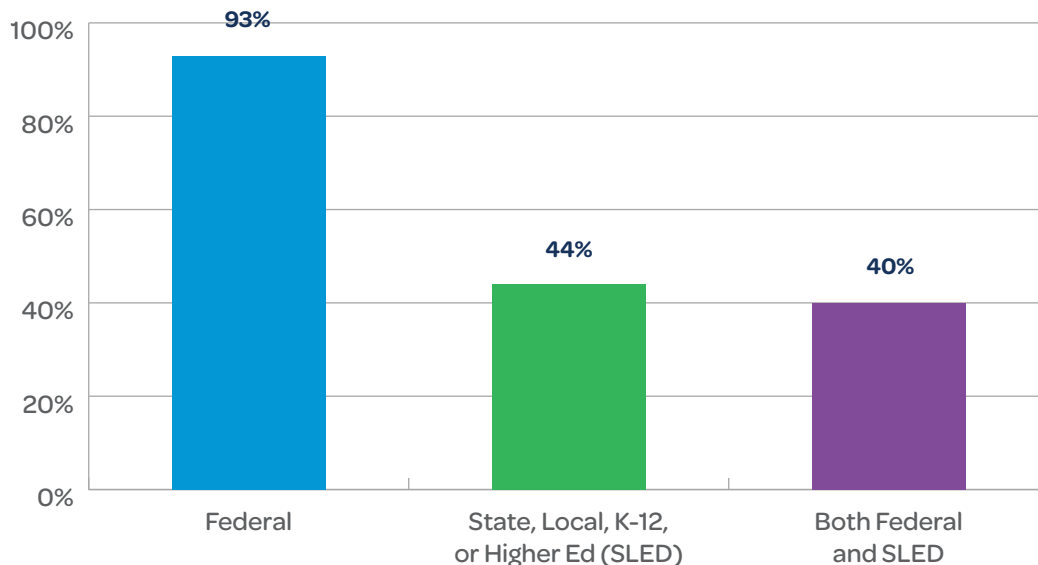
This year's Clarity survey featured questions about the percentage of revenue from government business and the level of the government with which business was conducted. Forty-three percent of businesses reported receiving less than \$20 million in revenue from public sector sales and contracts, 30% received \$20–\$99.9 million, and 27% received more than \$100 million. Only 16% of large firms brought in less than \$100 million in public sector sales.

Most firms (93%) conduct business with the federal government compared to 44% with state, local, kindergarten through grade 12, and higher education, also referred to as SLED. Of the 93% of firms that conduct business with the federal government, 57% indicated that they do not do business at the SLED level, whereas 43% perform business at both federal and SLED levels. Of the firms indicating that they conduct business with SLED clients, 91% indicated that they also had federal-level clients. Overall, 40% of businesses indicated that they perform business at both federal and SLED levels.

REVENUE FROM GOVERNMENT BUSINESS



AREAS OF GOVERNMENT BUSINESS



Win Rate

The overall win rate is unchanged from last year at 40%, with all of the growth coming from large businesses. Both small- and medium-sized businesses reported declines in proposal win rates, whereas large businesses reported significant increases in their win rates. In 2018, the median win rate for small businesses was 33%, 40% for medium businesses, and 55% for large businesses.



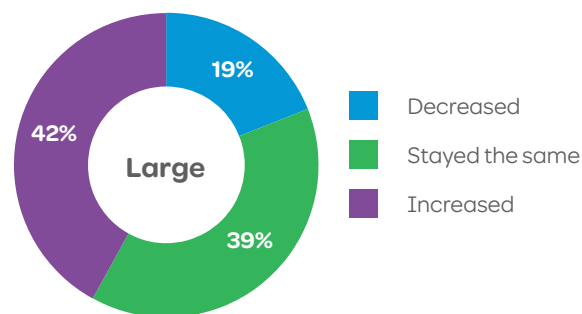
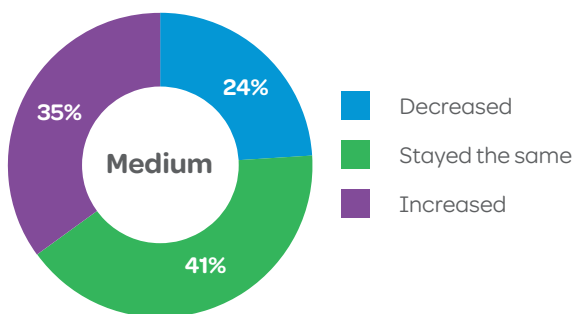
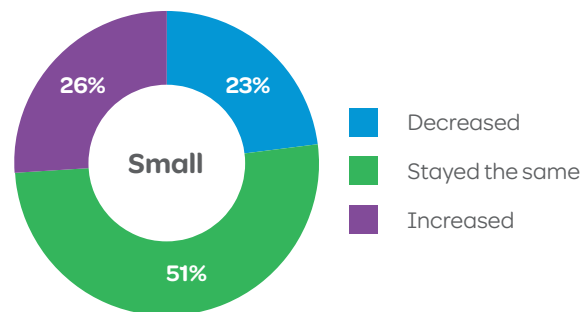
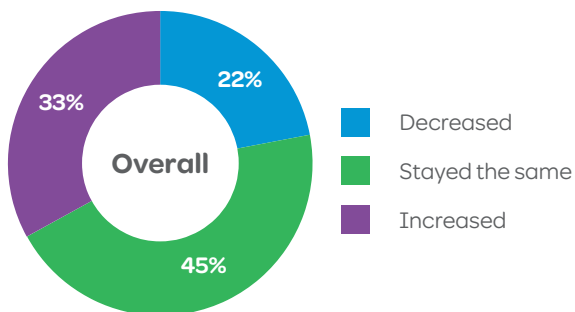
Sentiment about win rates remains virtually unchanged. Compared to last year, nearly equal percentages of businesses believe win rates will decline, stay the same, or increase. Although slightly less than half of respondents indicated that their win rate had increased, 42% of large businesses reported that win rates had increased, compared to 35% for medium businesses and 26% for small businesses. Small- and medium-sized businesses were also more likely than large businesses to report declines in win rates in the last year.

Win rate was associated with strong performance on a number of key performance indicators (KPIs) across organizations. Businesses with higher win rates tended to have more dedicated business development full-time equivalents (FTEs), more projects on or under budget, higher utilization rates, and higher staff retention rates.



“We are moving from smaller contracts to very large contracts. Win rates are lower, but returns are significantly higher.”

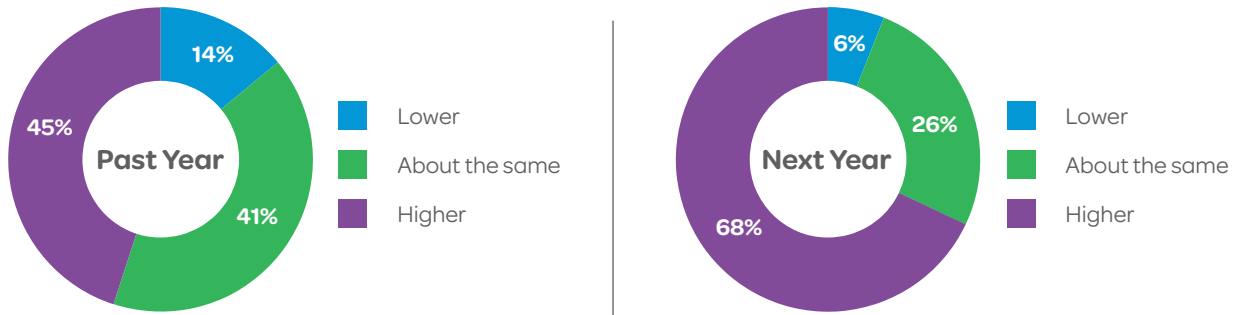
WIN RATE CHANGE



Sales in Government Markets

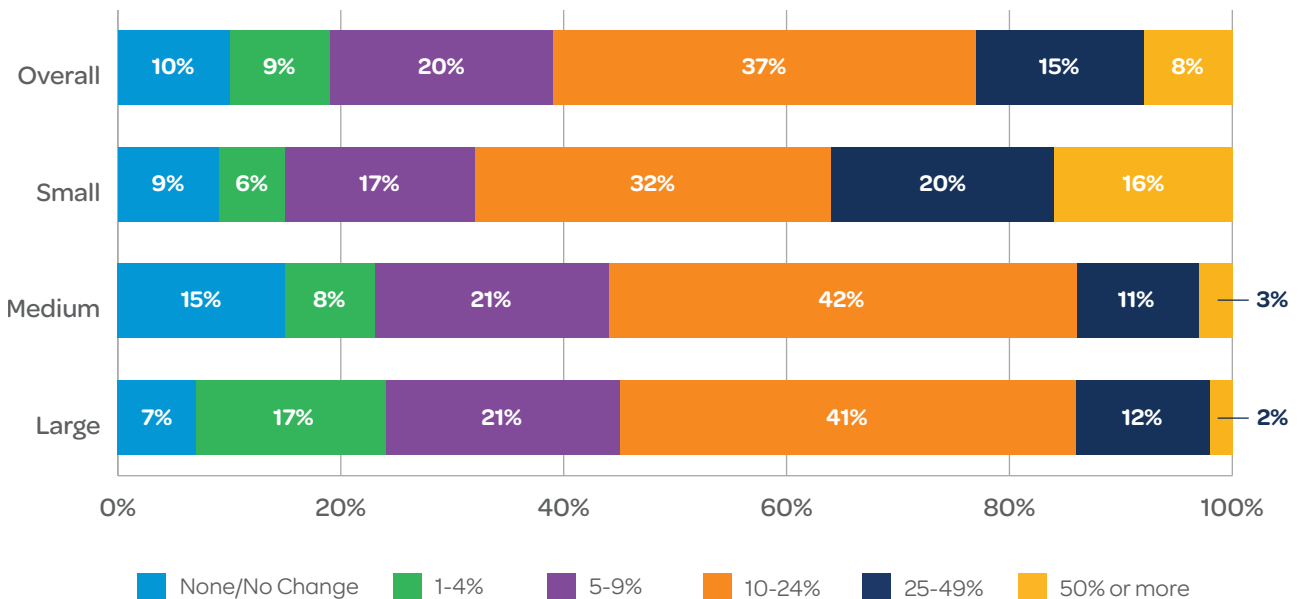
Firms are optimistic about next year's sales in the government market. Although most firms found that sales in the government market last year were the same or higher compared to previous years, 68% believe that government sales will be higher next year; only 6% believe they will be lower. Sentiment about government sales is consistent across business sizes. About one-quarter of small, medium, and large businesses believe that sales will stay the same, with about 70% believing that sales would be higher. Medium-sized businesses were the most likely (8%) to expect a decline in government sales.

PAST YEAR'S AND NEXT YEAR'S GOVERNMENT MARKET SALES



Although most businesses foresee an increase to sales, some volatility in the government market is also expected. Overall, a majority (61%) of firms are expecting double-digit increases in government sales, with small businesses being most likely to expect a change of more than 10%. Medium-sized businesses were most likely to expect no change in the market.

EXPECTED CHANGE IN GOVERNMENT SALES



Top Business Development Challenges

Much like last year, the business development challenges cited by respondents reflect a healthy but competitive market for government contractors. For the second year in a row, the top three business development challenges remain unchanged:

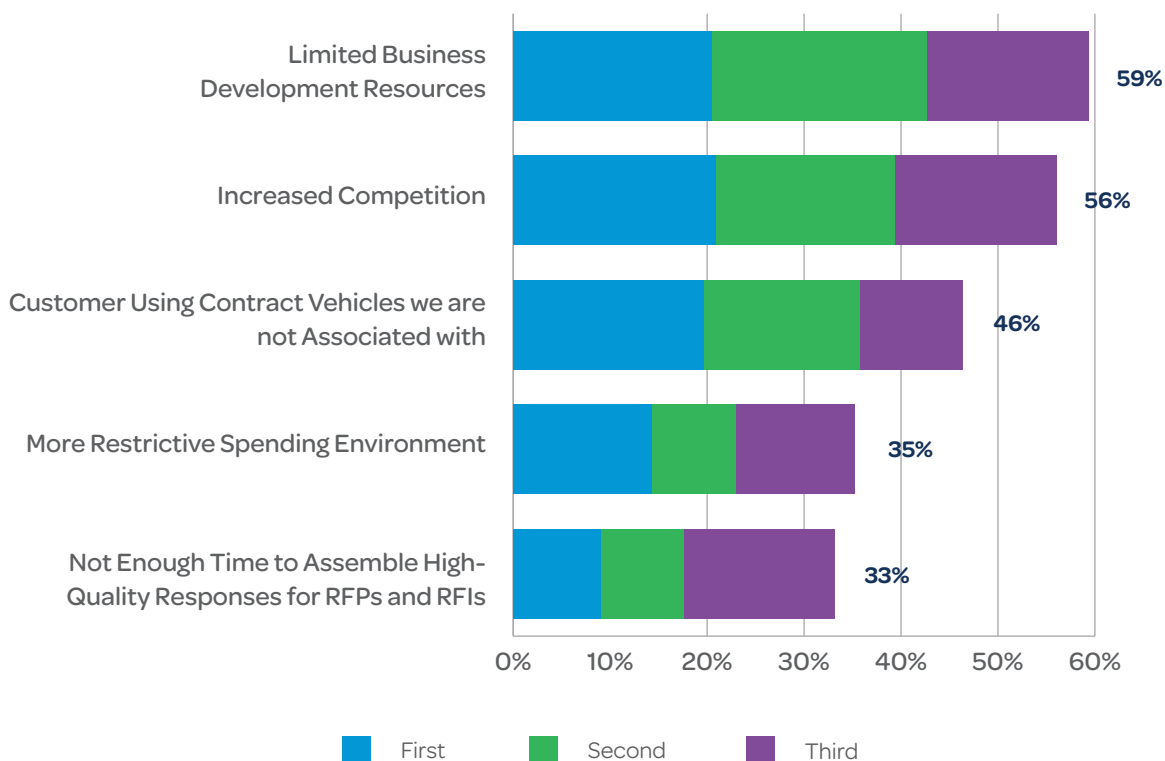
1. "Limited business development resources" is still being cited as the overall top challenge.
2. "Increased competition" moved into second place, with 56% of respondents citing it as a top challenge, up from 41% last year.
3. "Customers using contract vehicles we are not associated with" stayed steady in third.

The increase in competition is consistent with declining win rates among small- and medium-sized businesses and other evidence that businesses are looking to expand through working with additional government agencies. Sentiment about the spending environment has remained largely the same from last year. Despite the gains in win rate, large businesses were the most likely to cite increased competition (27%) as their top challenge, compared to 16% for small businesses and 22% for medium businesses. The findings for small and medium businesses are interesting given the declines in win rates that were reported for these businesses.



"We have difficulty finding talent, resumes, and staffing to bid on proposals."

TOP BUSINESS DEVELOPMENT CHALLENGES



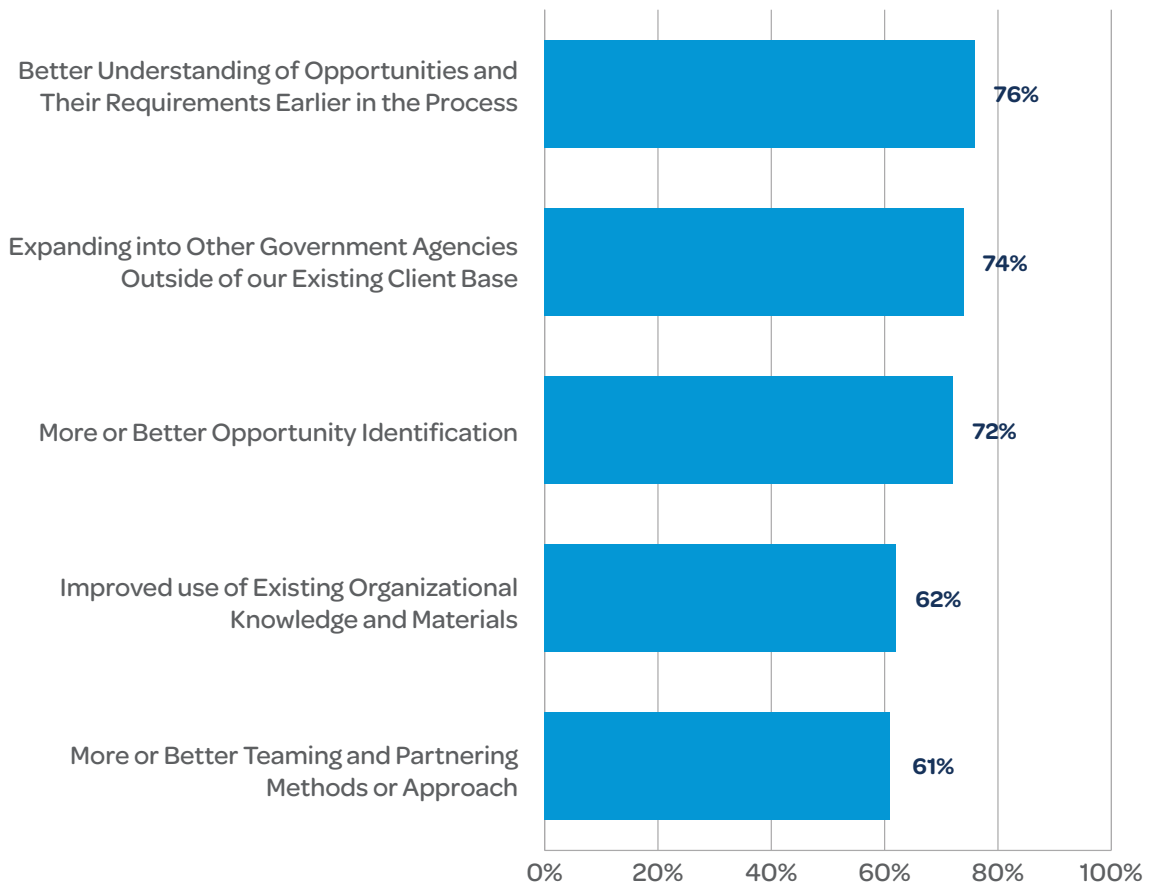
Addressing Top Business Development Challenges

Businesses are continuing to expand into other government agencies—including state, local, and education markets—as a competitive strategy. The top three business development initiatives remain unchanged for this year:

1. “Better understanding of opportunities and their requirements earlier in the process” is the top initiative, up from third place last year.
2. “Expanding into other government agencies outside our existing client base” dropped to second from the top initiative last year.
3. “More or better opportunity identification” dropped from second to third.

Despite citing limited resources for businesses development as a top challenge, only 54% of businesses cited “Improved sales process and/or systems to improve effectiveness.” It was followed closely by “Increasing staffing to support sales and business development,” with 51%. Comparatively, few organizations have specifically targeted the sales function for improvements in process or efficiency.

ADDRESSING TOP BUSINESS DEVELOPMENT CHALLENGES





BUSINESS DEVELOPMENT

CLARITY OUTLOOK

The overall market for government contractors remains healthy, especially for large businesses. Over the last three years, just under half of businesses reported that win rates had stayed the same, whereas more than one-third of large businesses reported increases in win rates, showing that these organizations are getting better at understanding requirements, identifying opportunities earlier and pursuing them more effectively.

This positive sentiment is expected to continue into next year with nearly all businesses in the industry expecting government sales to remain the same or increase. As a result of the healthy market, businesses have been challenged by increased competition, as well as staffing and resource limitations, for business development. Most businesses are opting to diversify by expanding into other government agencies instead of seeking work outside the government sector. As a result, businesses are looking to establish a diverse customer base through expansion into new federal, state, local, and education markets. The success of this variegation strategy will rely on businesses understanding new requirements better, identifying opportunities earlier and familiarizing themselves with unknown contract vehicles.

SECTION TWO

PROJECT AND RISK MANAGEMENT

Overall project health is up for all businesses. Forecast accuracy within project timing and project budgeting are particular areas of focus.

Businesses are aware of the importance of the project management discipline and are proactively making investments in the project management functions at their organizations. Businesses are performing schedule risk analysis earlier than ever before and have expanded the scope of their risk and opportunity management.

Accurate project cost forecasting is now the leading project management challenge cited by companies as they move to diversify their customer bases by expanding into other government agencies.

Key Takeaways

“Accurate project cost forecasting” and “Poorly defined scope” continue to be project management challenges. “Inexperienced project managers” is no longer among the top three challenges cited by businesses, although organizations are still looking to invest in project management training and hire more qualified staff.

Less than half of businesses (44%) have a formal project management office (PMO) or program control (PC) function despite the presence of such an office being associated with more accurate forecasting, greater percentages of projects being on schedule and budget, and higher utilization rates.

Businesses are continuing to expand their risk and opportunity management. The percentage of organization-wide risk and opportunity management increased across all businesses, with the largest gains coming from medium- and large-sized organizations.

