



GAUGE
2023 REPORT

Lead by Forecasting

Annual Industry Roadmap of
Benchmarks and Trends

Guiding Government Contractors into 2024 and Beyond





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7TH EDITION

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DON'T MISS: MONUMENTAL MOMENTS

Each GAUGE section concludes with **proven, ready-to-apply forecasting best practices** to immediately help improve your firm's short and long term planning proficiency.



G Government
Contract
Compliance

A Accounting

U Utilization

G Growth

E Efficiencies



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Pressures Impacting the GovCon Industry

- *Buy America Act*
- SMB Contracting Concerns
- Presidential Race
- Geopolitical Impacts
- Federal Budget Tightening
- M&A Buyers Market
- Remote & Hybrid Working
- Procurement Protest/Battles
- Macroeconomics
- Cybersecurity/ESG Regulations
- Grant & Contract Spending
- Space Market



EXECUTIVE SUMMARY

In the government contracting environment where opportunities to operate more efficiently and profitably are abundant but not always obvious, and where a strong sense of optimism is often tempered by risk and uncertainty, plotting a strategic pathway forward can be a challenging undertaking for GovCons.

The GAUGE 2023 Report from Unanet and CohnReznick is built to be a resource that members of the government contracting community can rely on again and again to measure themselves against their peers, view industry-wide performance metrics, and gain insight into the latest industry trends and best practices. In short, our report is a reliable guide to identifying and mitigating risk as well as a roadmap for maximizing opportunities in the GovCon market, helping GovCons experience growth and continuous improvement.

Optimism is high, yet there are headwinds. Finding new revenue streams, generating organic growth, and finding and retaining quality talent are major challenges for firms. Indeed, a chronically tight talent marketplace is causing an increase in wages, growing constraints on labor rates, and other factors; so, it's understandable why GovCons are dealing with increasing financial pressures.

These financial pressures make on-point forecasting and planning a must for GovCon firms. Recognizing the growing importance of longer-term forecasting and business planning that prioritizes resource



efficiency as well as diversity of services/products and contract types, GAUGE 2023 is full of forecasting and planning best practices to help firms plot a prosperous course into the future.

In addition to leading by forecasting, this seventh edition of the GAUGE Report brings to light another pressing issue facing the GovCon industry. The shrinking U.S. defense industrial base and the sharp reduction in the number of small and mid-sized businesses (SMBs) bidding and receiving federal government contracts could have lasting ramifications for national security and competition. This year's report devotes special attention to providing GovCon SMBs with tips and best practices to win more business from the federal government.

Kim Koster *Christine B. Williamson*



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VP of GovCon Strategy
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REPORT HIGHLIGHTS

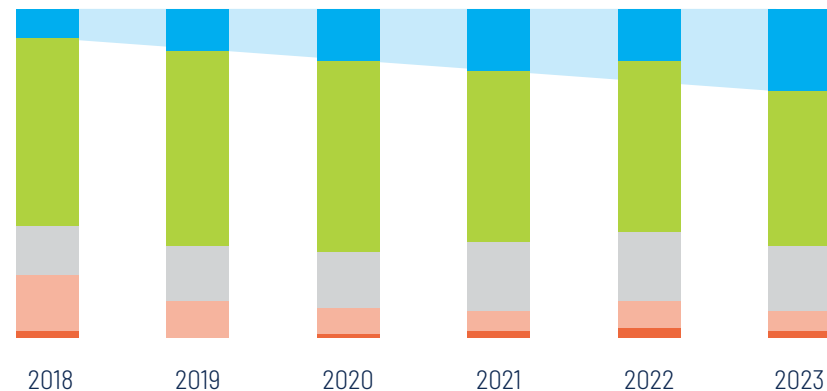
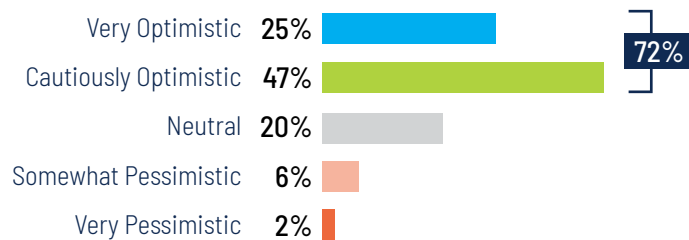