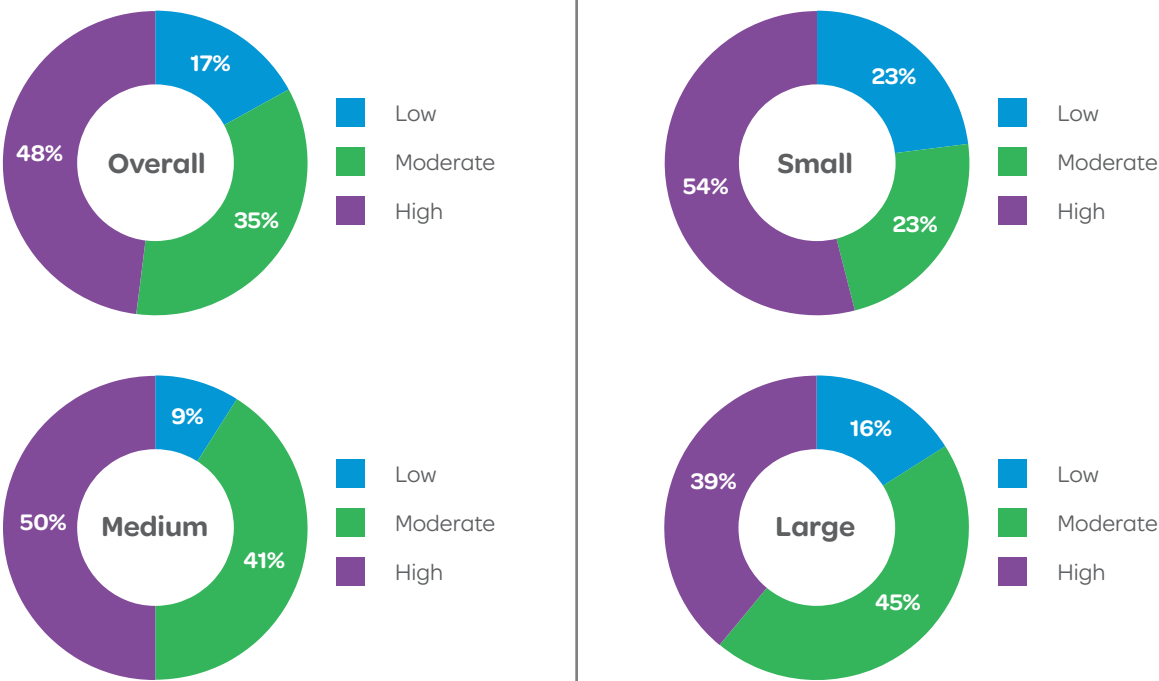
Large businesses had the highest utilization rates (88%) but the median utilization rate for all businesses is still generally high (85%).



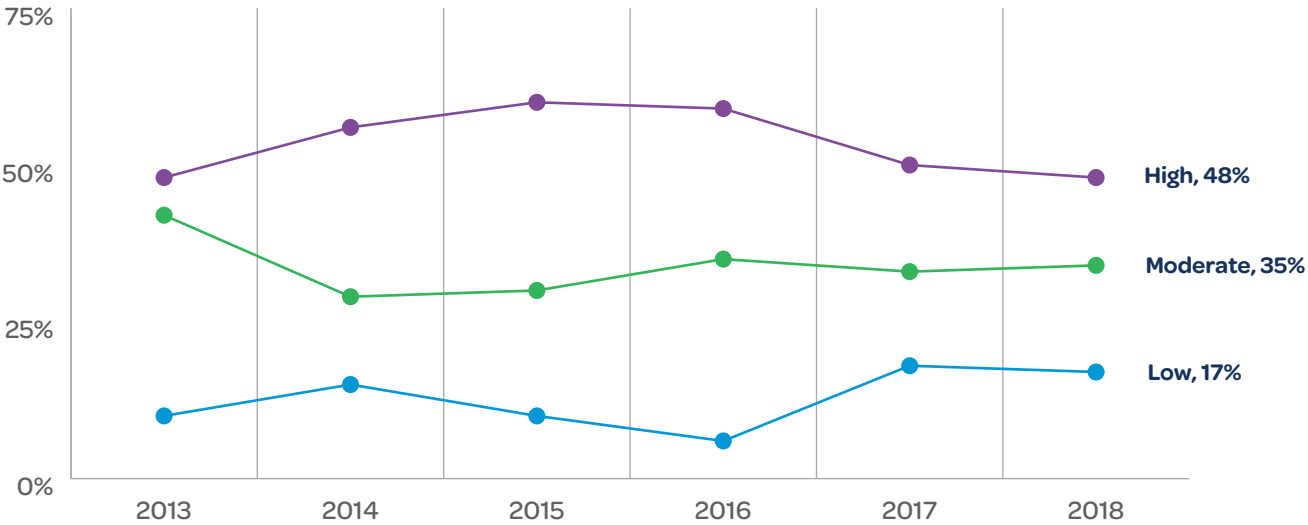
Visibility into Projects

Companies have continued to report nearly identical levels of visibility into the status of their current projects this year. Visibility varied by organization size; small businesses reported low visibility more often (23%) than medium (9%) and large businesses (16%) did. Reports of projects with high and low visibility dropped one point each whereas moderate visibility exhibited a slight increase. Companies reporting lower visibility had a smaller percentage of their projects completed on or under budget.

VISIBILITY INTO PROJECTS



VISIBILITY INTO PROJECTS: SIX-YEAR TREND





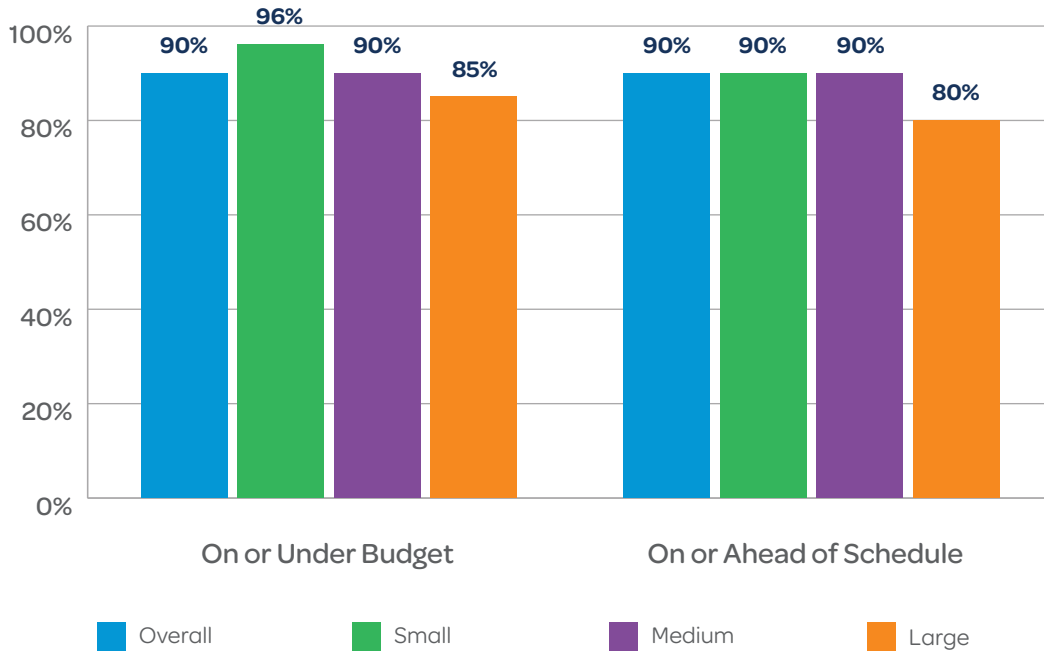
“[There’s a need for] indicators that can predict impact of scope creep and other project requirements driven by customer requests.”

Project Mandatories: On Budget and On Schedule

Most successful businesses in the government contracting industry apply people and software to ensure projects adhere to the original contract and project schedule. Not tracking these KPIs can lead to high costs or poor client relations. The median business in this year’s Clarity survey reported that 90% of its projects were on budget and on schedule. Reversing the declines reported last year, businesses of all sizes reported increases in the number of projects that they are delivering on budget and on schedule.

Small and medium businesses stand out in their ability to manage both project budgets and timelines. Businesses with formal PMOs tended to have more projects on budget and on schedule. However, less than half of businesses (44%) reported having such an office or function.

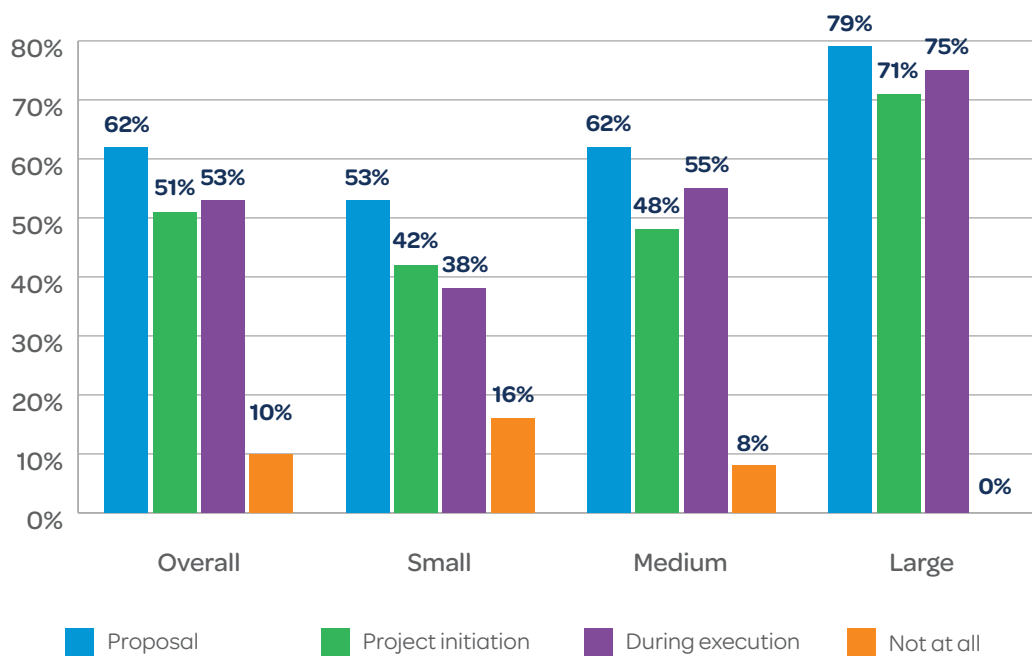
PROJECTS ON BUDGET AND ON SCHEDULE



When Organizations Perform Schedule Risk Analysis

Schedule risk analysis allows project managers the opportunity to improve performance, to mitigate risks and to identify unknowns. Although conducting formal risk analysis remains constant, the time in which it takes place varies. Most businesses perform schedule risk analysis at some phase of their projects. While the overall number of businesses performing schedule risk analysis has declined from last year, at least half of all businesses reported schedule risk analysis being performed at the proposal phase of projects. The proposal phase was also the most common time to perform schedule risk analysis across all organizations. Notably, no large businesses indicated that they are not performing schedule risk analysis. Businesses that perform schedule risk analysis at project initiation or execution reported having more projects on schedule.

WHEN ORGANIZATIONS PERFORM SCHEDULE RISK ANALYSIS

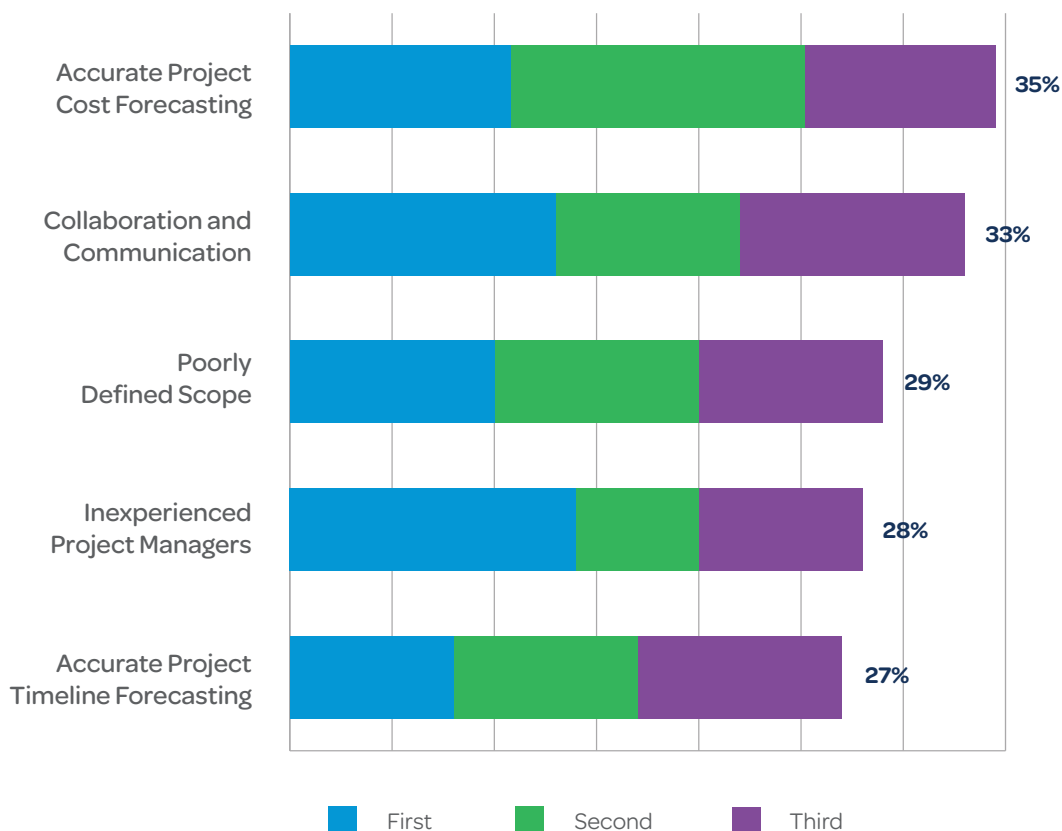


Top Project Management Challenges and Solutions

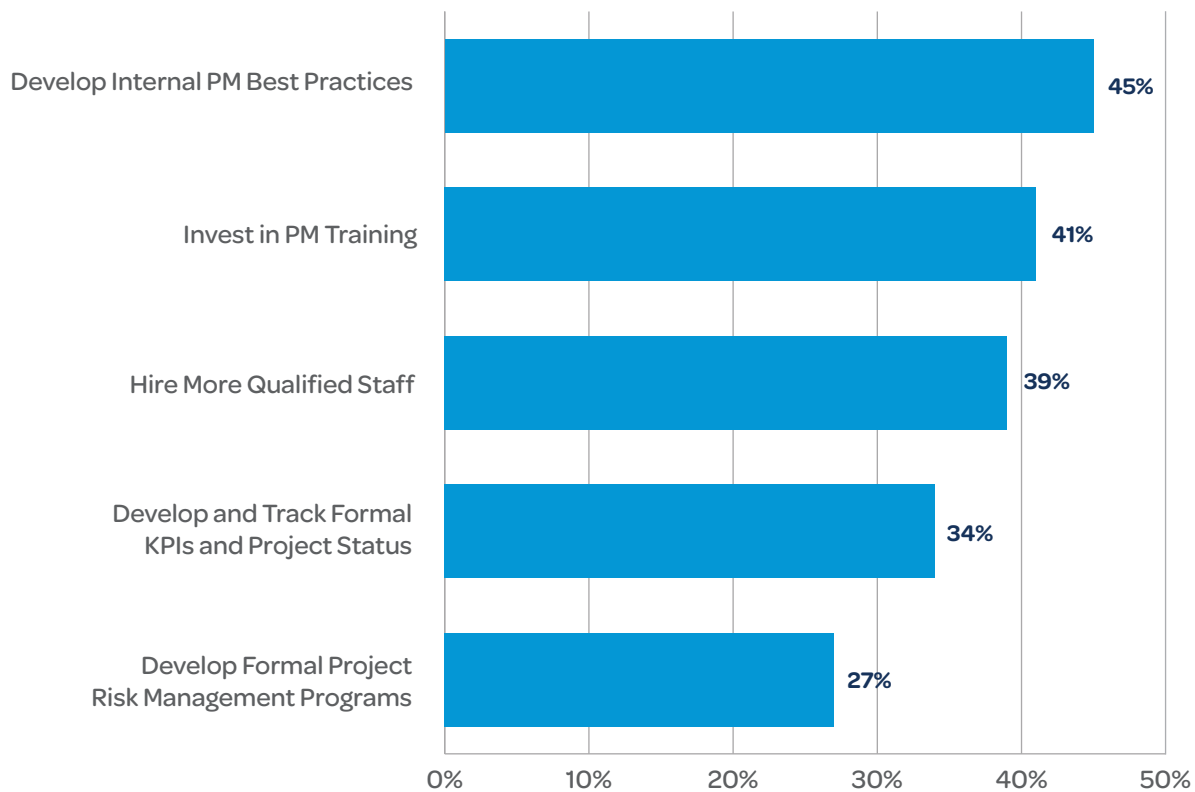
Organizations are facing a new set of project management challenges this year, as they seek to better forecast and scope out new contracts won in this expanding market. “Inexperienced project managers” saw a 6-point drop from last year and is now the fourth most cited challenge. “Accurate project timeline forecasting” and “Poorly defined scope” are still among the top three challenges and are newly joined by “collaboration and communication,” which experienced a 4-point jump this year. Medium-sized businesses were the most likely (13%) to cite “accurate cost forecasting” as the top challenge whereas small businesses were the least likely (8%) to cite “accurate project cost forecasting” as the top challenge.

The initiatives that businesses are pursuing to address project management challenges show they are focused more on individual training and human capital solutions, as opposed to structural changes, like formalizing a PMO or building better metrics. “Develop internal PM best practices” continues to be cited as the top approach to addressing project management challenges. Fifty percent of large businesses are developing project management best practices, compared to 42% of small businesses and 45% of businesses overall. However, targeted project management-related training and hiring remain among the top initiatives, even though challenges related to project management human capital are not among the top challenges. Just under one-fifth (18%) of businesses are citing “Formal PMP certification” despite being challenged by inexperienced project managers.

TOP PROJECT MANAGEMENT CHALLENGES



SOLUTIONS ADDRESSING TOP PROJECT MANAGEMENT CHALLENGES

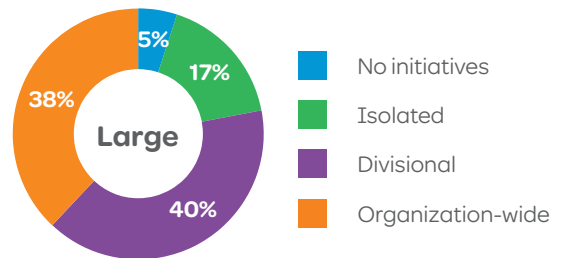
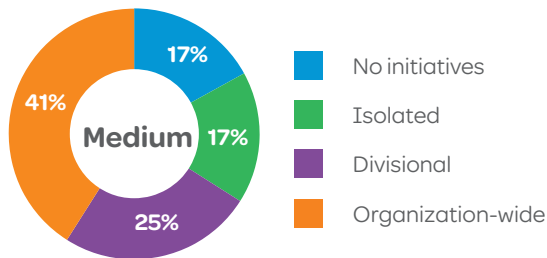
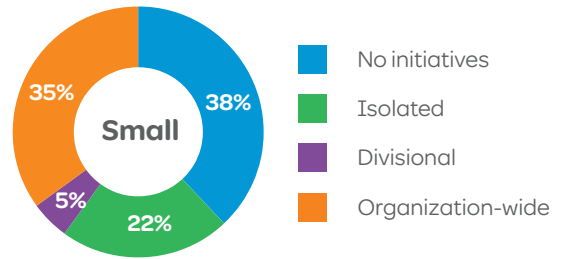
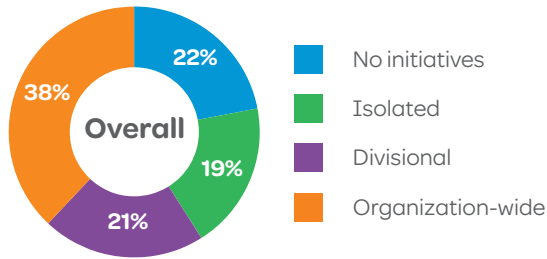


“Quality management plans are not robust enough today to meet the dynamic demands of clients and projects.”



Risk and Opportunity Management Initiative Scope

Businesses have continued to broaden the scope of their risk and opportunity management. Businesses of all sizes reported increases in having “organization-wide” risk and opportunity management. Medium-sized businesses made the largest increases in organization-wide risk and opportunity management, increasing from 26% to 40%, followed by large businesses with an increase from 25% to 38%. Small businesses were the most likely to report having no initiatives (38%), up from 17% in the previous year. Businesses with organization-wide risk and opportunity management had more accurate estimate at complete (EAC)/estimate to complete (ETC) forecasts.





PROJECT AND RISK MANAGEMENT

CLARITY OUTLOOK

Investments in project management processes and staffing have continued to pay off for businesses. Compared to last year, projects this year are increasingly on schedule and on budget, across all business sizes. More businesses than ever are reporting organization-wide risk and opportunity management.

However, there is still opportunity to improve project management in the government contracting sector. “Accurate project timeline forecasting” and “Poorly defined scope” remain among the top frequently cited challenges for another year. Although slightly less than half of firms reported having a formal PMO, the presence of such an office was associated with performance on a number of KPIs related to project success. Although such an office might be considered “overhead,” its impact on project timeliness and budgets suggests that these offices largely pay for themselves.

SECTION THREE

FINANCE

Businesses remain bullish even as growth levels off.

Overall, businesses continue to report healthy financials, such as increased profits and declining overhead, unallowable costs and general and administrative (G&A) rates. Organizations are now increasingly concerned with improving profitability and growth rather than reducing costs or optimizing efficiency.

Small and medium businesses are making aggressive double-digit growth projections into next year while large businesses are also expecting growth but at a slower pace than in previous years.

To sustain growth, businesses are looking to simultaneously diversify into other government agencies as well as new markets outside of government. However, indefinite delivery/indefinite quantity (IDIQ) contracts remain an important source of revenue for businesses. Forty percent of businesses said that IDIQ contracts had increased over the last year, up from 33% in the previous Clarity study.

Key Takeaways

Both small and large businesses each reported 2-point increases in their profitability this year.

Businesses reported across-the-board improvement on a number of metrics related to overall financial health, including unallowable costs (1%) G&A rates (12%), composite overhead (19%), and reduced invoice cycle time (-1 days) and average days sales outstanding (-3 days).

Sentiment about IDIQ revenue mirrors overall sentiment about the market for government contracts. The percentage of businesses experiencing increases in the number of federal contracts and IDIQ revenue was similar: 37% and 40%, respectively. Large businesses were the most likely to report increases in both federal contracts and IDIQ revenue.

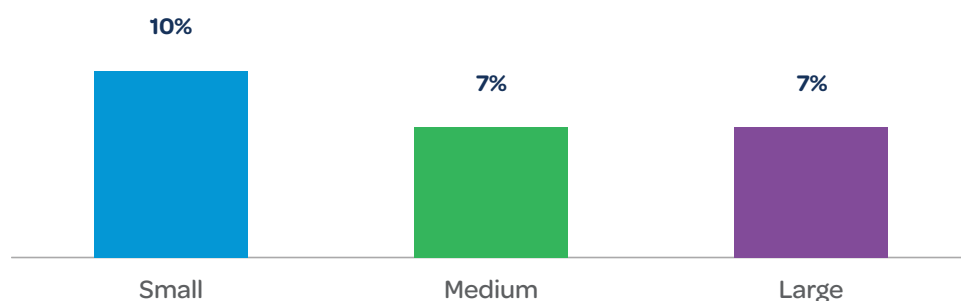
Increasing profitability, cash flow and organic topline growth are the new top financial challenges.



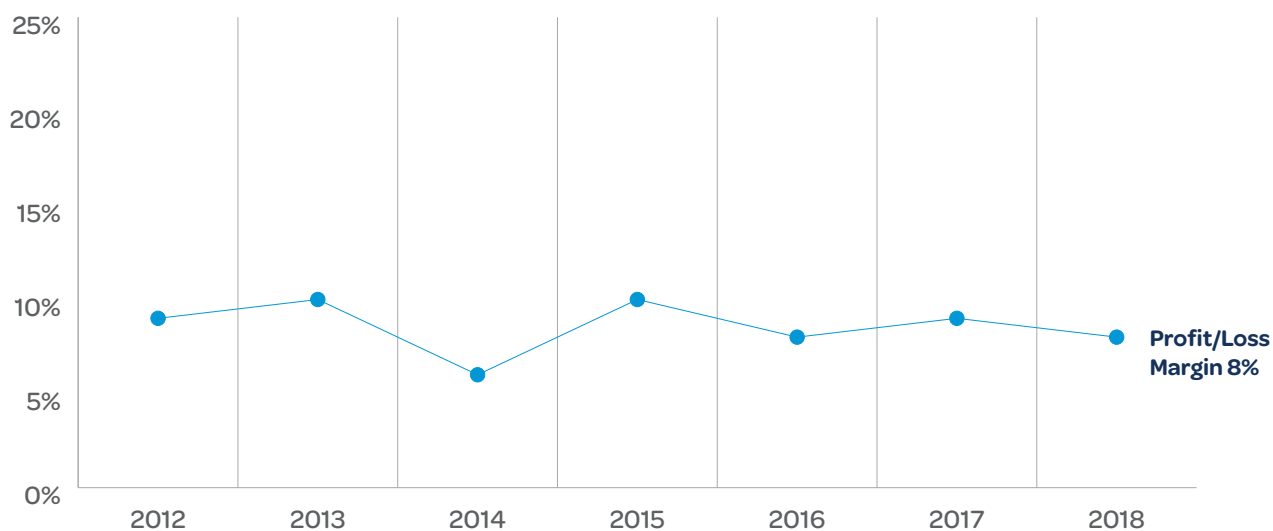
Profit and Loss Margin

Profit margins in the government contracting sector have remained stable this year, with the median business reporting a profit margin of 8%. Large and small businesses both reported a 2-point increase in profits this year. Only medium business reported a decline in their profit margins, dropping from 13% to 7%. Organizations with higher profit margins tended to have higher retention rates and a higher training spend per FTE.

PROFIT/LOSS MARGIN



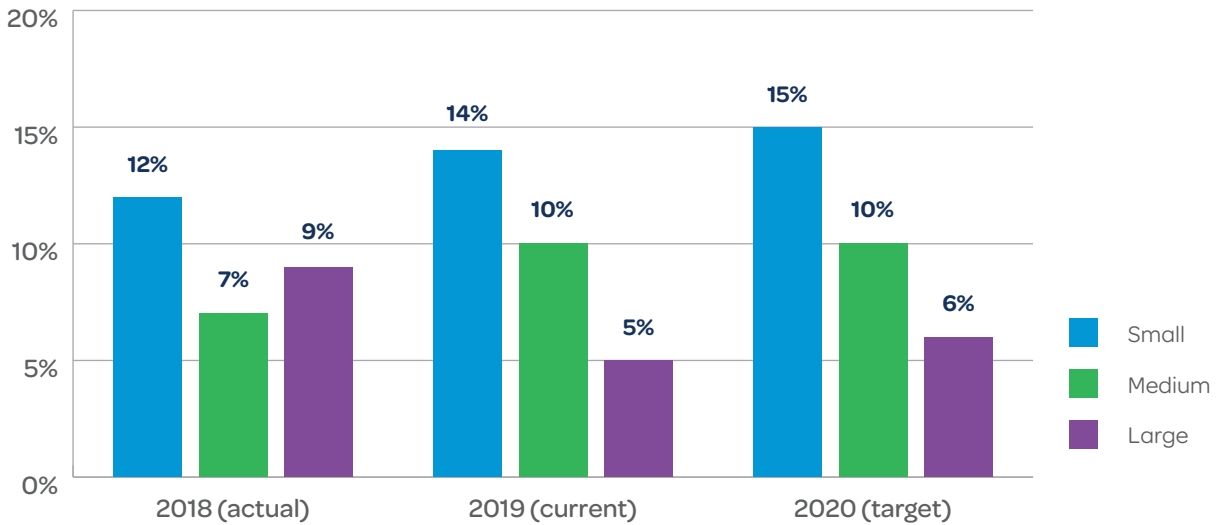
PROFIT/LOSS MARGIN: SEVEN-YEAR TREND



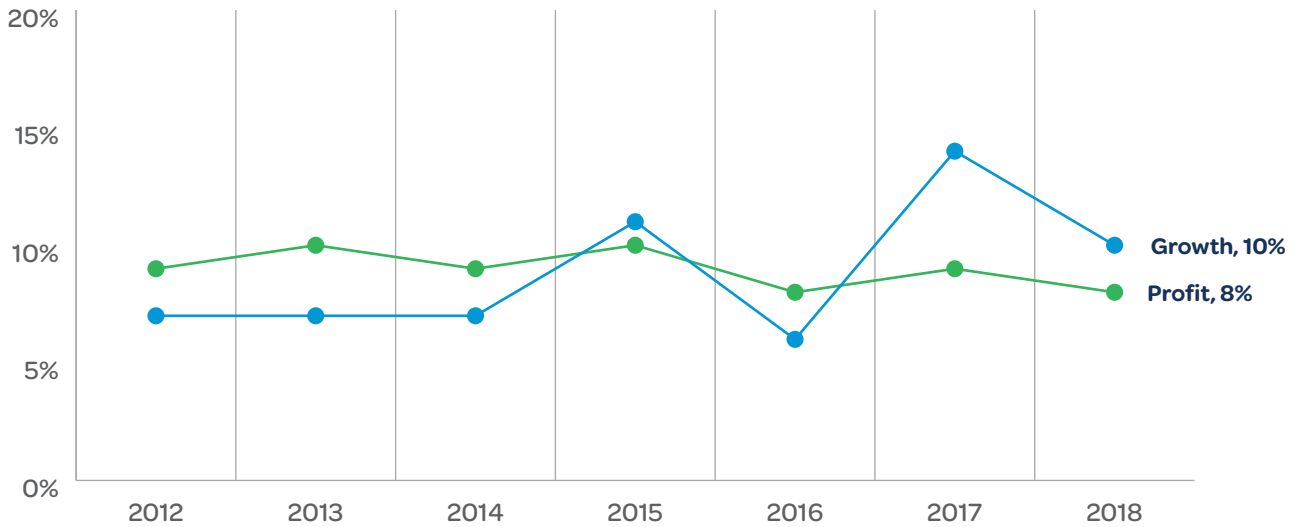
Historical and Planned Growth Rates

Although overall growth has slowed compared to the highs experienced in 2017, businesses in the government contracting industry remain bullish, with an overall growth rate of 10% targeted for next year. Small businesses continue to lead with the highest actual and current growth, as well as aggressive targets for next year. The more conservative projections reported by large businesses are consistent with slower growth expected at the top end of a mature and healthy market.

HISTORICAL AND PLANNED GROWTH RATES



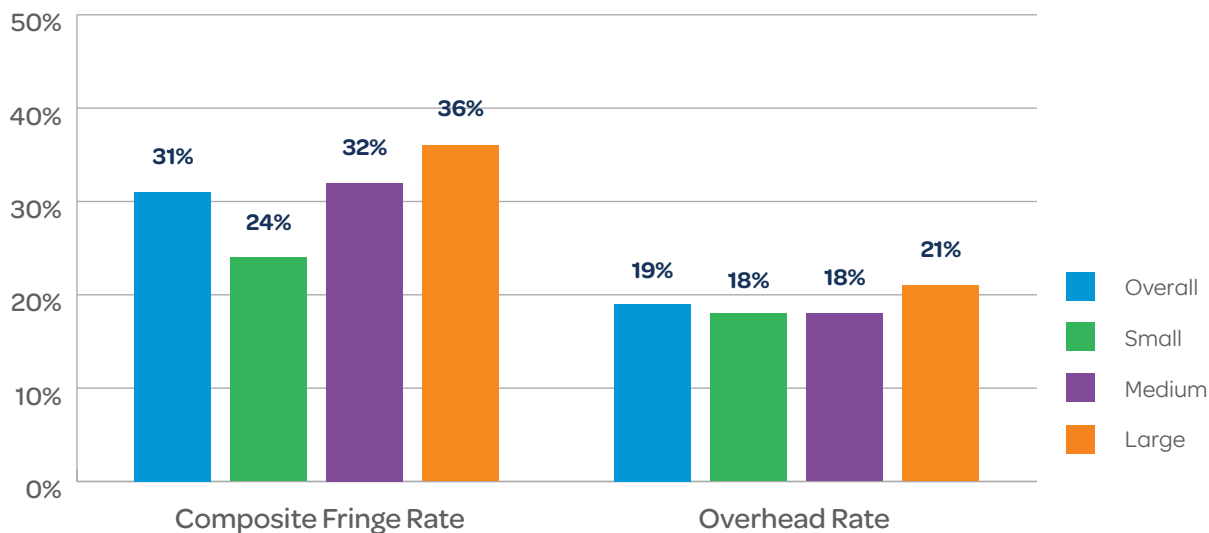
SEVEN-YEAR GROWTH VS. NET PROFIT



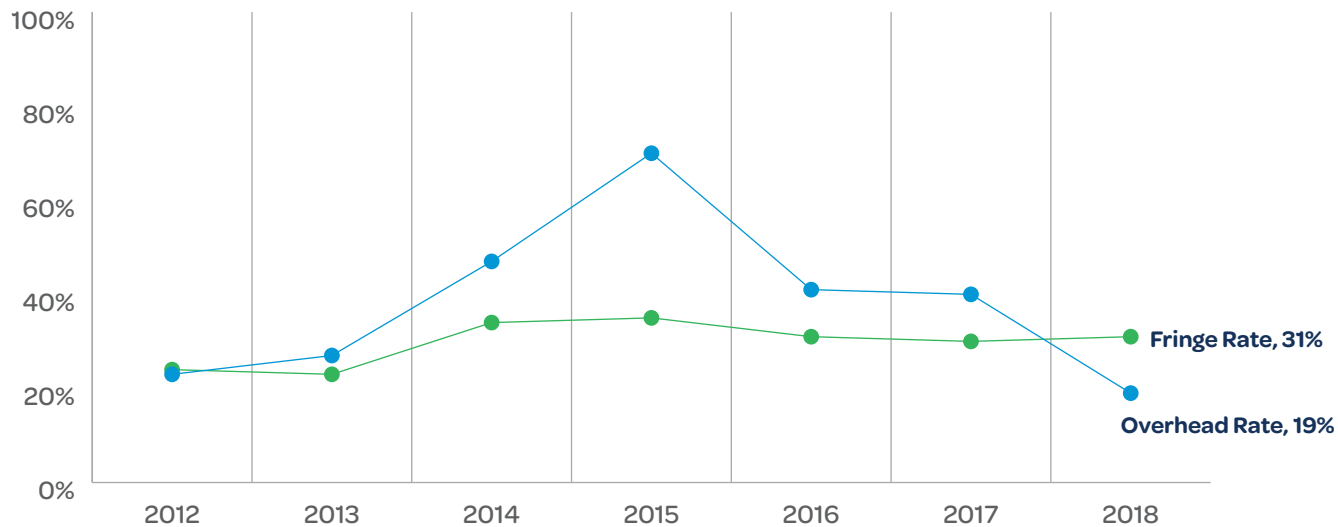
Overall Composite Fringe and Overhead Rate

Overall fringe rates have remained stable this year, with a slight uptick from 28% to 31%, with the largest increases being experienced by large businesses. Given that healthcare premiums are a component of the fringe rate, the 7-point increase for large businesses from last year could possibly be attributed to the ongoing increases in the premiums of employer-sponsored insurance plans. Overhead rates continue to be consistent across companies of all sizes.

OVERALL COMPOSITE FRINGE AND OVERHEAD RATE



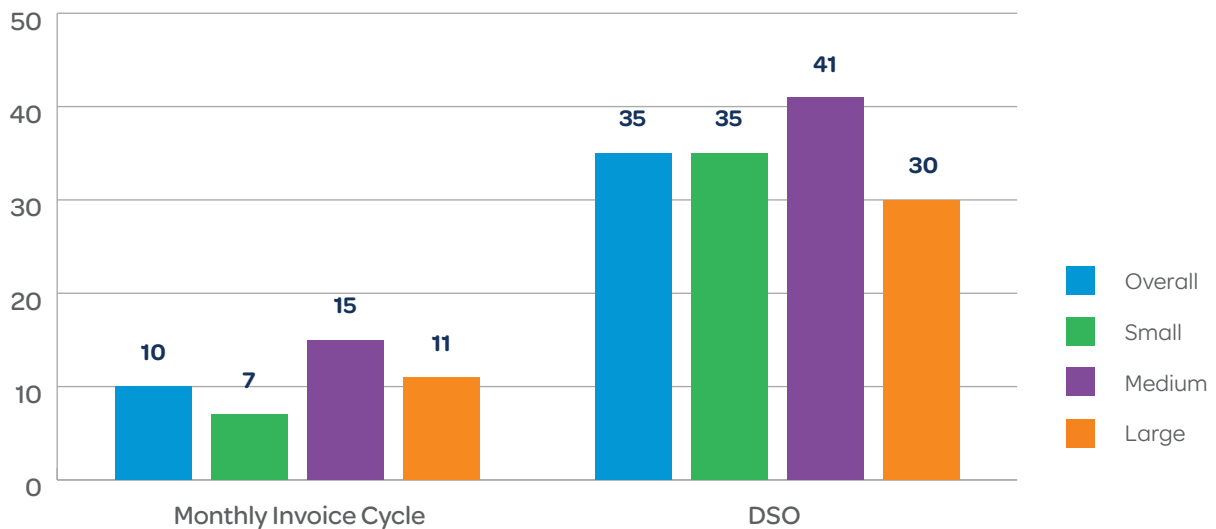
FRINGE RATE AND OVERHEAD RATE: SEVEN-YEAR TREND



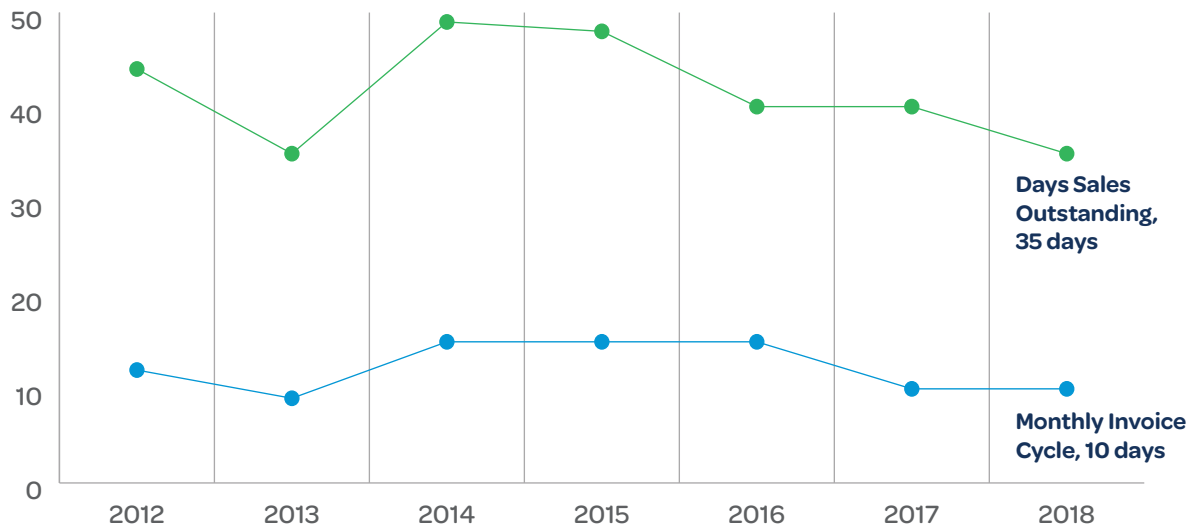
Average Monthly Invoice Cycle and Days Sales Outstanding

Declines in the average monthly invoice cycle and days sales outstanding (DSO), or the number of days from invoicing to payment, have continued into this year, albeit at a slower pace. Companies are now employing strategies to improve cash flow by looking for ways to reduce time spent on invoice cycles and DSO. The overall median monthly invoice cycle has declined from 11 days to 10 days, with the largest declines being reported by large businesses. Medium businesses reported a sizable increase this year, from 10 days to 15 days. DSOs have shortened overall, from 38 days to 35 days. While all businesses experienced declines in their DSO, both medium and large businesses reported DSO declines of four days.