The 2023 GAUGE arrives at a unique moment for the government contracting community, as 2022 brought reimagining how we work (an issue we explored in-depth in the 6th edition), along with a reinvigoration of the marketplace. Now the onus is on all of us, including the government contracting community and their leadership, to make strategic sense of this new normal. That's no easy task in a market where, on one hand, opportunities for growth are abundant and create a strong sense of optimism. However, on the other hand, competition for resources and contracts is fierce, and external economic and geopolitical factors cast a heightened sense of uncertainty over the GovCon community.

Just how strong is that sense of optimism among leaders across the government contracting world? Based on our findings, a combined 72% of respondents indicated they are either very or cautiously optimistic about the 2023 business environment, an uptick of 4% from last year. Another 20% are neutral and a small share, 8%, say they're pessimistic to some degree, down from 11% a year ago.

Government contractors face a range of financial challenges, the most formidable of which is identifying new revenue sources, according to respondents. This item is new this year, and it topped the list with a surprising 61% of respondents identifying it as the biggest financial challenge.

How would you characterize the current business environment for government contracting?



A close second on that list is generating organic growth, a perennial challenge for firms, followed by uncertainty surrounding federal spending.

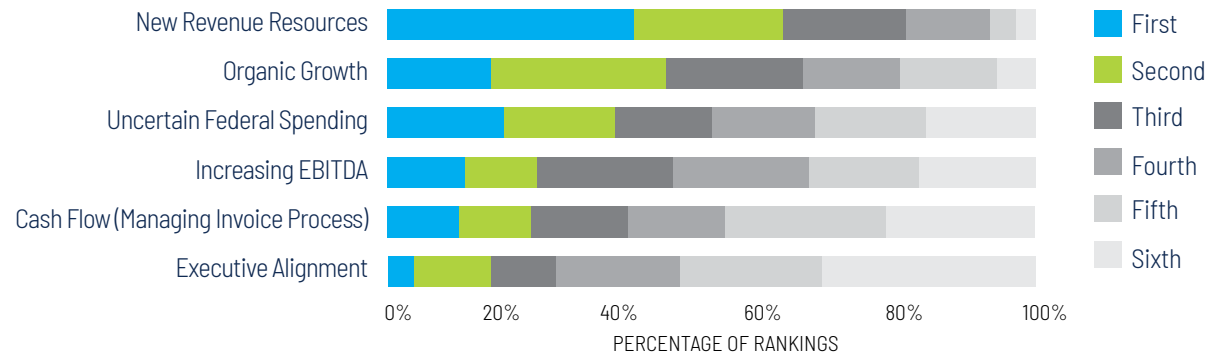
Which business issue concerns GovCon executives most? This year it's obtaining/winning new contracts — and by a wide margin, with 77% identifying it as their most concerning issue. A lack of qualified talent is next on the list, another perennial issue as the talent shortage drags on for government contractors.

GovCons are measured largely by project outcomes. Resource management tops the list of project management challenges, followed by inexperienced project managers, then forecasting—another reason for our focus on forecasting in this year's GAUGE Report.

As pressing as these high-level concerns and apparent forecasting disconnects are, actual and projected growth rates for GovCon firms look robust. Over 70% of firms indicated some level of actual growth, and more than one-quarter (28%) report growing by 15% or more. Furthermore, more than one-third (35%) expect growth of 15% or more in the year ahead.

Rank the following financial challenges for your company from most to least significant.