AVERAGE MONTHLY INVOICE CYCLE AND DSO



AVERAGE DSO AND MONTHLY INVOICE CYCLE: SEVEN-YEAR TREND



1 day

decline in Average
Monthly Invoice Cycle



3 day

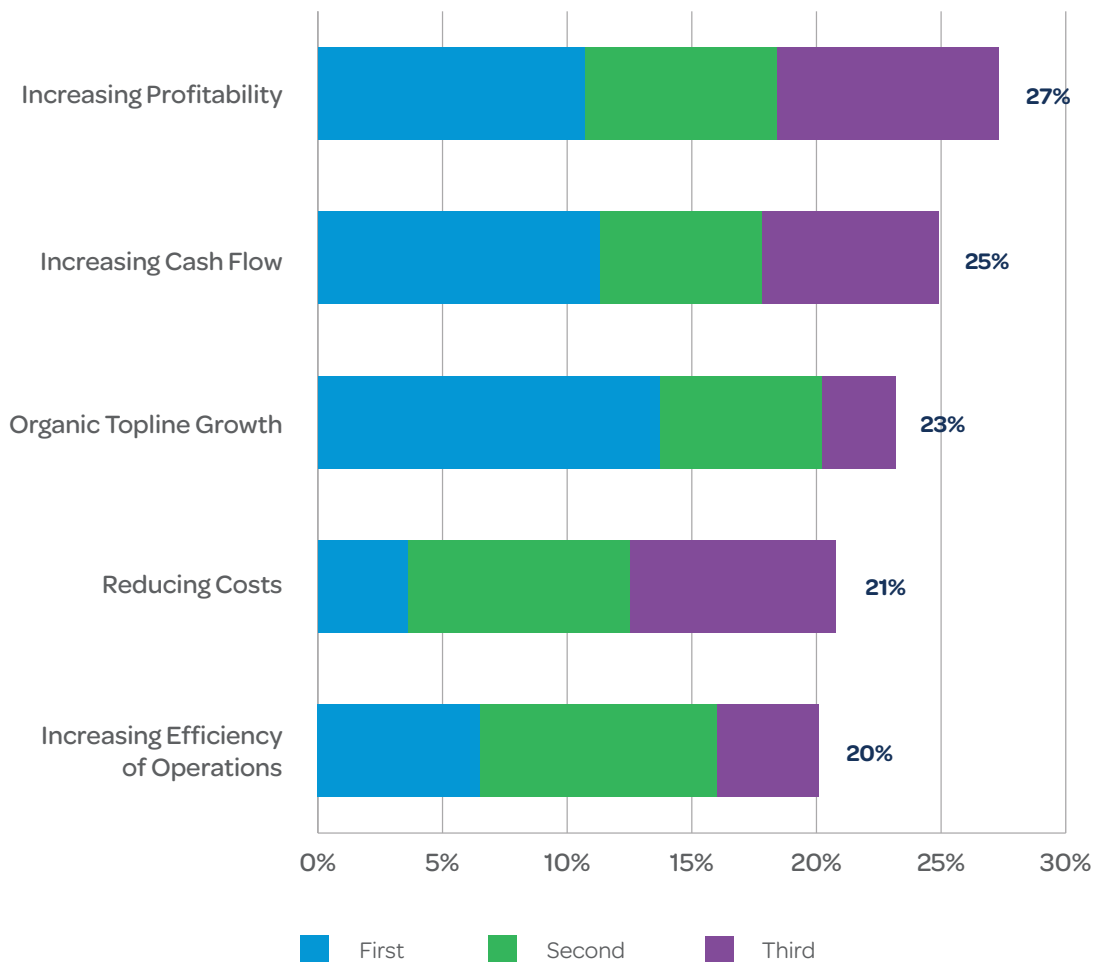
decline in Days
Sales Outstanding



Top Financial Challenges

Businesses are looking to maximize growth and profit during a time of robust government spending. Firms are broadly concerned with increasing revenue rather than cutting costs or improving efficiency. Businesses are reporting three specific financial challenges affecting growth and profitability within this highly competitive and bullish market. “Increasing profitability” is now the number one challenge, up from second place last year. “Increasing cash flow” is now the second most cited challenge, with improving “Organic topline growth” moving to the third most cited challenge after experiencing a 17-point drop from last year.

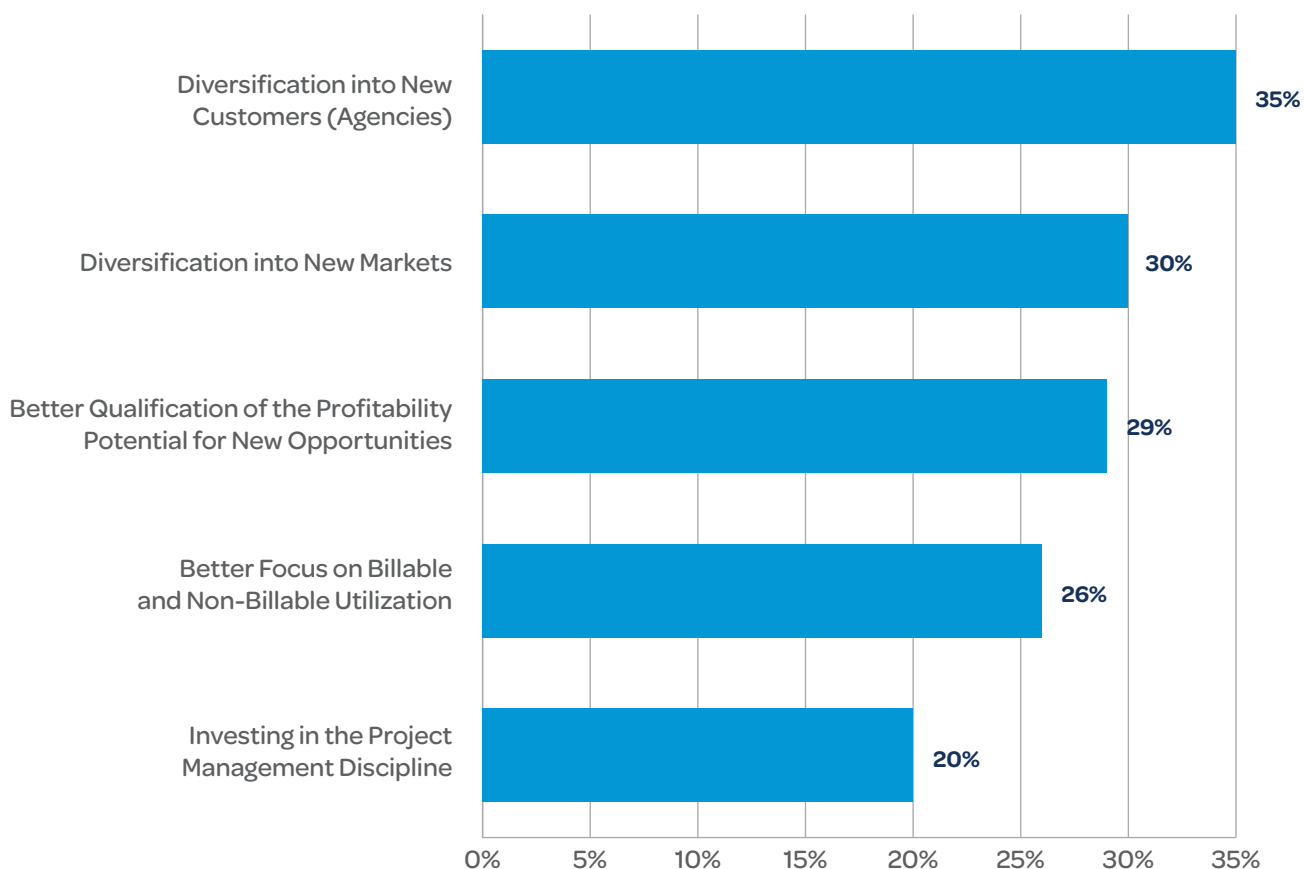
TOP FINANCIAL CHALLENGES



Addressing Top Financial Challenges

Businesses are broadly adopting growth-oriented strategies to address their financial challenges. When asked about how their businesses would address financial challenges, diversification into new government agencies was the top selection for the fourth straight year. “Diversification into new markets” is now the second most cited challenge, up from fifth place last year. Overall, strategies related to investments in business processes and cost reduction are comparatively less popular.

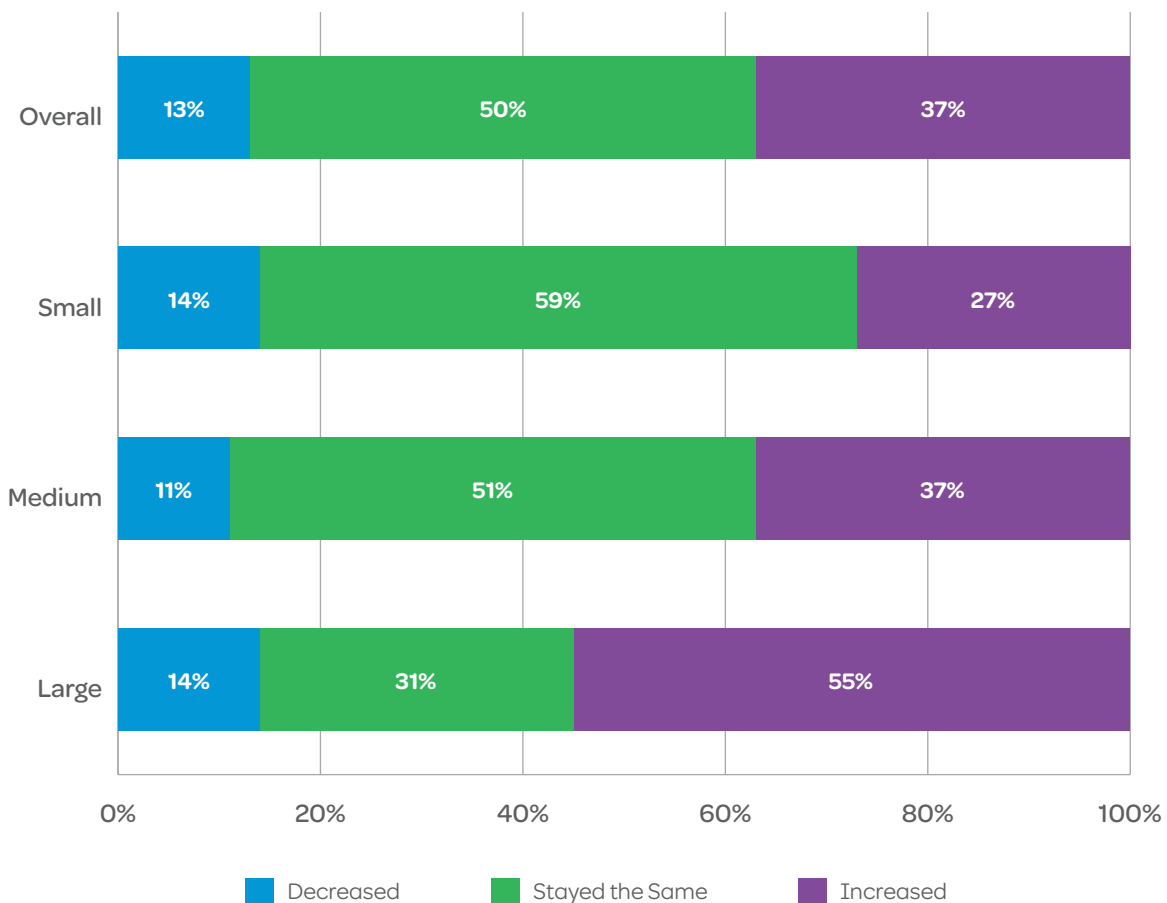
ADDRESSING TOP FINANCIAL CHALLENGES



Change in Federal Contracts

Businesses reported a healthy but stable market for government contracts over the past year. Half of all businesses and a majority of small- and medium-sized businesses reported that government contracts had stayed the same in the past year. The overall percentage of businesses reporting that the number of contracts had increased has declined from 55% to a still healthy 37%. Only large businesses reported an increase in federal contracts, with 55%—a 5-point increase from last year—which is consistent with the stand-out performance of large businesses in business development and growth. Large businesses were the only firms to also report a decline in the number of federal contracts from last year. It could be the case that trends in government contracts reflect changes in the revenue specifically from IDIQ contract vehicles. Although 40% of respondents reported that IDIQ revenue had increased, 62% of large businesses reported an increase, suggesting that changes in the market for IDIQs will soon influence general sentiment about the market for government contracts.

CHANGE IN FEDERAL CONTRACTS



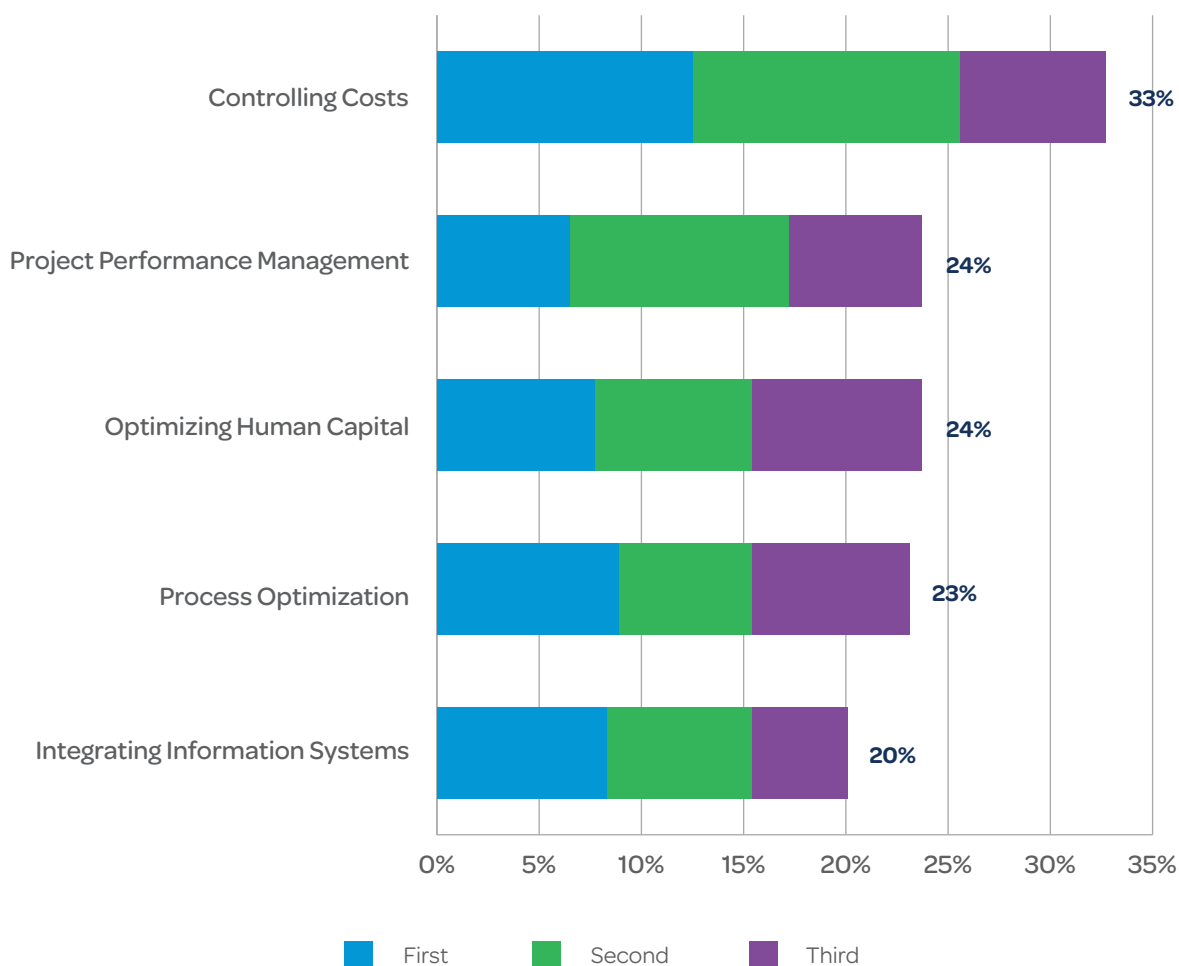
Challenges in Digital Transformation

For the first time, this year's survey asked what challenges government contracting professionals encountered when trying to digitally transform their organization. "Controlling costs" emerged as a clear concern, with 33% citing it as a top challenge. It was followed by concerns about "Project performance management" (24%), "Optimizing human capital" (24%), and "Process optimization" (23%). Among those citing controlling costs, small and medium businesses were more likely to report it as a top challenge (14%) compared to large businesses (9%).



"There are challenges with 'aligning with corporate tools and reporting requirements as we are on a different system.'"

DIGITAL TRANSFORMATION CHALLENGES





FINANCE

CLARITY OUTLOOK

In an industry that is remaining profitable and projecting increased growth next year, competition has increased in the government contracting sector, leading businesses to devote more attention to diversification into new markets and customers. Firms are now citing “Improving profitability” and “Increasing cash flow” as top challenges and are adopting strategies that specifically address these challenges.

Businesses are looking for an edge to best the competition, by tightening invoice cycles and DSO periods, and also controlling G&A rates, unallowable costs, and composite overhead rates.

SECTION FOUR

FINANCIAL COMPLIANCE

The amount of time businesses are spending on audits is decreasing, but government contractors are still challenged by the costs associated with audits.

Consistent with the goals of the current administration, oversight on businesses has not increased over the last year, with a majority of businesses reporting that the level of oversight has stayed the same. Businesses are now reporting fewer hours spent preparing for audits than ever before.

However, businesses are still being challenged by the labor costs associated with internal audits. More businesses are preparing for audits better by conducting more internal audits and hiring outside parties to simulate audits.



Key Takeaways

Defense Contract Audit Agency (DCAA) audits are still the most common audits, but about one-quarter of companies also conduct internal control audits. This is consistent with the fact that businesses involved in defense, weapons, and aerospace are some of the most prevalent in the industry.

Contracting Purchasing System Review (CPSR) and ACS 606 stand out as the most costly audits. CPSR was indicated as a significant cost for firms in 2018, with 83% of respondents indicating it as a “moderately” or “more costly” compliance to meet. This is a relatively significant change from last year, when 66% of respondents indicated one of the two.

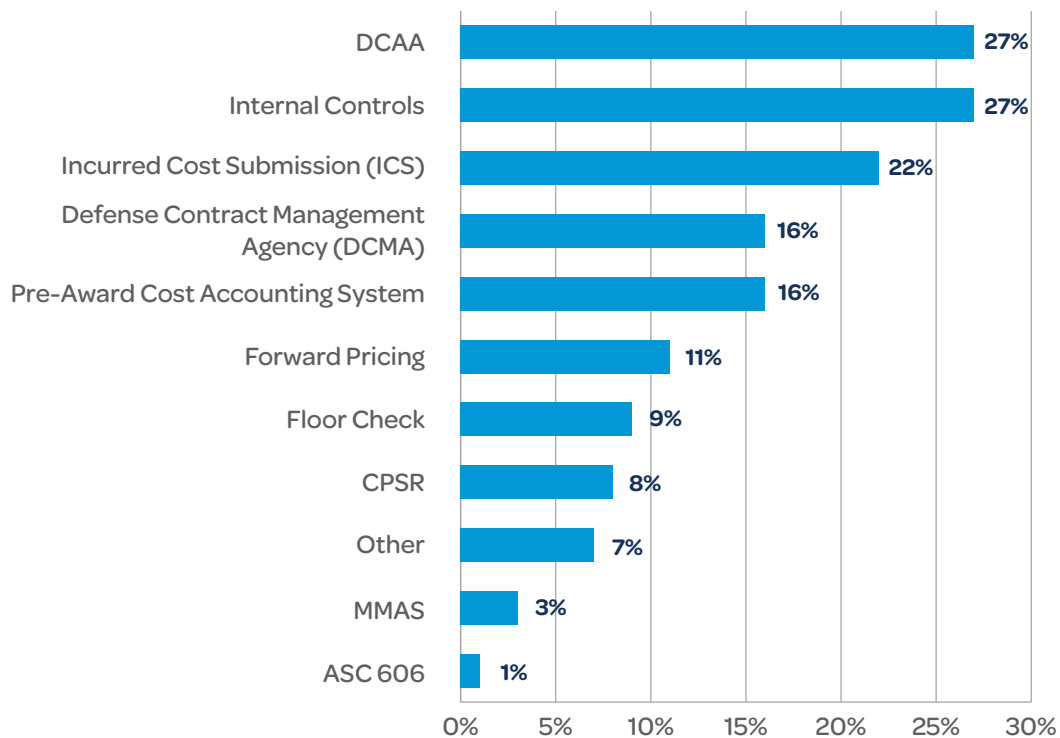
Audits often coincide with company performance, as businesses with more revenue were more likely to report that government oversight had increased over the last year. Large businesses were most likely to report the cost of compliance increasing in the next year.

The overall number of audits is low with the median being two per year, although the number of audits does increase with business size. Accordingly, large businesses have the most compliance professionals to handle audits.

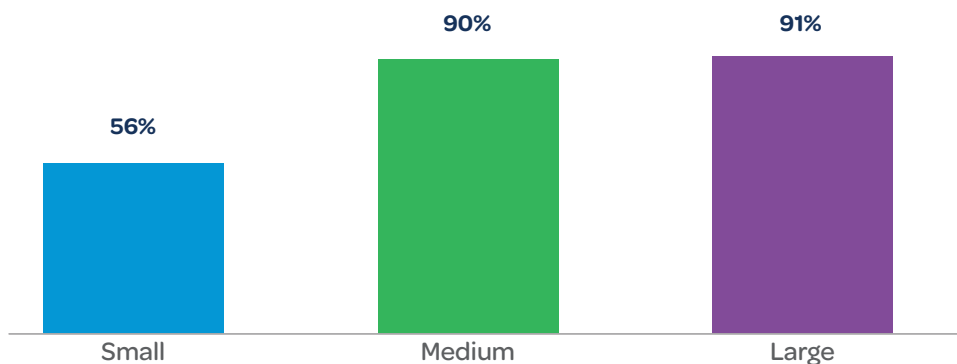
Types of Audits Experienced Within the Past Two Years

The top three audits remain unchanged from last year, although businesses are reporting experiencing these types of audits less often. The audits from the DCAA are still the leading form of audit, which is consistent with the large percentage of defense, weapons, aerospace, and manufacturing firms that comprise the majority of the industry. Although there was a 1-point increase in the percentage of firms reporting internal control audits and CPSR audits, all other audit types were down from last year. The number of audits experienced by businesses increased with size but was low with a median of just two audits started in 2018.