(% Ranked 1st and 2nd Shown)



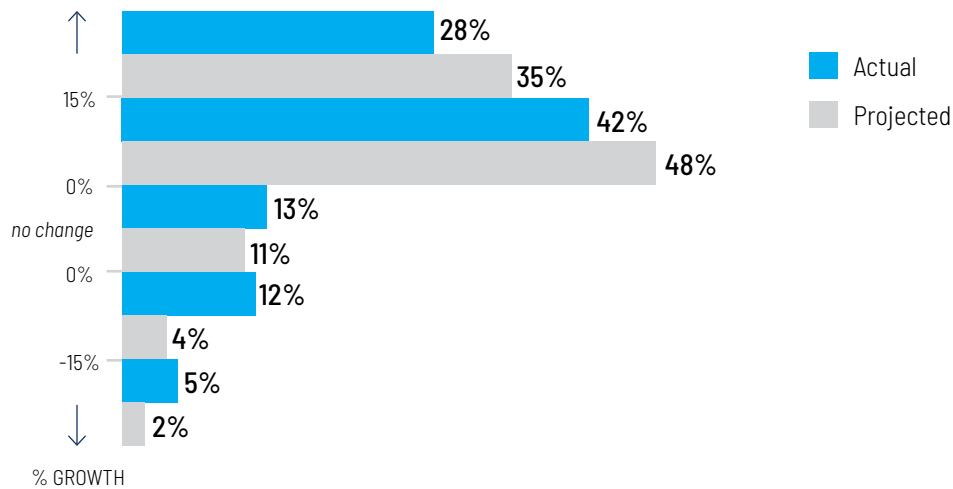
What issues are the most concerning to your GovCon organization currently?

(Select all that apply)

Year Over Year	2022		2023	
Obtaining/Winning New Contracts	82%	▼	77%	<div style="width: 77%;"></div>
Lack of Qualified Talent	56%	▼	55%	<div style="width: 55%;"></div>
Budget & Funding Constraints	44%	▲	47%	<div style="width: 47%;"></div>
Cost of Compliance	42%	▲	44%	<div style="width: 44%;"></div>
Lack of Integrated Project Management/Account Tools	16%	▲	29%	<div style="width: 29%;"></div>
Other	3%	▼	1%	<div style="width: 1%;"></div>

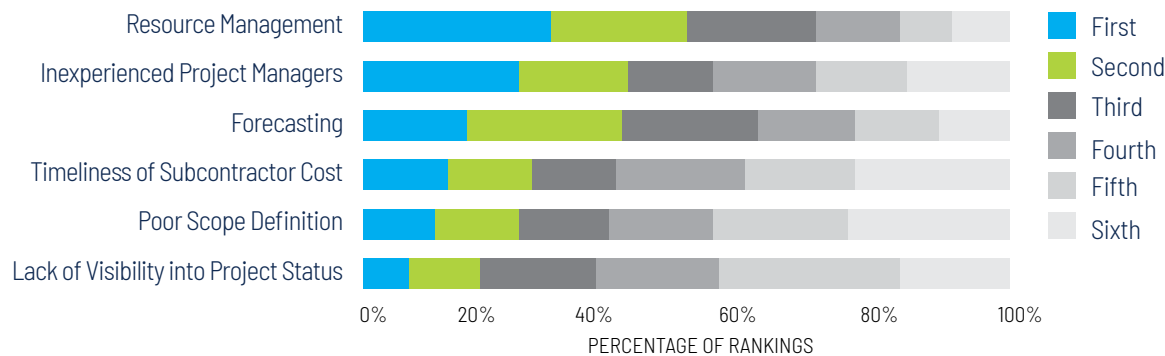
Our outlook suggests the marketplace for government contracting work is generally strong, budgets on the whole are stable, more contracting vehicles are available for small and mid-sized businesses to participate as prime contractors, and firms of all sizes are hungry to WIN.