TYPES OF AUDITS IN PAST TWO YEARS



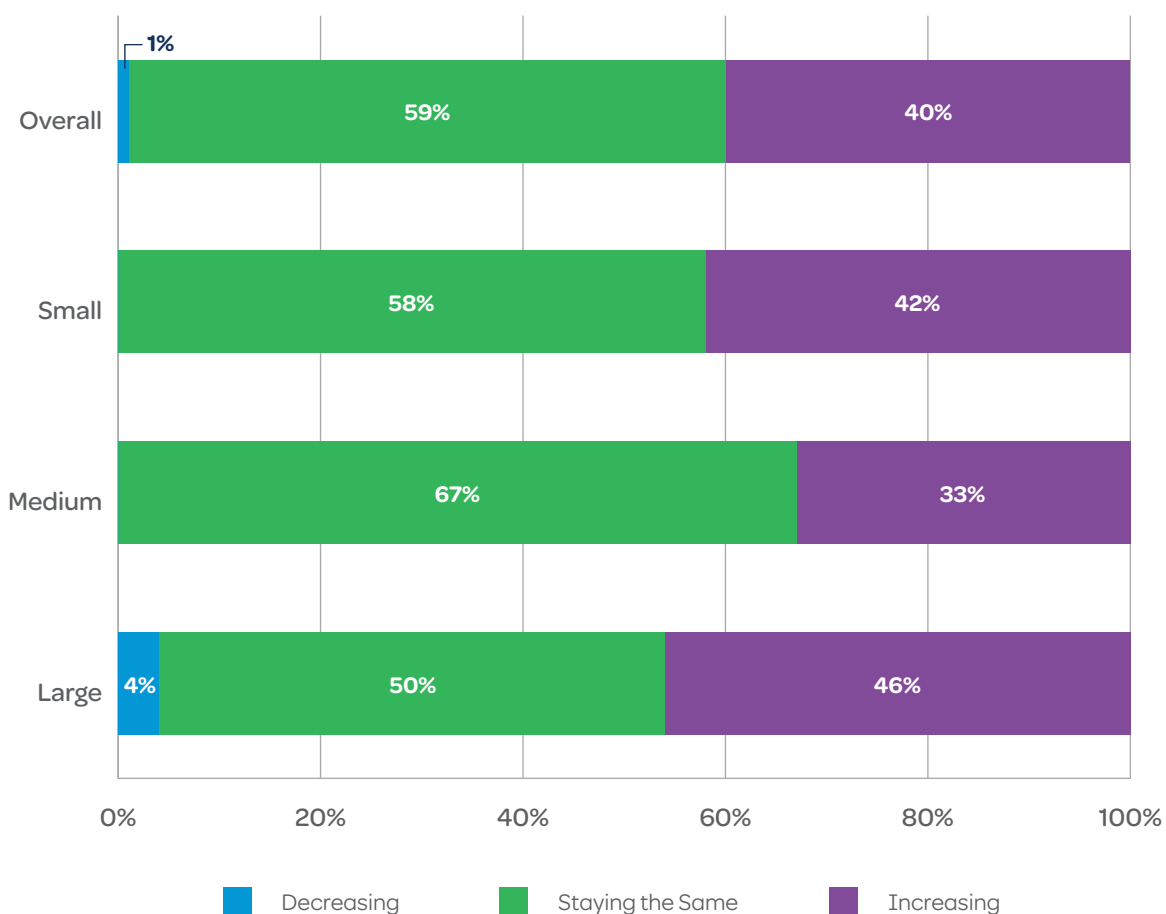
EXPERIENCED AT LEAST ONE AUDIT



Cost of Compliance

A majority (59%) of firms expect the cost of compliance to remain the same in the next year whereas 40% expect it to increase. Large firms were most likely (46%) to report that the cost to compliance would increase, and they are the only category of firms to also report that the costs of compliance would decrease. These percentages largely mirror the expectations of businesses when they were asked whether the level government oversight will increase or decrease next year. A similarly sized majority (64%) of firms also expects government oversight to stay the same; large businesses are the most likely (44%) to say they expect oversight to increase next year.

COST OF COMPLIANCE

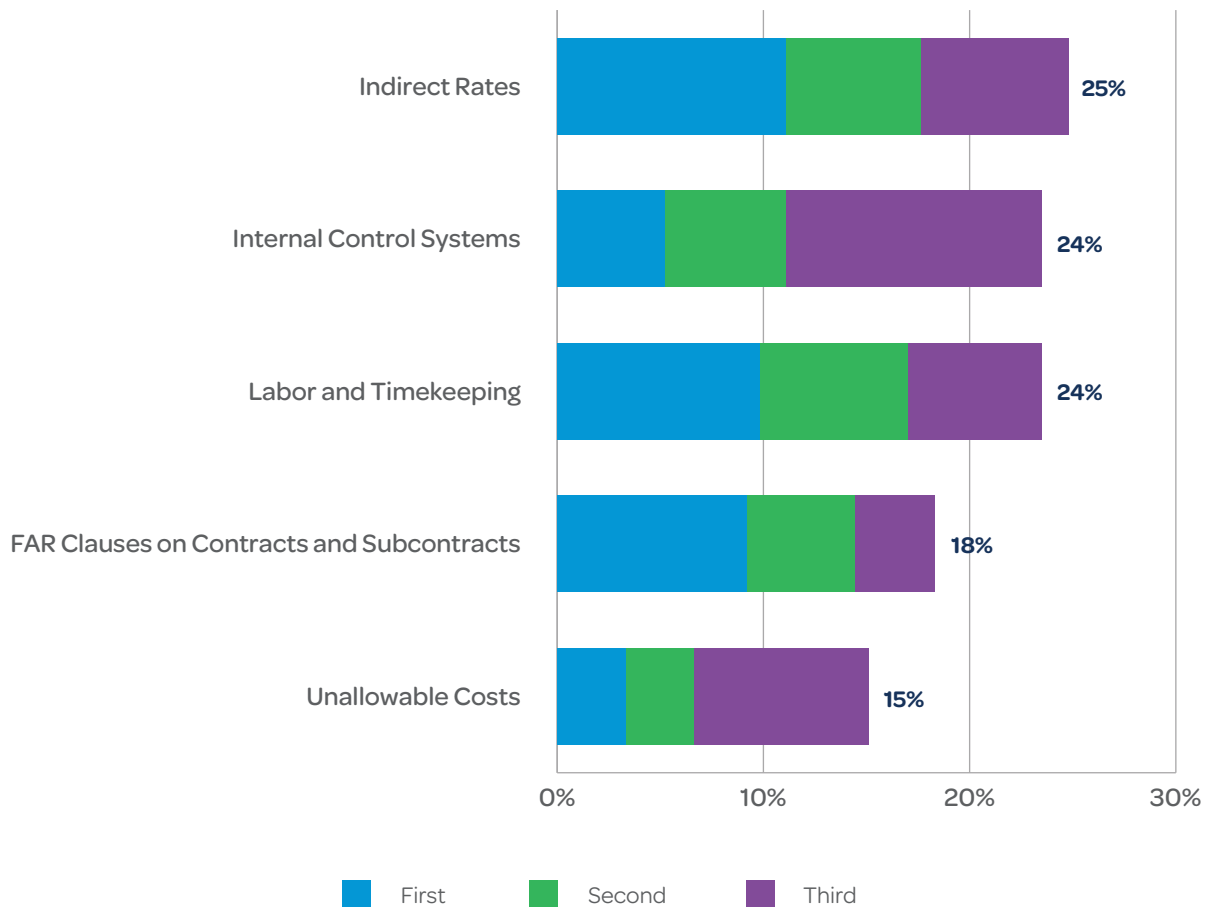


Top Audit Challenges and Addressing Top Audit Challenges

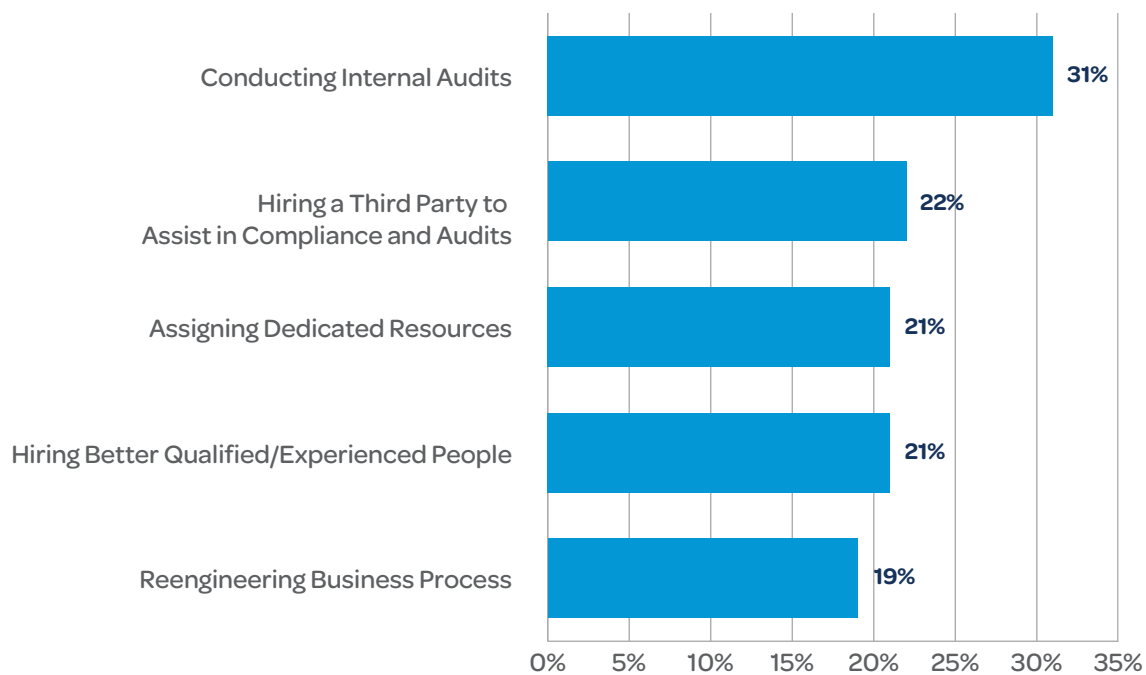
The challenges cited by businesses this year illustrate that it is difficult to correctly account for and classify the labor expenses that audits generate. The top three audit challenges remain unchanged from last year, with “Indirect rates” continuing to lead, followed by another tie between “Internal control systems” and “Labor and timekeeping.” Nearly one-fifth (18%) of medium-sized businesses cited “Indirect rates” as their number one audit challenge compared to 10% for small businesses and 8% for large businesses.

To address the high cost of audits, businesses are working harder to prepare for audits with internal and third-party audits. Similarly to last year, conducting internal audits is still the most common way of addressing top audit challenges. However, “Hiring a third party to assist in compliance and audits” is now the second most commonly cited initiative indicating that companies are willing to spend for specialized compliance expertise.

TOP AUDIT CHALLENGES



ADDRESSING TOP AUDIT CHALLENGES



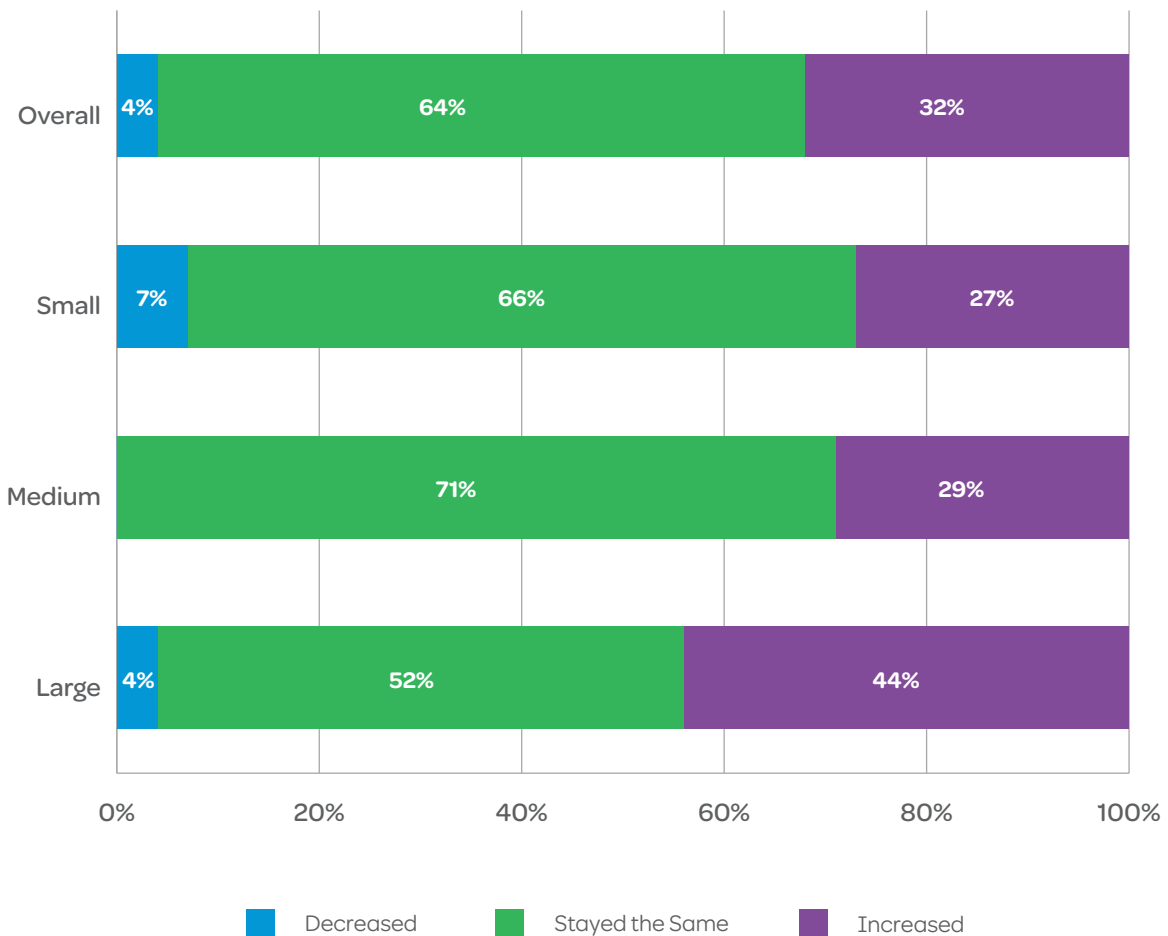
“It is difficult handling more excruciating deep dive audits that seem to have very little value added.”



Change in Government Oversight

A clear majority of businesses experienced the same amount of government oversight in the last year. The overall percentage of businesses that experienced a similar level of government oversight increased from 57% to 64%. The largest changes were the percentage of businesses that found that current levels of government oversight would stay the same. This percentage increased from 67% to 71% for medium-sized businesses and from 14% to 52% for large businesses. Large businesses reported the largest declines in the percentage expecting oversight to increase, decreasing from 57% to 44% this year. These changes generally mirror the trends found for the cost of compliance. However, among businesses experiencing an increase in the cost of compliance, 49% expected a corresponding increase in government oversight, compared to just 32% of businesses overall.

CHANGE IN GOVERNMENT OVERSIGHT





FINANCIAL COMPLIANCE

CLARITY OUTLOOK

Businesses this year are more aware of the labor costs for handling audits and are resolving this—not by dedicating more FTEs to financial compliance, but instead by focusing on additional internal practices to simulate audits. The overall number of hours that contractors are devoting to government oversight is decreasing.

Most businesses expect the current level of oversight to remain roughly the same in the next year, except for a slight increase reported by large businesses. Audits are generally infrequent, but can be costly when they do occur. Companies have found that the indirect rates and timekeeping associated with audits to be challenging and have often adopted internal monitoring systems for prevention or to help prepare for audits.

SECTION FIVE

CONTRACT MANAGEMENT

Tracking and entering contract information continues to be a key challenge for businesses.

Contract management is a challenging aspect of government contracting, one in which companies continually seek to find ways to become more efficient. Businesses reported being challenged by the labor requirements of entering and maintaining accurate contract information into business systems.

Given the bullish economic outlook, increases in sales to the government and upticks in win rate, businesses are now managing more contracts than ever. In addition, many of these contract types may be unfamiliar given the diversification into new agencies. Despite these challenges, few businesses choose to invest in contract management software to mature their process, instead choosing to continue updating manually oriented business processes. Integrated contract management could address these challenges and contribute to faster processing of contracts to keep up with the increase in contract volume.

Key Takeaways

“Tracking non-financial aspects of contracts,” “Time spent entering contract information into finance or business development systems,” and “Maintaining data integrity between opportunity, contract and project records” were the top contract management challenges cited by businesses.

About one-quarter of businesses use contract management software and about half use a shared drive or Microsoft Excel document to manage contracts.

Overall, few contracts are protested but protests are more common for large businesses. Only 10% of small businesses reported any contracts being protested, but 37% of large businesses reported contract protests.

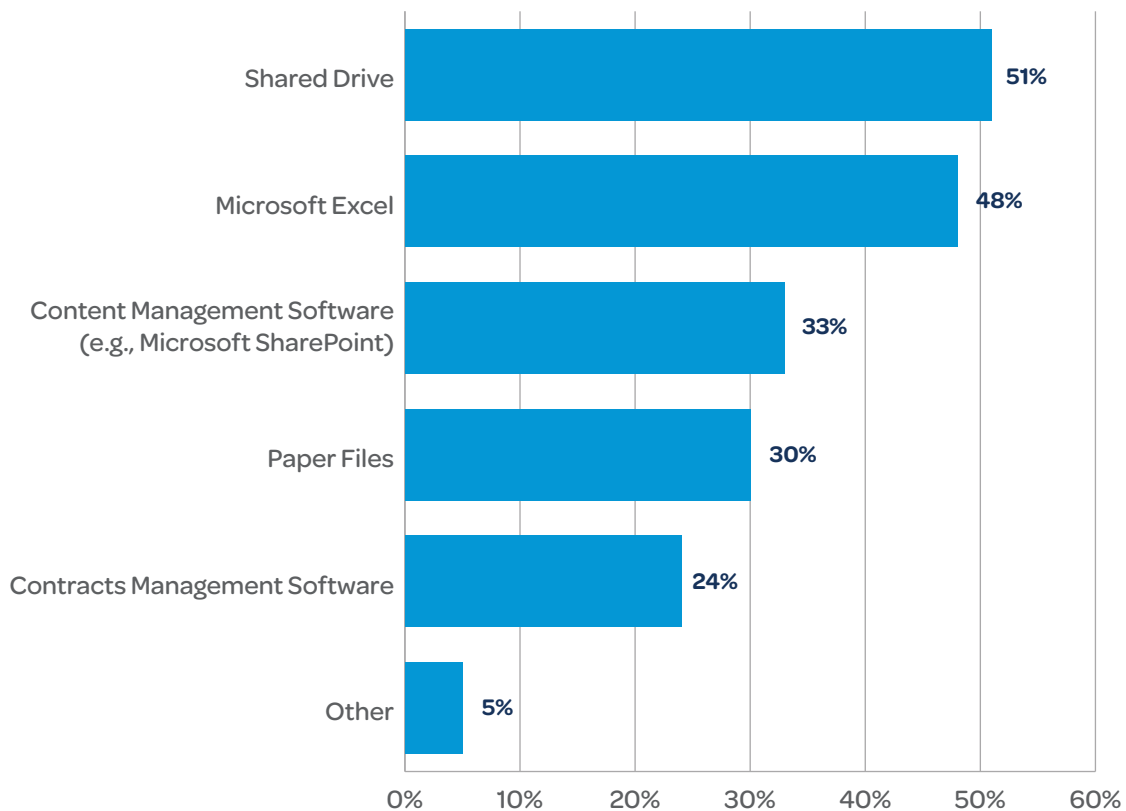
Large businesses are making the largest investments in contract management software. Large businesses reported considerably more contract management FTEs and were the most likely to use or invest in contract management software, integrate current contract management software with finance systems, and change business processes.



Contract Management Resources

Businesses are primarily reliant on non-dedicated contract management solutions to help manage contracts. This is a critical oversight if businesses plan to keep up with their peers in this competitive market. A slight majority (51%) of businesses used a shared drive, followed closely by a Microsoft Excel document (48%). Only 24% of businesses used dedicated contracts management software, although this varied considerably by firm size. Forty-two percent of large businesses used contracts management software compared to 23% of medium-sized businesses and 12% of small businesses. This suggests that the contract management function for most businesses has not received targeted investments or innovation despite the profitability of improvements in efficiency.

CONTRACT MANAGEMENT RESOURCES



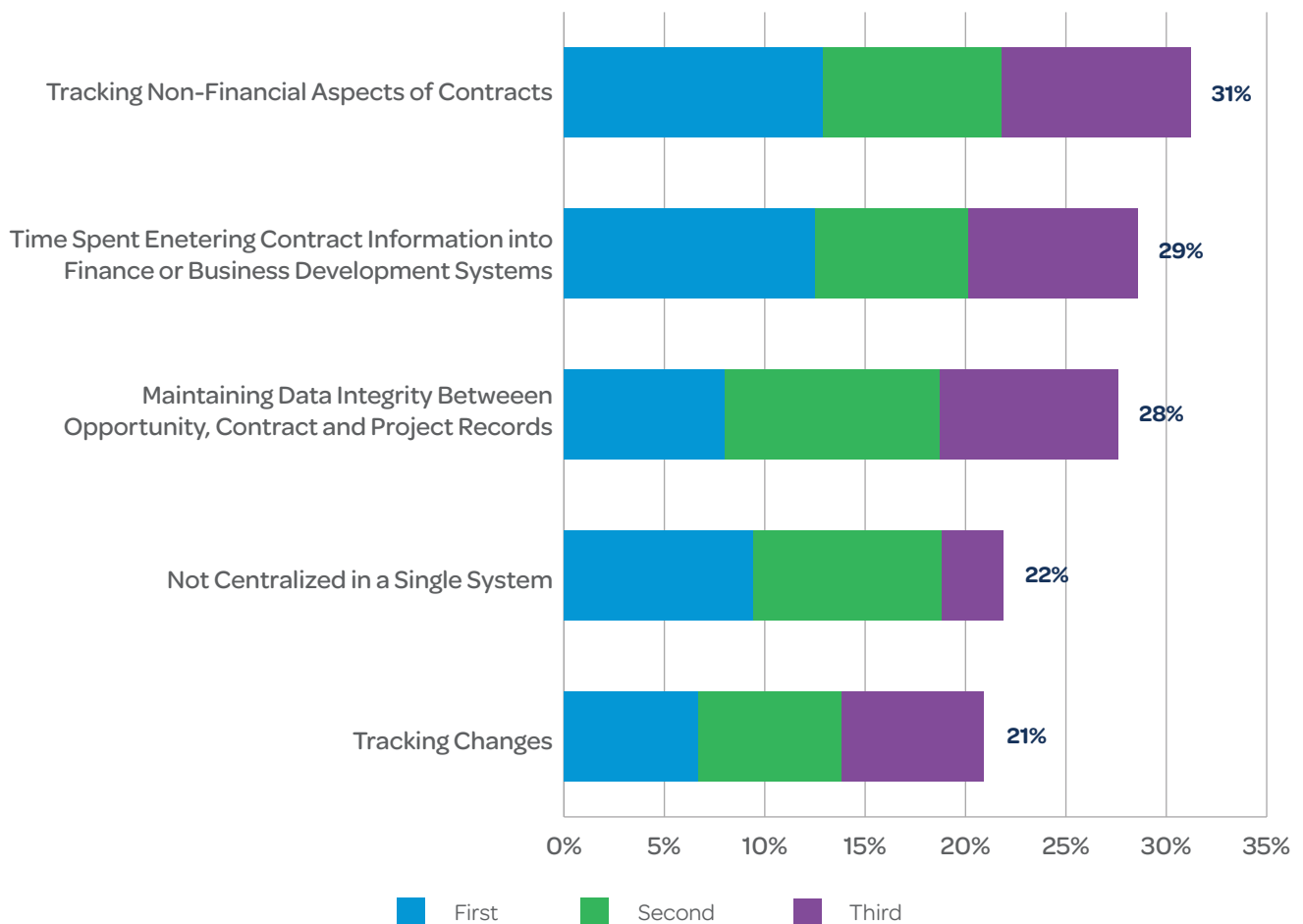


“Our biggest challenge is the ability to query across the enterprise, due to systems not being integrated.”

Top Contract Management Challenges

Businesses are struggling with the inefficiencies inherent to contract management. They are most challenged by tracking the non-financial aspects of contracts, followed closely by the time spent entering contract information into finance or business development systems. Although “Tracking non-financial aspects of contracts” was the top-ranked challenge, large businesses were the least likely to select it as their number one challenge, possibly indicating efficiencies gained from using contract management software. Businesses cited “Maintaining data integrity between opportunity, contract, and project records” as the number three challenge. Overall, these challenges suggest that dedicated software can contribute efficiencies through labor reduction, better tracking, and integration of business systems.

TOP CONTRACT MANAGEMENT CHALLENGES



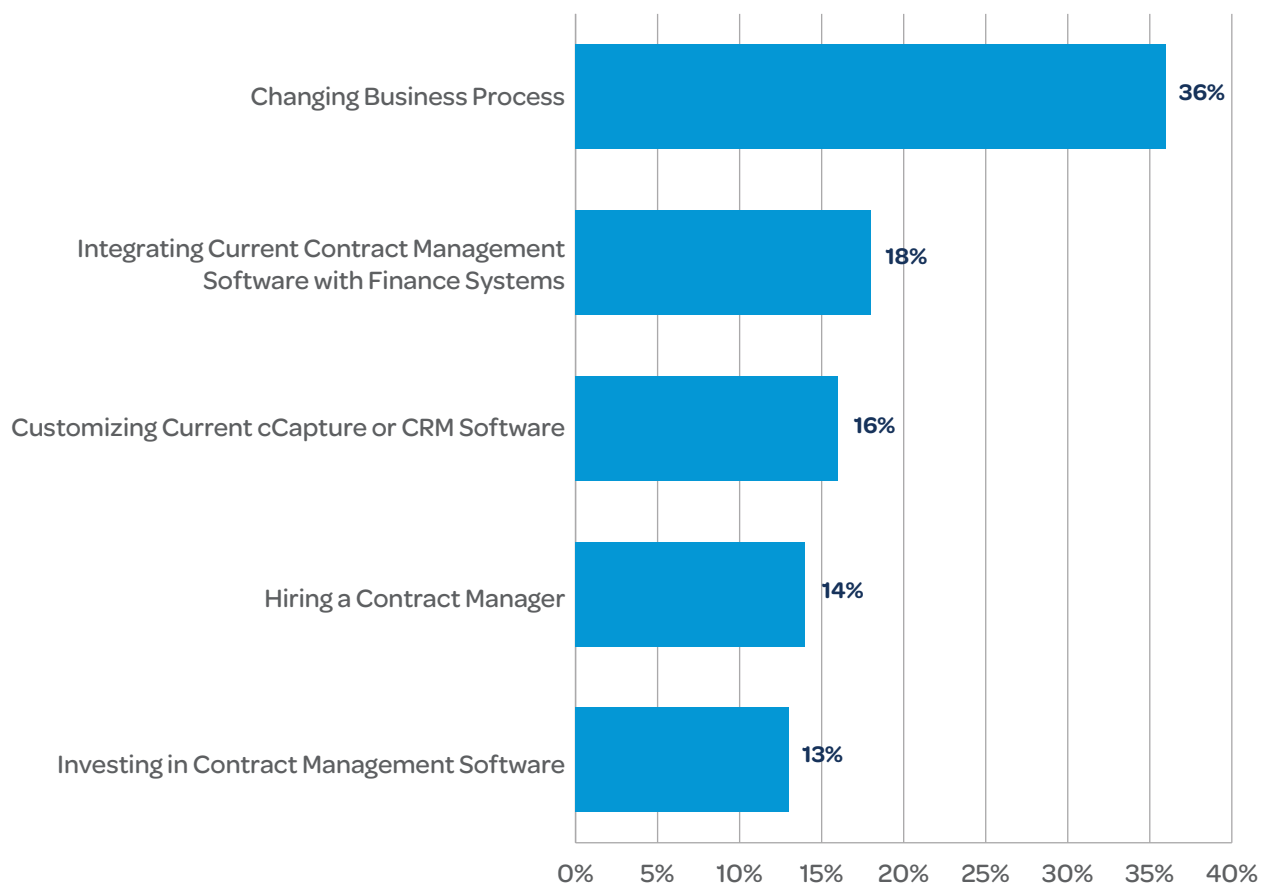
Addressing Contract Management Challenges

Despite the challenges related to tracking, data integrity and entering information into finance or business development systems, firms do not appear to be tackling these challenges head on. Instead, most business are looking for a total overhaul, with about one-third of firms (36%) citing changing business processes as a method of addressing contracting challenges. Across all business sizes, 13% indicated that they were investing in contract management software, with 19% of large businesses confirming their investment. Large businesses were also the most likely to indicate their plan of integrating contract management software with finance (27%) and customizing current capture or CRM software (22%).



We are hoping to introduce “better tracking of administrative burdens, such as identifying costs for shortfall in systems.”

ADDRESSING CONTRACT MANAGEMENT CHALLENGES





CONTRACT MANAGEMENT

CLARITY OUTLOOK

Companies are clearly challenged by the amount of labor required to track, enter and update contract information, as well as maintaining data integrity between contract and project records. These challenges will only increase as the number of contracts businesses need to process rises. It is clear that many of these challenges could be addressed with a dedicated software solution, but only about one-quarter of businesses are currently using contract management software.

By investing in contract management software, businesses are attempting to achieve efficiencies through overhauling their manual business processes and forgoing possible efficiencies gained in contract management.

SECTION SIX

PROCUREMENT

Contracting Purchasing System Review (CPSR) was indicated as a significant cost for firms in 2018.

Successfully passing a CPSR audit typically leads to less government contractor risk.

Meeting the criteria and tracking data that demonstrates that the financial system and purchasing system agree with what is actually happening is key.



Key Takeaways

“Days Payable Outstanding (DPO)”, “Procurement cycle time,” and “Dedicated Procurement FTEs” are the most commonly tracked procurement KPIs.

Businesses had a median of four procurement professionals, with large businesses claiming nine procurement professionals.

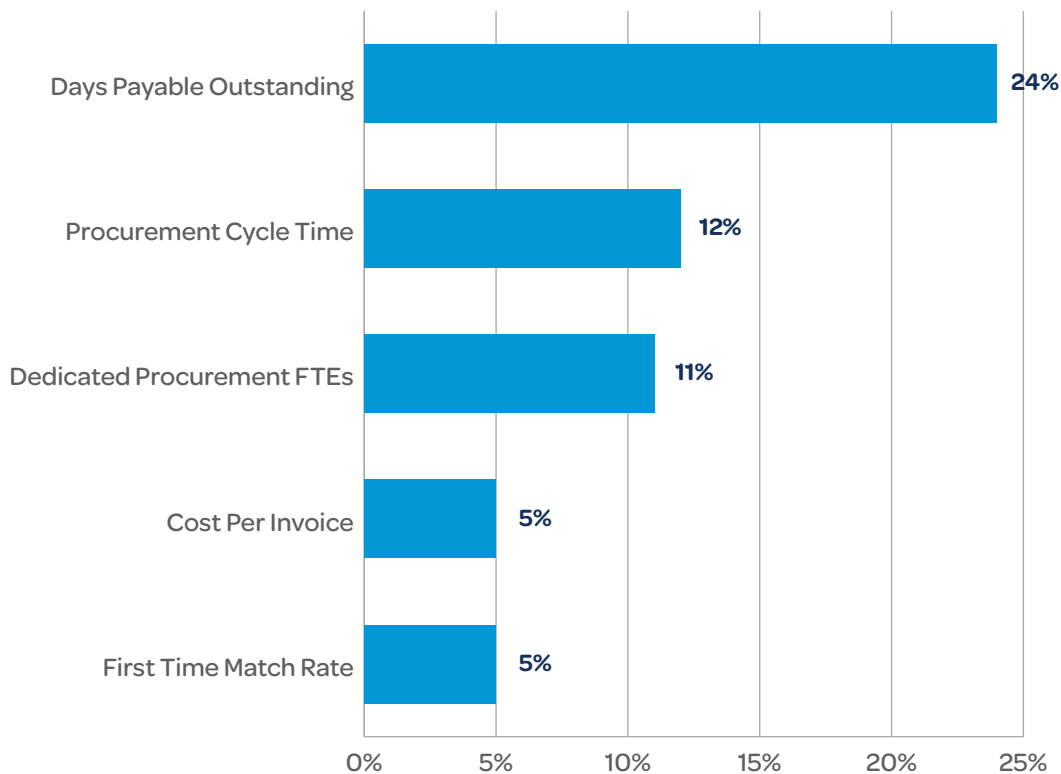
Businesses in all size categories had an average of 30 DPO, suggesting this figure is a good benchmark for the industry.

“First Time Match Rate” varied considerably by business size, indicating performance on this KPI is related to staffing and software used.

Procurement Key Performance Indicators Tracked

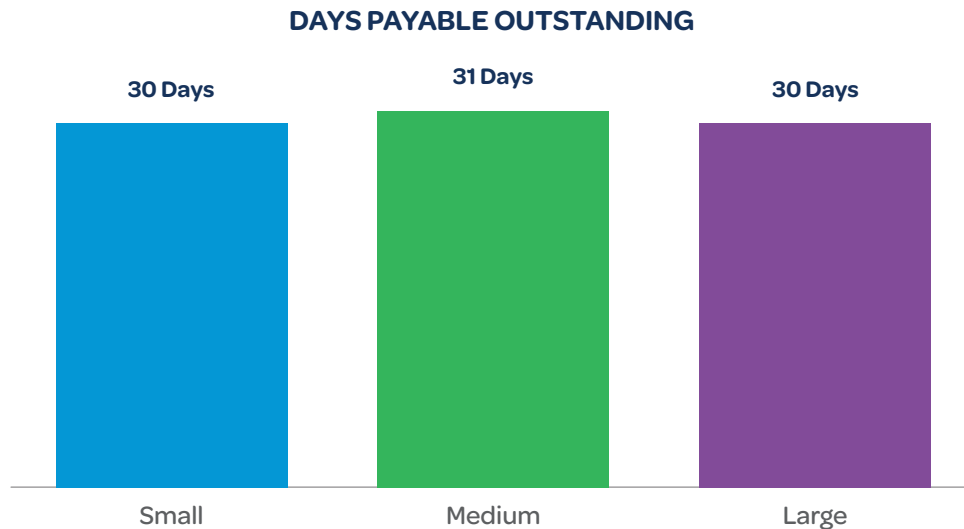
The most frequently cited procurement KPIs are often related to monitoring cash flow such as DPOs or procurement cycle time. DPO, or the average number of days a company takes to pay its suppliers, was the most frequently cited KPI. Given that this metric is closely related to how much cash businesses currently have on hand, it is unsurprising that firms would track this particular metric. The percentage of firms tracking DPO did not vary significantly by firm size, although large firms were substantially more likely (26%) to track procurement cycle time than medium-sized businesses (6%) or small businesses (8%). The survey revealed that businesses tracking procurement cycle time tend to have more projects on or ahead of schedule.

PROCUREMENT KPIS TRACKED



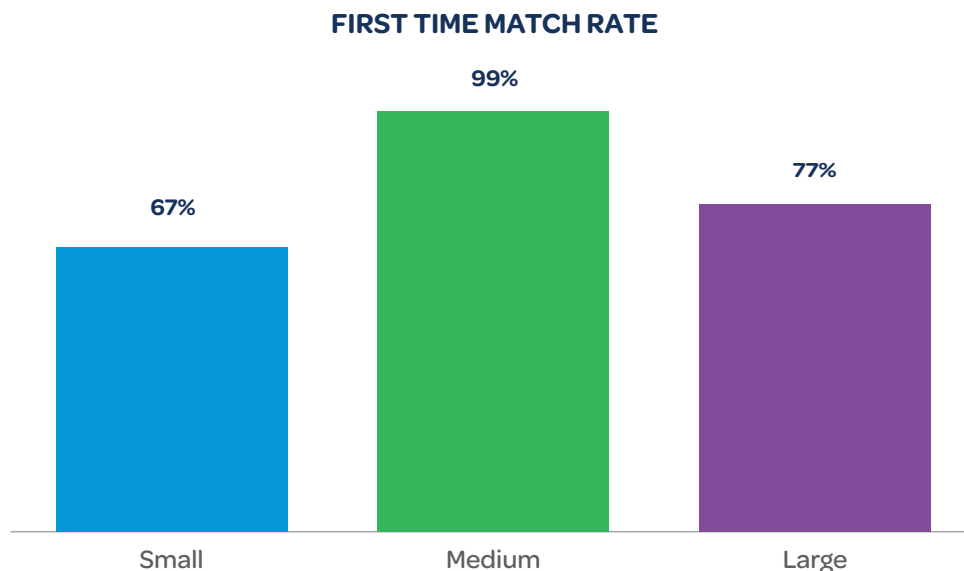
Days Payable Outstanding

The number of days it takes to pay a supplier has real and perceived consequences. Favorable payment terms, avoiding additional fees, improving working capital and increasing cash flow are different scenarios affecting days payable ratios. The median number of DPO was 30 and did not vary substantially by business size. Given that businesses are so consistent on this metric, 30 days could be seen as a reasonable benchmark for all firms in the government contracting sector.



First Time Match Rate

First time match rate is a KPI related to the quality of procurement documentation received by the accounts payable department. It is the number of invoices that exactly match corresponding information on purchase orders and receiving documents and is related to the efficiency and standardization of a business's procurement function. The median first time match rate for all businesses is 80%, although this varied considerably by firm size. Medium businesses led with first time match rates of 99%, followed by large businesses (77%) and small businesses (67%).





PROCUREMENT

CLARITY OUTLOOK

Government contractors are less likely to be derailed by a CPSR audit when they track the efficiency and effectiveness of how they spend government funds, demonstrate their compliance with Federal Acquisition Regulation (FAR), the Defense Federal Acquisition Regulation Supplement (DFARS), and other procurement policies.

Those monitoring procurement KPIs will also experience better collaboration internally with the accounting team and externally with suppliers and subcontractors, as process metric benchmarks are set and improvement goals established.

SECTION SEVEN

HUMAN CAPITAL MANAGEMENT

Employers are opting to retain employees with superior engagement, continuous performance management, and higher training spends.

Human capital management (HCM) continues to challenge companies in the government contracting sector as strong growth places even more pressure on human resources professionals to fill a growing number of open positions. More businesses than ever before are indicating that retaining top talent is their number one HCM challenge and have responded by focusing more on improving employee engagement as part of the overall employee experience.

Employers are increasingly dedicated to offering more formal learning and career development programs and updating reward and recognition programs as tactics to ensure top talent remains engaged. Employers are still being challenged by the availability of appropriately qualified candidates in the marketplace. As a result, companies are increasing both internal and outsourced recruitment and rebranding efforts to attract better talent.

Key Takeaways

The top HCM talent acquisition challenges remained the same. “The availability of good candidates in the marketplace,” “Attracting better qualified talent,” and the “Ability to offer competitive compensation” are still the top talent acquisition challenges.

Businesses have succeeded in reducing their composite turnover rates but are still citing retention as a top challenge. The number of organizations with a turnover rate of more than 10% dropped from 51% to 33%.

Given the importance of retention and a lack of qualified candidates in the market, organizations are now prioritizing the overall employee experience as an HCM strategy.

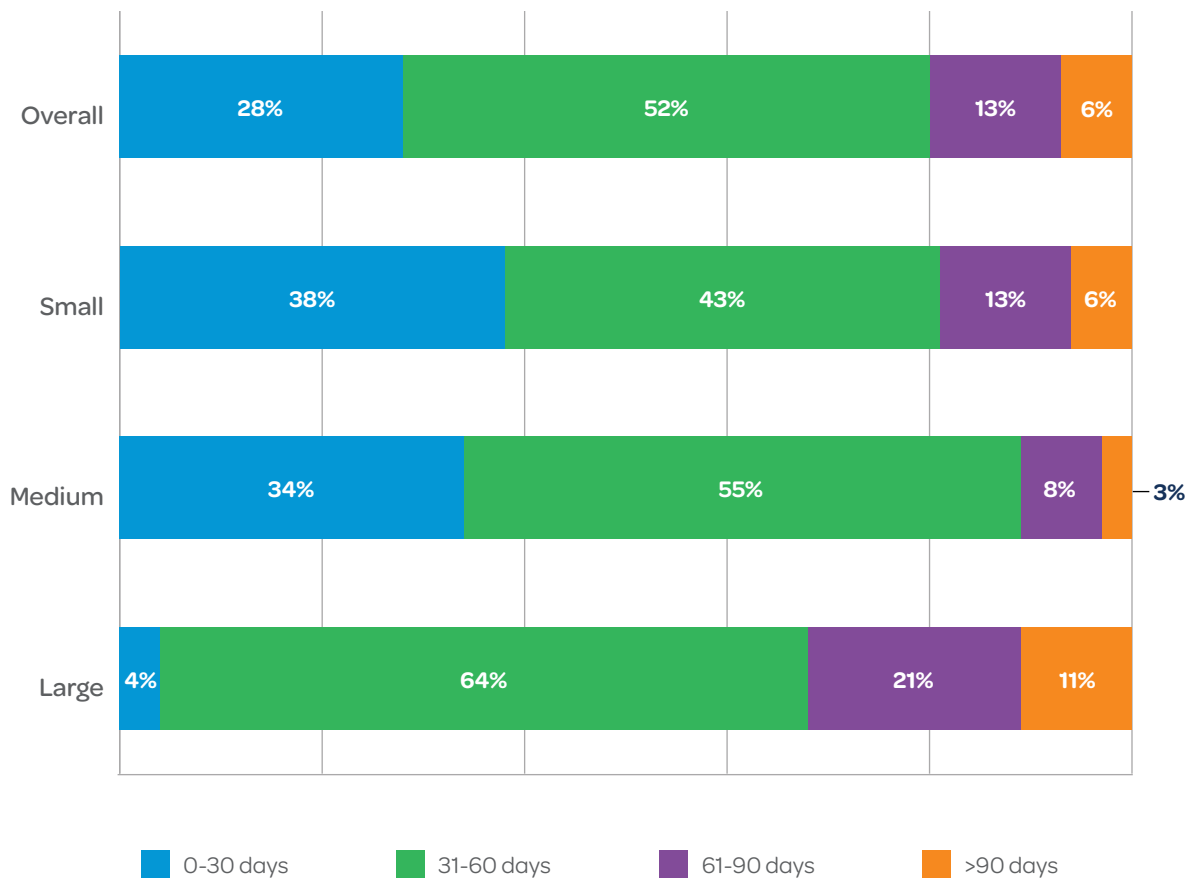
Businesses are making numerous strategic investments in their employees to improve retention. Organizations with a higher training spend per FTE tended to have higher retention.