From last year to this year, indicate your company's performance in actual growth and projected growth rates.



Most Significant Project Management Challenges

(% Ranked 1st and 2nd Shown)



Each annual edition of the GAUGE Report includes:

- An annual theme: The theme of this year's edition is *Lead by Forecasting*.
- Analysis of how industry leaders view market dynamics and key industry issues, opportunities, and challenges.
- Business outlook, performance, and operational metrics.
- Project management approach, performance, opportunities, and challenges.
- Compliance/audit experiences, cost, and key metrics.
- An Industry Insights section with analysis and insight on a key industry issue. In this year's edition we look closely at the challenges and opportunities unique to small and mid-sized businesses (SMBs).



USING THE GAUGE



Lead by Forecasting

“Above all, the forecaster’s task is to map uncertainty, for in a world where our actions in the present influence the future, uncertainty is opportunity.”¹

Those words by *Harvard Business Review* writer Paul Saffo ring as true as ever in 2023. Firms that excel at navigating uncertainty through forecasting give themselves a distinct strategic advantage over the competition in running projects more efficiently, delivering positive project outcomes more consistently, attracting and retaining talent, and landing more of the most desired business. Leaders in government contracting should embrace forecasting to lead their decision-making.

Forecasting is at the heart of this year’s GAUGE because it can have a profoundly positive impact on GovCon firms. However, successfully implementing forecasting can be a huge challenge; it requires people and technology across the organization to be in alignment, starting with the project and finance teams. They need to be connected, communicate openly, and be in sync to a single source of data.

To help you meet this challenge, each chapter of the seventh edition GAUGE includes important tips, techniques, and tools designed to help enable your company to produce various types of forecasts that provide a true, trustworthy indicator of the direction your business is heading and how best to mitigate the risks it faces.

As important as forecasting is to the bottom-line success of a company, it’s clear from this year’s GAUGE findings that most have room to improve their forecasting game. Before we dig into those findings, let’s first explore what makes the discipline of forecasting so important and so challenging, along with the types of forecasting that tend to matter most for GovCon firms.

Having a clear idea of revenue forecast for awarded work as well as forecasted opportunities is necessary to guide a government contracting business. Project forecasts serve as the building blocks for a firm’s Annual Operating Plan (AOP) and Long-Range Plan (LRP); AOP and LRP plans are what drive decision-making (about pursuits, hiring, and more). Companies that excel at forecasting tend to operate more

1. *Harvard Business Review*, *Six Rules for Effective Forecasting*, July-August 2007

efficiently, deliver better project outcomes, and more successfully fulfill their strategic goals.

Forecasting future revenue and resource needs is one area where firms need to be particularly sharp. Revenue forecasts will provide a barometer of a company's future financial health. An opportunity pipeline tool can be indispensable, helping decision-makers clearly understand revenue velocity and resource needs for the future by providing a complete visualization of opportunities the firm is pursuing.

A high level of visibility allows firms to manage their pipeline and adjust forecasts as opportunities (opps) move through the capture process. Firms can visualize activity throughout the pipeline, as some opportunities are eliminated and others move forward, their probability of award (PoA) increasing as they advance. The PoA calculation becomes the mechanism by which firms can dial-in and right-size their revenue opportunities. The equation for calculating PoA:

$$\text{Probability of win (Pwin)} \times \text{Probability of go (Pgo)} = \text{Probability of Award (PoA)}$$

In making these calculations, it's important to keep in mind changing competitive dynamics can affect both Pwin and Pgo, which in turn will impact PoA.

Maturing the forecasting discipline is no easy task. GovCons need forecasting and project management tools that provide visibility across the business. Communication and collaboration are essential because accurate, timely forecasting depends on input from many parties inside and outside the organization. It's especially important, for example, to make project teams aware of the large impact they

have on the company's forecasting and the organization's overall strategy; and engage them accordingly.

As much importance as GovCon firms place on forecasting pipeline in this year's GAUGE results, making pipeline forecasts accurate appears to be a struggle for many, suggesting they are lacking in the three C's — communications, collaboration, and capabilities — to produce consistent on-target forecasts. Overall, firms are weakest at forecasting pipeline and strongest at forecasting cashflow.

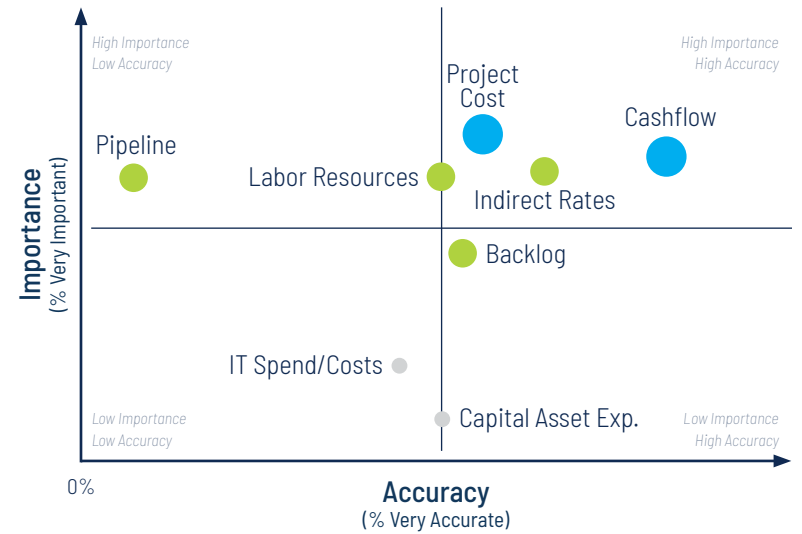
Who influences the project cost forecast?

- Customer
- Project Manager
- Subcontractors
- Financial Managers
- Control Account Managers
- Project Controllers
- Financial Analysts/Pricers
- PMO
- Resource Manager
- Business Development
- Contracts Manager
- Human Resources

Forecasting: Importance vs. Accuracy

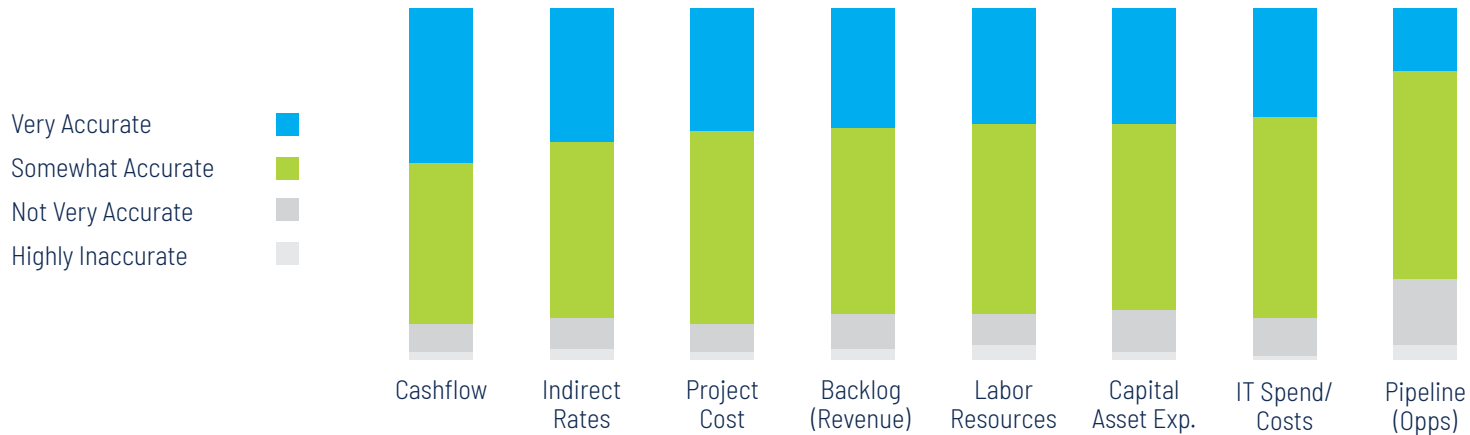
While the importance of forecasting pipeline is seen as above average by respondents, most companies do not believe these forecasts to be very accurate. However, forecasting cashflow is often seen as very important and viewed as highly accurate.