Average Time to Fill Positions

Despite the strong economy and tight labor market, a majority of companies are now filling positions slightly faster than last year. The overall percentage of firms reporting that it takes 31–60 days to fill a position has increased from 45% to 52%, due in part to a 9-point decline in the percentage of businesses reporting that it takes 61–90 days to fill a position. Firms of all sizes reported declines in the percentage of positions that take 61–90 days to fill. These declines were normally reflected in increases in the percentage of firms averaging 31–60 days to fill a position. Only small businesses experienced an increase in the percentage of hires filled in 0–30 days, moving from 23% to 38%.

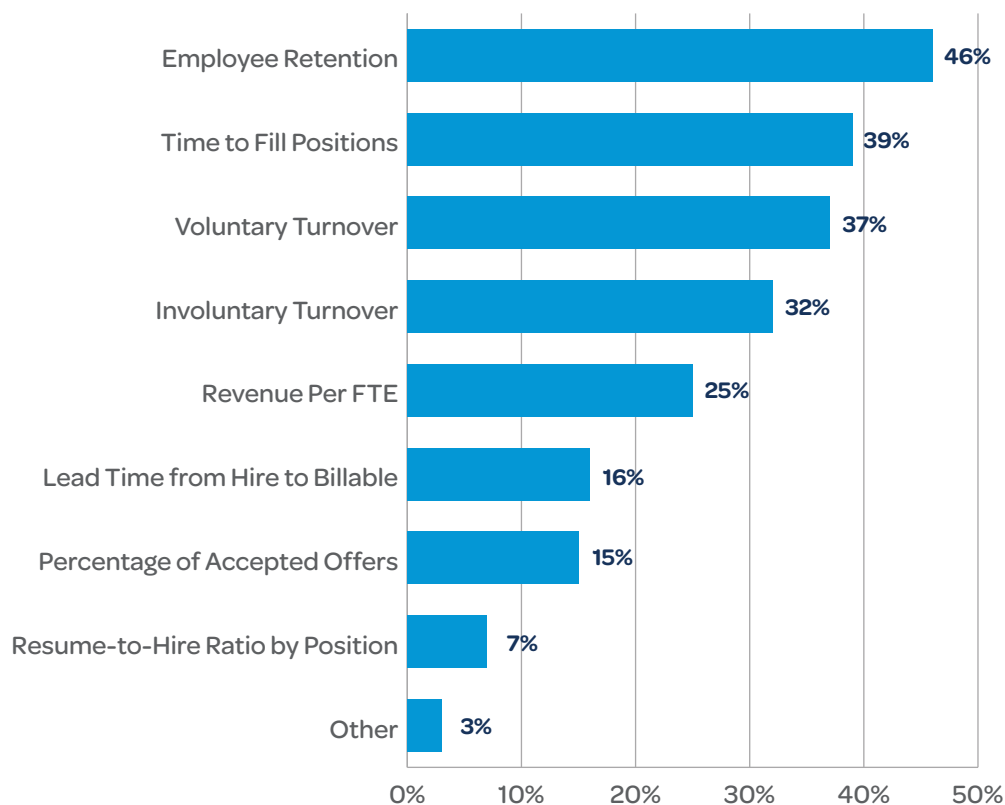
AVERAGE TIME TO FILL POSITIONS



Current HCM Key Performance Indicators Tracked

The KPIs currently tracked by businesses reflect a healthy economy in which talent is increasingly difficult to acquire and retain. “Employee retention” continues as the most frequently tracked HCM metric. “Time to fill positions” has moved from fourth to second most cited KPI. Voluntary and involuntary turnover remain in the top four most cited KPIs for the second year. Overall, large businesses were the most likely to track all of the HCM KPIs except for “Revenue per FTE.” This suggests that large businesses have made HCM integral to their competitive strategy.

CURRENT KPIS TRACKED



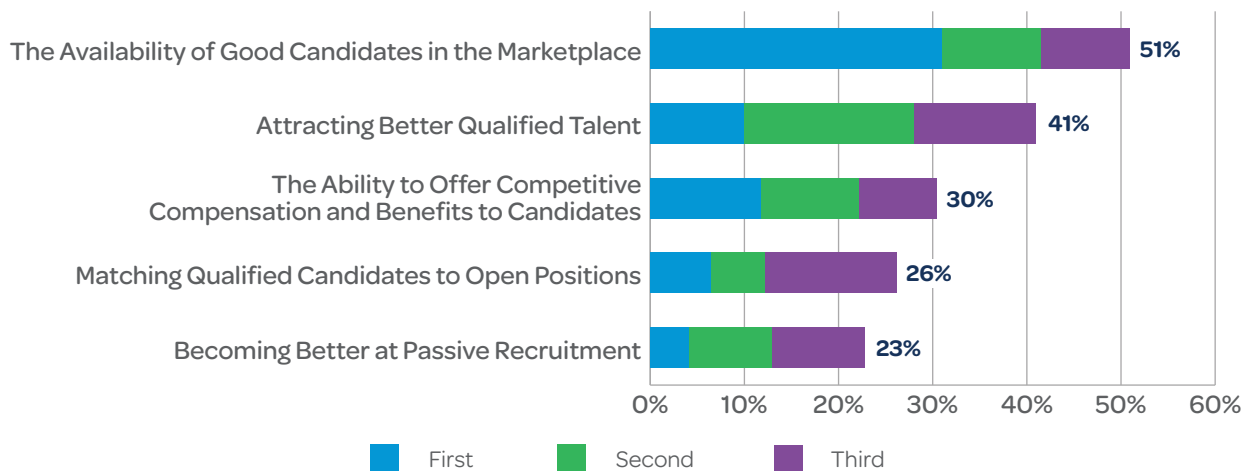


“Our bench is too small - we have no excess capacity to scale up quickly for new opportunities.”

Top Talent Acquisition Challenges and Addressing Top Talent Acquisition Challenges

The ability to source top talent in the current labor force still ranks as the top talent acquisition challenge. “Matching qualified candidates to open positions” has moved up to fourth place, demonstrating that companies are working to become more strategic about recruiting talent.

TOP TALENT ACQUISITION CHALLENGES



Businesses are increasingly likely to staff up internally or work with expensive outsourced recruiting services to cope with the shortage of qualified candidates. “Hiring more recruiters” is now the top way of addressing talent acquisition, up from third most cited last year. “Outsourcing recruiters more” moved from fourth to third as firms increasingly call in specialized help to acquire top talent. This costly solution could potentially be avoided by redoubling efforts to retain existing talent with modern performance management practices and by providing appropriate learning and growth opportunities.

ADDRESSING TOP TALENT ACQUISITION CHALLENGES



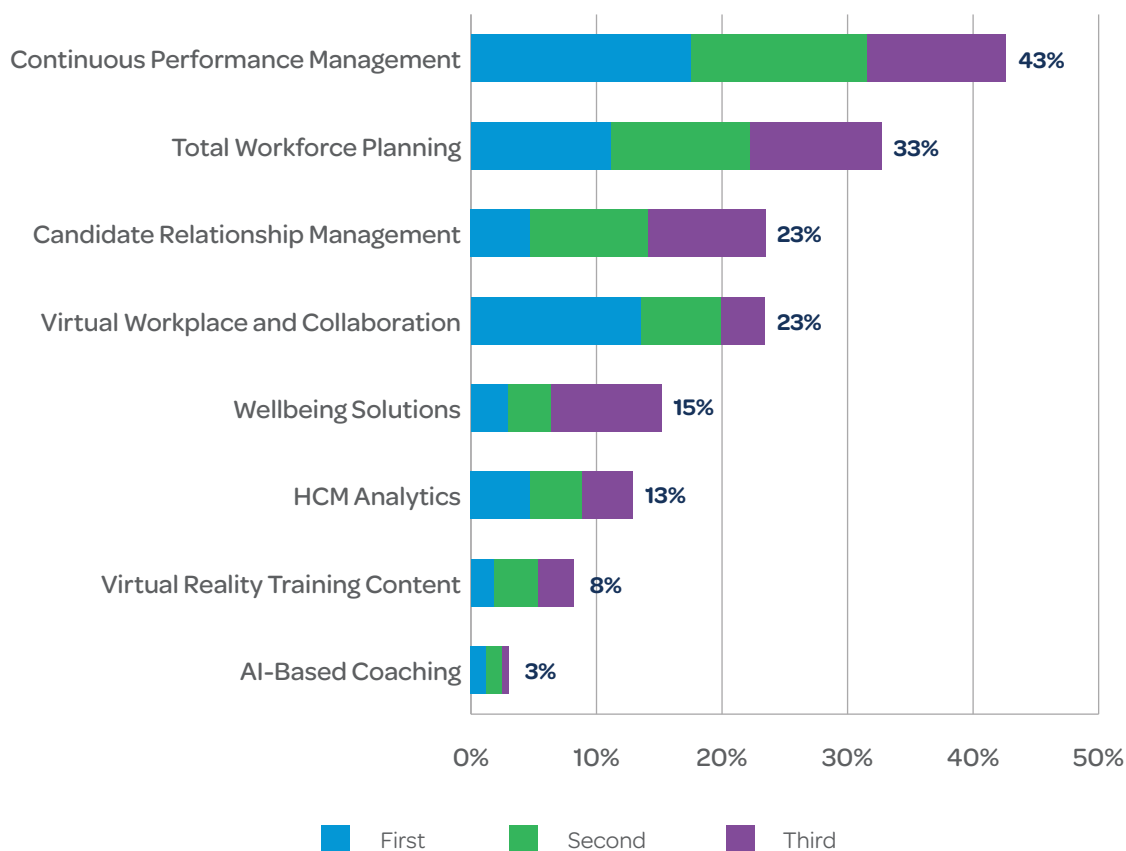
Human Capital Management Technology Trends

Technology is becoming a more important aspect of HCM strategy. “Continuous performance management” and “Total workforce planning” are the leading HCM technology trends. The leading government contracting employers are beginning to adopt modern performance management practices designed to engage employees while aligning performance management with the overall organizational goals of the firm. “Virtual workplace and collaboration” ranked fourth as businesses offer more flexible working arrangements while striving to ensure that virtual and remote employees are able to work effectively and remain integrated with company culture. Overall, firms are selecting technology partners to enhance the overall employee experience, from onboarding through post-hire growth and career development.



“We are integrating recruiting and hiring software solutions, developing HCM dashboards to monitor progress.”

IMPORTANT HCM TECHNOLOGY TRENDS





HUMAN CAPITAL MANAGEMENT

CLARITY OUTLOOK

In a tight labor market with a shrinking supply of available, qualified candidates, improving employee retention has emerged as a key competitive strategy. Given the ongoing difficulty of sourcing new candidates for openings, employers are enhancing the overall employee experience with investments in HCM technology.

Companies are leveraging these HCM solutions to develop modern, continuous performance management programs, to improve workforce capacity and planning, and to implement formal career development. Increased spending on employee learning and training also positively correlated with higher rates of retention. The decrease in attrition points to the success of these strategies as employee engagement improves and indicates that firms who are slow to adapt will be at a significant disadvantage.

SECTION EIGHT

INFORMATION TECHNOLOGY

Information technology departments continue to prioritize the adoption of cloud-based applications and have ongoing concerns about security and compliance.

Businesses reported significant increases in information technology (IT) spending over the previous year and expect these trends to continue into the future. Security continues to be the leading IT challenge, with half of all businesses citing it as one of their top three challenges. About one-third of companies reported that cybersecurity incidents increased last year, particularly for large businesses.

Businesses are continuing to focus on large overhauls—either by creating new security procedures or re-engineering their business processes. Firms are also continuing to migrate more applications into the cloud, especially small businesses.

Key Takeaways

“IT and data security” was far and away the top challenge, being selected by 48% of businesses. It was followed distantly by “Government requirements” (24%) and “NIST [National Institute of Standards and Technology] compliance” (19%).

Big data, data science, and artificial intelligence (AI) are the top three technology trends overall, while the Internet of Things has fallen in relative importance. Large businesses are particularly focused on these top trends as nearly all respondents cited these trends as moderately or very important.

Although about half (48%) of businesses plan to move on premise solutions to the cloud next year, large organizations were far more likely (64%) to indicate the move to the cloud.

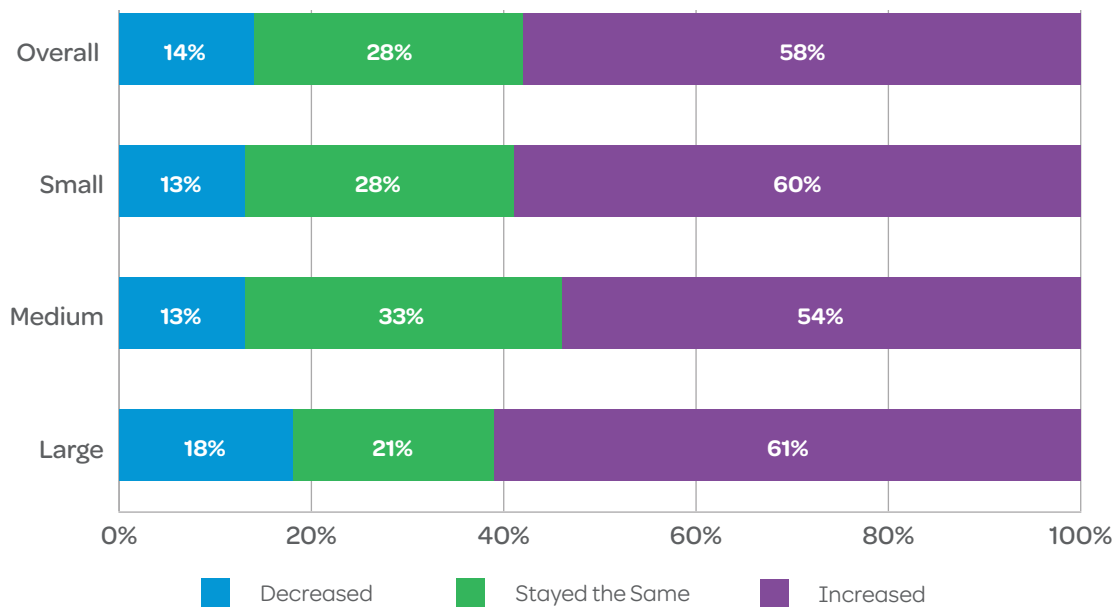
The move to cloud computing has allowed businesses to maintain continuity in the event of a natural disaster. On average, businesses reported that it would take about half a day to return to normal function should a disaster take down their systems.



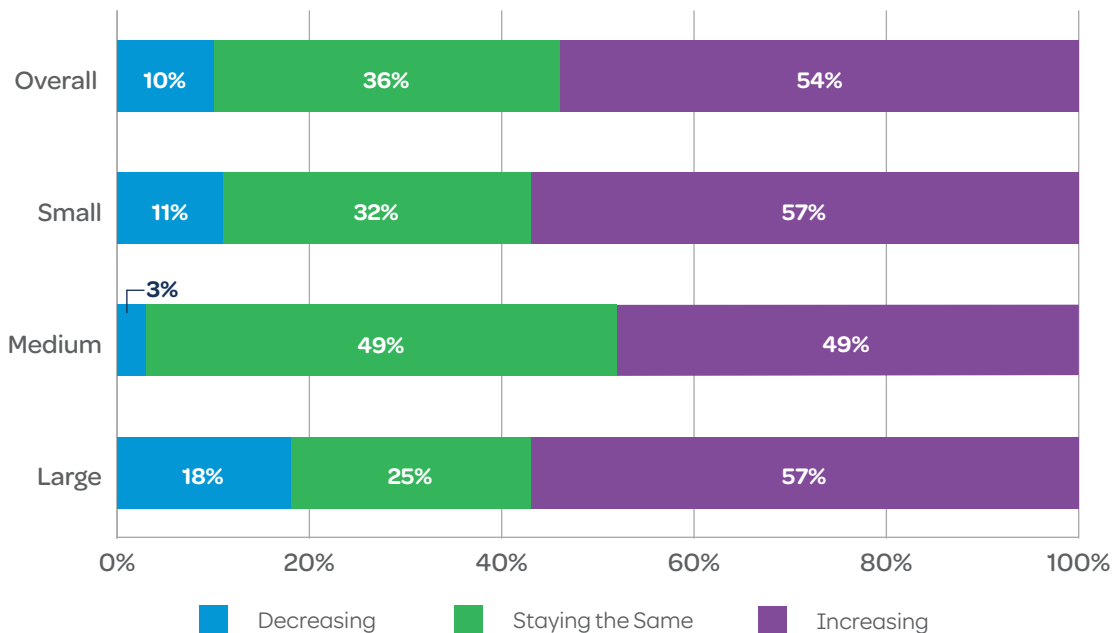
Technology Spending

Last year's technology spending is up overall for businesses of all sizes. Many businesses are focusing on addressing spam and phishing attacks that are negatively impacting their employees. Small businesses experienced the largest annual jump in reported technology spending, moving from 52% to 60%. Large businesses continue reporting the highest increase in technology spending over the past year (61%), although similar increases were reported by all businesses. When asked how IT spending would change in the next 12 months, most firms (54%) believed their spending would continue to increase.

CHANGE IN IT SPENDING



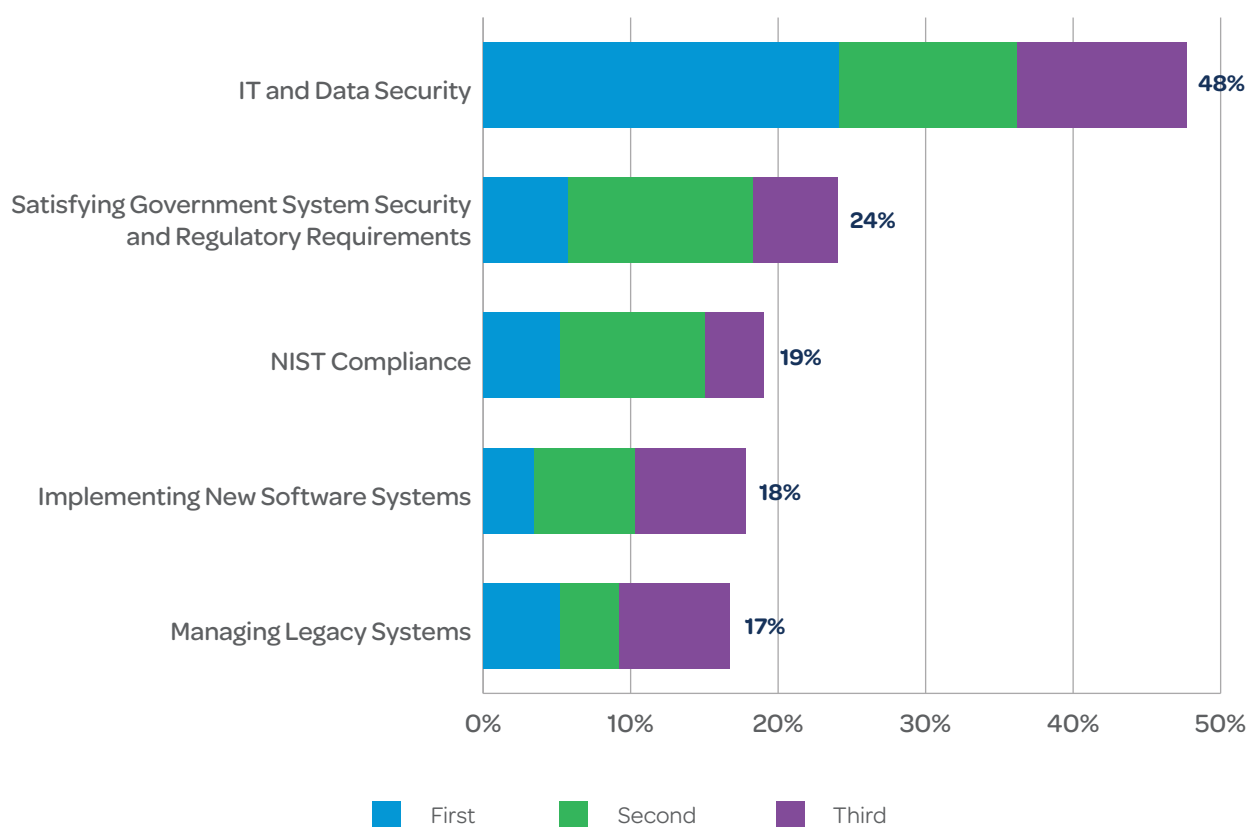
FUTURE CHANGE IN IT SPENDING



Top IT Challenges

Security concerns continue to be a major challenge for government contractors, with 48% of businesses citing it as one of their top three challenges. This is consistent with the finding that 37% of respondents reported an increase in cybersecurity incidents; only 12% reported a decline. “Satisfying government system security and regulatory requirements” is still the second most cited challenge after a decline from 30% to 24% this year. “NIST compliance” was the third most frequently cited challenge. Companies are still being challenged by both “Implementing new software systems” and “Managing legacy systems,” as these maintained their relative ranks from last year. Notably, “Finding top IT talent” experienced a decline of 22 points from last year.