Almost one-quarter of respondents question the accuracy of their own pipeline forecasts, and less than one-fifth believe their forecasting to be very accurate. This suggests a couple things: one, an ongoing reliance on spreadsheets and siloed data prevents the accuracy of forecasting; and two, there's real opportunity for firms to use better forecasting to gain a competitive edge over their peers.



Size represents frequency of forecasts (based on % reporting monthly or more often):
 Higher 45%+ (Blue circle)
 Medium 20-44% (Green circle)
 Lower <20% (Grey circle)

Accuracy of Forecasts (Rate each)



BENEFITS OF BOTTOM-UP PLANNING:

- Project teams work to establish a cost and schedule forecast
- Fosters communication and buy-in for the plan project level
- Potentially more accurate at the project level

PITFALLS OF BOTTOM-UP PLANNING:

- Cycle time to complete planning will be longer due to the detailed nature of the planning
- The scope of the contract or project must be crystal clear
- It may not tie back to overall corporate goals
- It may keep a firm from exploring alternative pathways to meeting corporate goals

Forecasting Excellence

Forecasting is an essential component of two kinds of planning: bottom-up (or grassroots planning) and top-down planning.

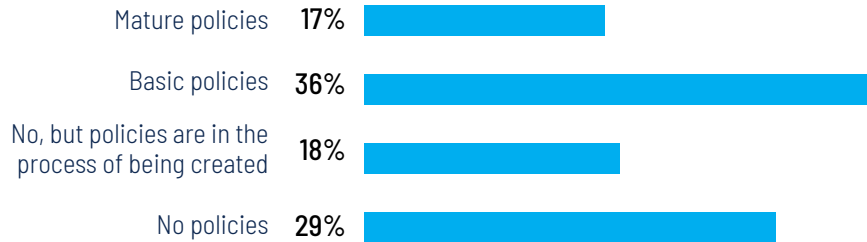
Bottom-Up Planning (Grassroots)

Bottom-up planning (Grassroots) is based on open communications with key parties in a project. It entails asking those who are close to the project, including the customer and subcontractors (project managers, functional managers, control account managers, etc.), about their needs from a resource perspective, what they perceive to be the risks and opportunities associated with the project, and what they perceive as constraints (limited skill sets, technical challenges, etc.). All that information is rolled up to provide an unbiased forecast.

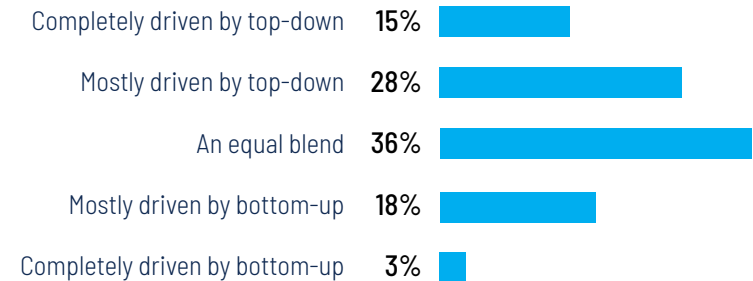
Top-Down Planning

In the process of top-down planning, the objectives and path to achieve goals are driven from the top. High level goals are determined and an approach to meeting them is established. These goals are then pushed down through the organization to develop a detailed course of action to achieve the desired outcome.

Does your organization have policies on forecasting?



To what degree is the forecasting in your organization driven by inputs from leadership (top-down) versus managers and lower (bottom-up)?



Almost half (47%) of companies have no forecasting policies whatsoever or are in the process of creating them. Only about one in five firms have forecasting policies that people strictly follow. While more firms appear to rely on top-down inputs than on bottom-up inputs for forecasting, and each has their respective strengths and weaknesses, both planning approaches deserve a place in a firm's processes and business decision-making. In fact, a good number of respondents, 36%, use a forecasting approach that blends the two. Here's where firms must have the acumen to know which methodology best fits each specific project. It's yet another skill that ultimately will help a firm *lead by forecasting*.

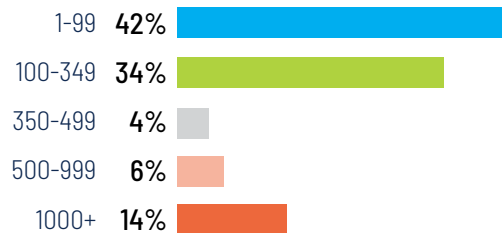


ABOUT THE GAUGE 2023 SURVEY

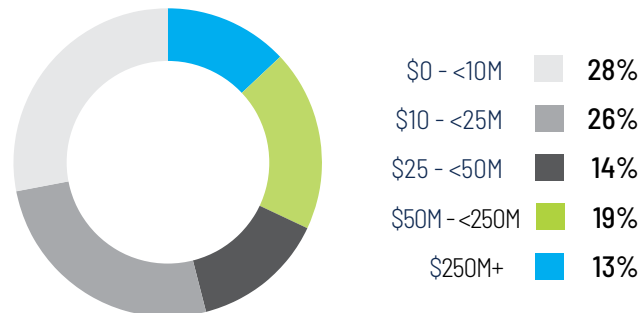
Unanet and CohnReznick have collaborated for many years on this benchmarking survey to take the pulse of the government contracting community. The goal: Give the GovCon industry and firm leaders a resource they can use to understand industry trends, measure themselves against their competitors, as well as gather best practices, KPIs, and other actionable insights to inform their decision-making in the year ahead and beyond.

The findings in the seventh edition are based on 1,180 survey responses gathered from a variety of government contracting professionals that represent a full cross-section of the GovCon industry in terms of firm size (by number of employees), annual revenue, and set-aside designation. This broad range of perspectives gives us a high degree of statistical confidence that the findings in our report are fresh, accurate, relevant, and valuable to an organization, whatever its profile. Survey responses were gathered between February and May of 2023.