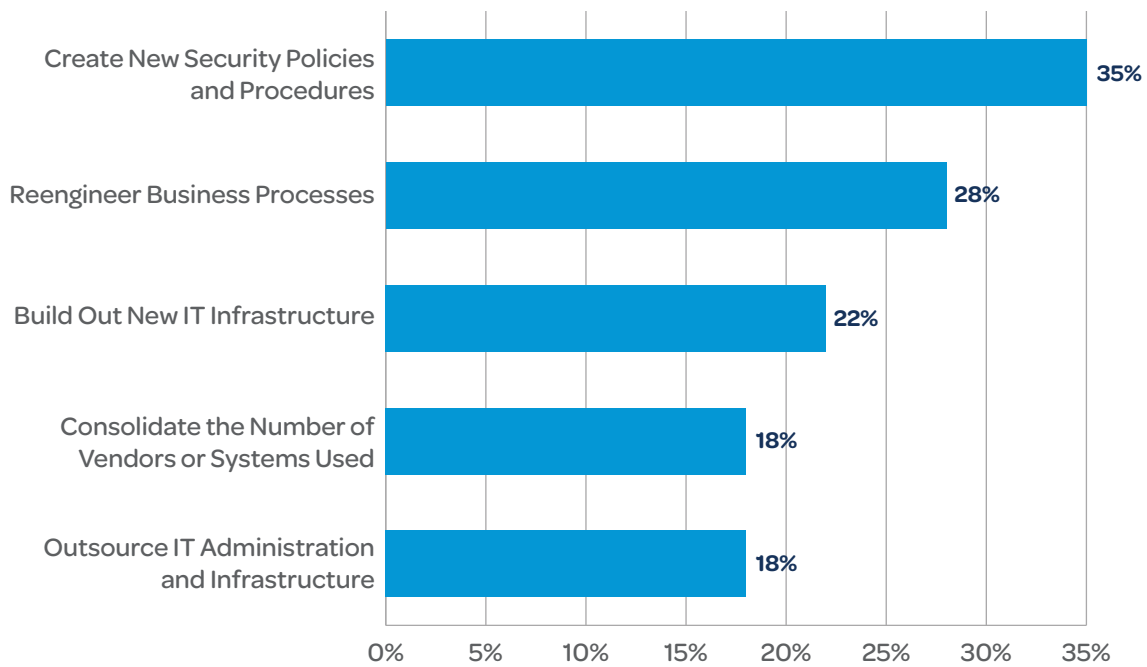
TOP IT CHALLENGES



Top IT Solutions

The top two solutions to address IT challenges are unchanged from last year and align with the challenges cited by businesses. Firms continue to update their security policies and procedures and re-engineer business processes. Notably, hiring more IT staff moved from the third to the sixth most common method of addressing IT challenges after experiencing a 20-point decline.

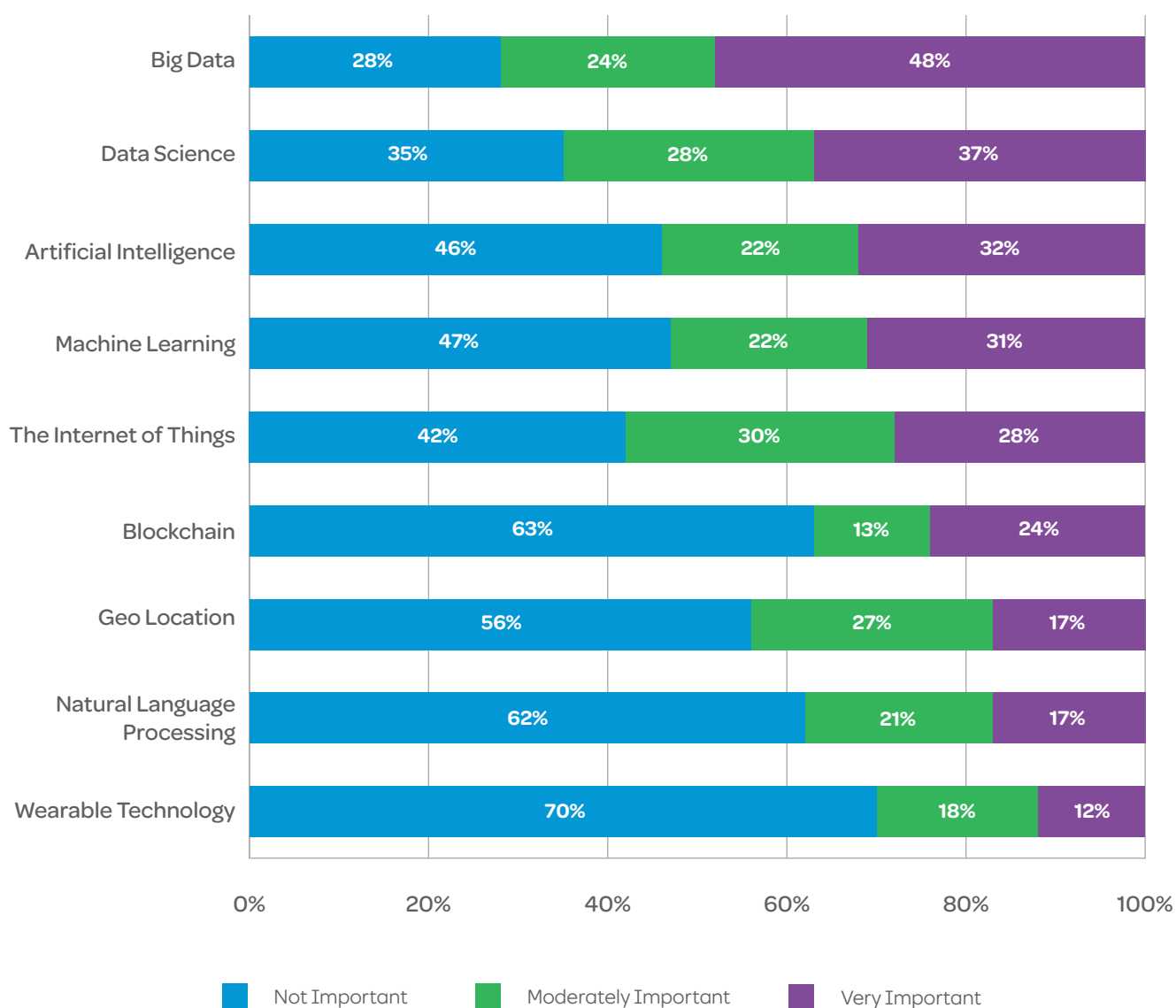
ADDRESSING TOP IT CHALLENGES



Technology Trends

There were substantial shifts in the types of technology trends firms are focused on this year. Big data has emerged as the top technology trend for this year's Clarity survey, with 72% of firms rating it as "moderately important" or "very important." The percentage of firms rating data science as "very important" dropped from 56% to 37% and now data science is ranked second among those citing it as "very important." Artificial intelligence fell from second to third place after experiencing a drop from 42% to 32%. Large businesses were the most likely to rate big data (67%) and data science (56%) as important. While blockchain technology received a great deal of coverage over the last few years, nearly two-thirds of businesses rated it as "not important."

TECHNOLOGY TRENDS





INFORMATION TECHNOLOGY

CLARITY OUTLOOK

Companies should expect to make ongoing investments in IT, especially in the areas of security and cloud computing. Security and compliance spending should continue to be a priority as the move to cloud computing exposes each business's most important systems and records to new threats.

Despite these risks, new forms of efficiencies have been attributed to cloud computing, such as the ability to quickly bring systems back online in the event of a disaster or creating cross-business integrations of business functions (accounting and finance, HCM, and business development).

SECTION NINE

MANUFACTURING

Manufacturers are challenged by quality control and cost accounting, and plan to use software to integrate manufacturing operations with other business functions to head off these challenges with reliable financial information and system controlled processes.

For the first time, the Deltek Clarity Government Contracting Industry Survey included a manufacturing section. It clearly identifies key trends and common challenges for manufacturers.

The manufacturing industry is experiencing a rebound bolstered by a strong economy and increased defense spending. As a result, a majority of manufacturers cited some growth in manufacturing revenue over the past year. Large businesses were the most likely to cite double-digit increases in growth. However, manufacturers of all sizes reported being challenged by quality control and accurate cost accounting.

Key Takeaways

“Quality control,” “Calculating true manufacturing costs,” and “Staying compliant with government regulations” were the top challenges cited by manufacturers.

About two-thirds of manufacturers reported having average or above-average inventory accuracy and having on-time shipments.

Most businesses experienced an increase in manufacturing revenue and expect this growth to continue into next year.

To address some of the top challenges manufacturers are turning more and more to subcontractors.

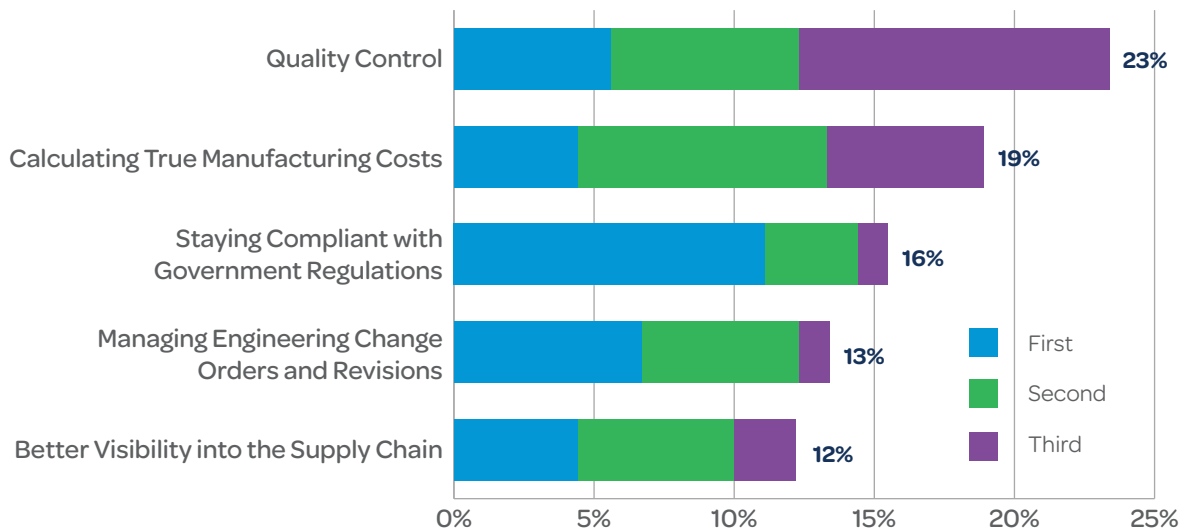


Top Manufacturing Challenges and Addressing Manufacturing Challenges

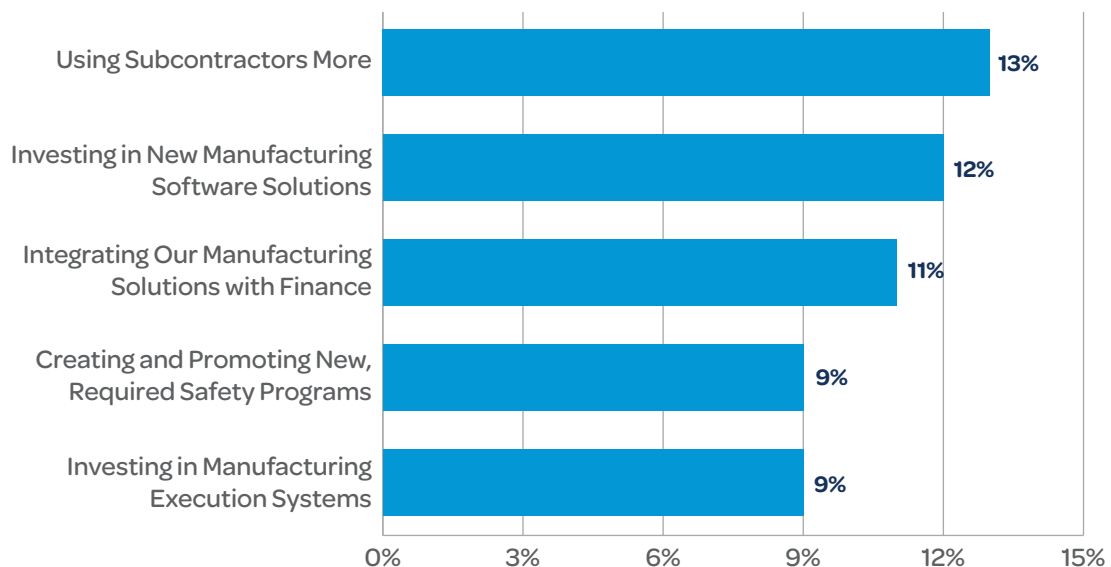
Manufacturers in the government contracting sector are encountering a variety of challenges. As firms scale to meet demand, they are having trouble maintaining quality, as well as calculating true cost in this period of expansion. “Quality control” was the top cited concern, followed closely by “Calculating true manufacturing costs” and “Staying compliant with government regulations.” Among those citing staying compliant, most identified it as their number one challenge.

Although “Using subcontractors more” was the top way of addressing manufacturing challenges, firms are clearly seeking technologies to improve their manufacturing processes. “Investing in new manufacturing software solutions,” “Investing in manufacturing execution systems [MES]” and “Integrating our manufacturing solutions with finance” made up three of the top four challenge-solving methods sought by businesses.

TOP MANUFACTURING CHALLENGES



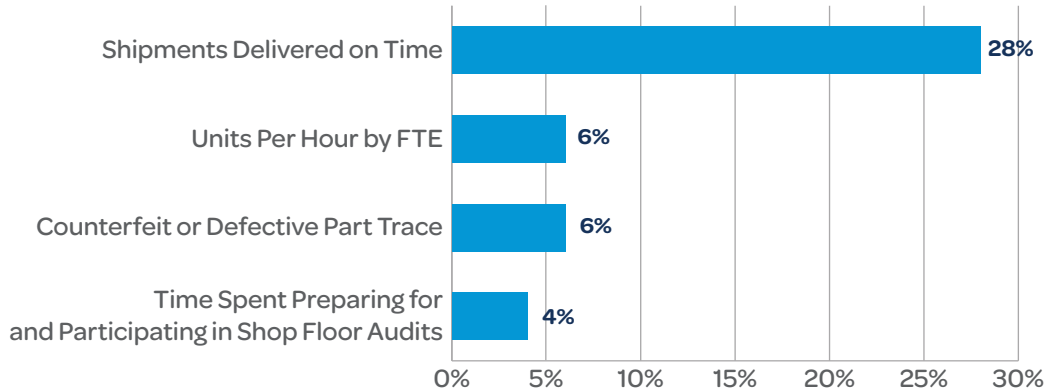
ADDRESSING TOP MANUFACTURING CHALLENGES



Manufacturing Key Performance Indicators

“Shipments delivered on time” was the most commonly tracked KPI, with 28% of firms tracking. “Units per hour by FTE” and “Counterfeit or defective part trace” were distant followers.

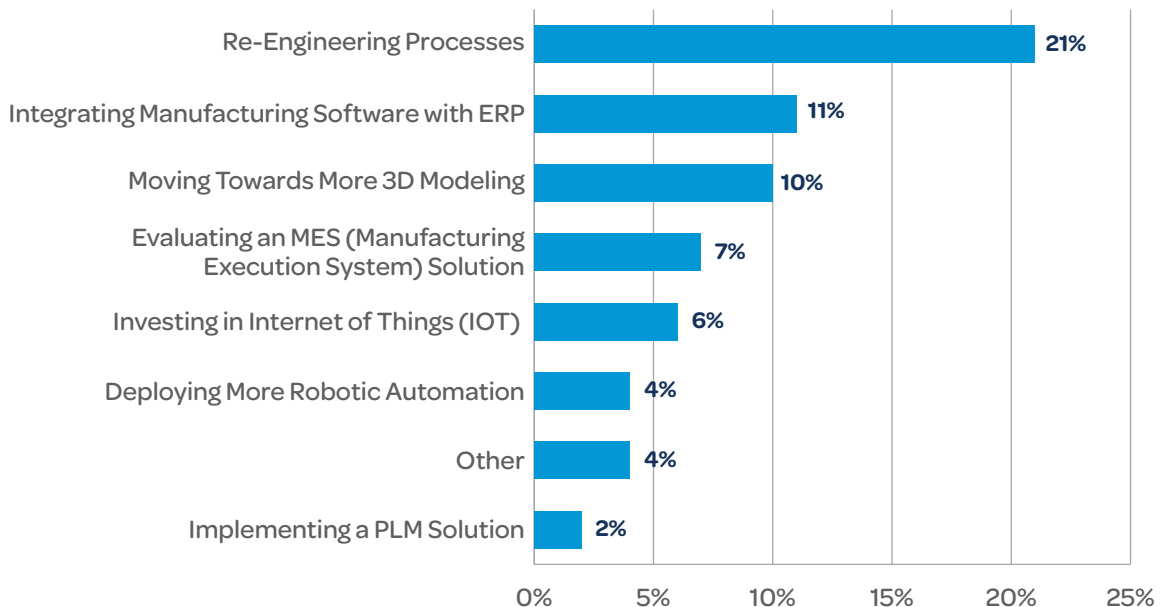
TRACKED MANUFACTURING KPIS



Manufacturing Digital Transformation

Modern manufacturing is an increasingly automated and digitized domain that relies on company-wide data capture and analysis for one complete, shared view of business information from the back office to the manufacturing floor. This year’s Clarity respondents revealed how technology is transforming their manufacturing operations. While “Re-engineering processes” was a leading digital initiative, a number of software-based methods such as integrating with enterprise resource planning (ERP), 3D modeling, and evaluating manufacturing execution systems (MES) were also of interest. “Deploying more robotic automation” was of interest to a limited number of manufacturers.

MANUFACTURING DIGITAL TRANSFORMATION





MANUFACTURING

CLARITY OUTLOOK

Manufacturing is a new topic for the Clarity Government Contracting Study, and Deltek is excited to begin incorporating these important survey results. The manufacturing industry is booming again after several years of successive decline. Manufacturers are clearly excelling at delivering shipments on time and maintaining a low scrap rate.

As in other sections of this study, large businesses tend to excel at process maturity, quality control, and growth in revenue. However, manufacturers of all sizes reported being challenged by quality control, cost accounting, and compliance. In this first year, it is already clear that manufacturers intend to integrate manufacturing with other business functions such as finance or enterprise resource planning in an effort to address their top challenges, and as part of their digital transformation initiatives.

APPENDIX

STATISTICS AT A GLANCE

Business Development	Small	Medium	Large
Percent Prime Contracts	60%	80%	70%
Percent Sub Contracts	40%	20%	30%
Win Rate	33%	40%	55%
Project and Risk Management			
Change Order Win Rate	75%	85%	80%
EAC/ETC Forecasts	90%	88%	85%
Utilization Rate	81%	87%	88%
Projects on or Under Budget	96%	90%	85%
Projects on or Ahead of Schedule	90%	90%	80%
Schedule Risk Analysis	Proposal: 53% Project Initiation: 42% During Execution: 38% Not at All: 16%	Proposal: 62% Project Initiation: 48% During Execution: 55% Not at All: 8%	Proposal: 79% Project Initiation: 71% During Execution: 75% Not at All: 0%
Finance			
Net Profit (median %)	10%	7%	7%
Growth Rate	12%	7%	9%
Invoice Cycle (median days)	7	15	11
Days Sales Outstanding (median days)	35	41	30
Financial Compliance			
Percentage of organizations experiencing at least 1 audit	56%	90%	91%
Contract Management			
Percent Using Contract Management Software	12%	23%	42%

Procurement	Small	Medium	Large
First Time Match Rate	67%	99%	77%
Days Payable Outstanding (median days)	30	31	30
Human Capital Management			
Training spend per FTE (Median dollars)	\$600	\$1,125	\$1,540
Composite Turnover Rate (% Over 10%)	29%	26%	50%
Time to Fill Position (% 60+ Days)	19%	11%	32%
Information Technology			
Percent of apps in the cloud	63%	50%	23%
Manufacturing			
Shipments delivered on time	93%	90%	94%
Scrap Rate	3%	2%	1%



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