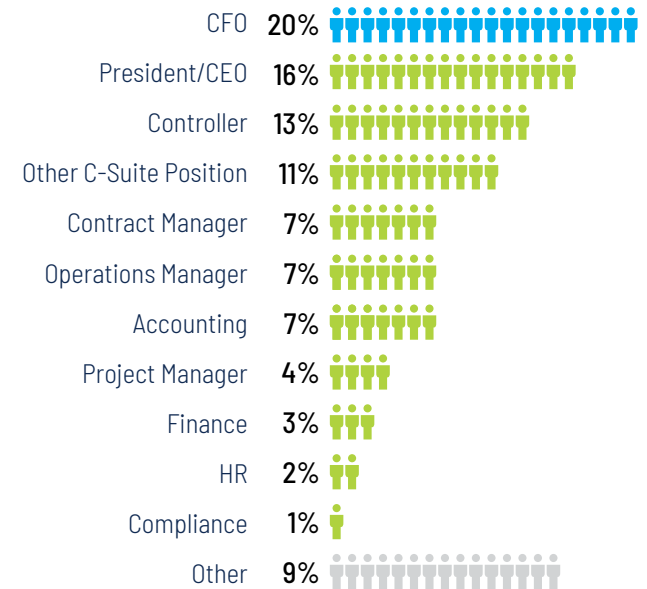
Respondents by Full-Time Employees



Respondents by Annual Revenue



Respondents by Job Title

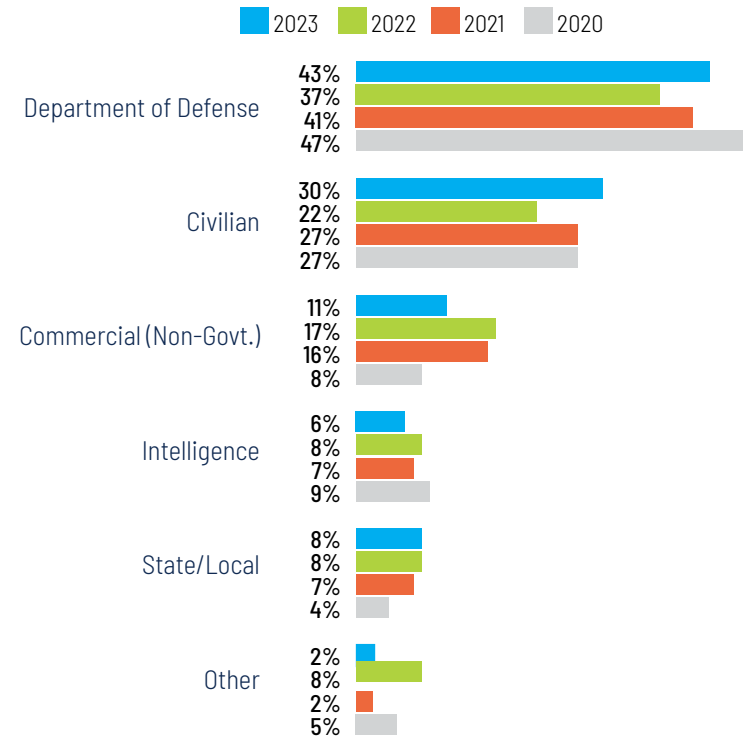


The universe of GAUGE respondents breaks down as follows:

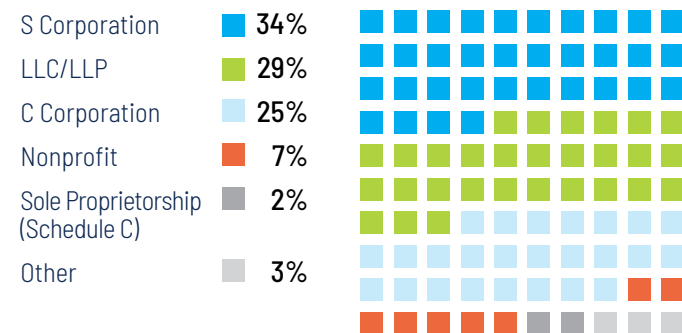
- 54% are small and mid-sized businesses with annual revenues of less than \$25 million; the remaining 46% report annual revenues of \$25 million and higher. This strong SMB (small-medium-business) representation provided plenty of fodder for this year’s Industry Insights section on the unique issues that smaller government contracting firms face.
- 47% of respondents come from the C-suite, meaning findings are particularly relevant to firm decision-makers.
- Firms in all workforce size bands (based on number of FTEs) are represented in the survey results.
- A wide range of set-aside designations and entity structures are represented in the results: from woman-owned to 8(a) to HUBZone companies; S Corps to sole proprietorships.
- Responses come from GovCon execs in a broad variety of industries: from computer systems design to accounting to equipment manufacturing.
- Private equity ownership respondents increased year over year from 4% to 7%, indicative of involvement of private equity sources in the GovCon M&A market over the past 18 months.
- Civilian agency revenue increased sharply from 22% to 30% in this year’s report: not surprising in light of the shift of CARES Act funding to more civilian, state, and local agencies, with less to the Department of Defense.

Respondents’ % of Revenue Sources

(Provide % for all that apply)

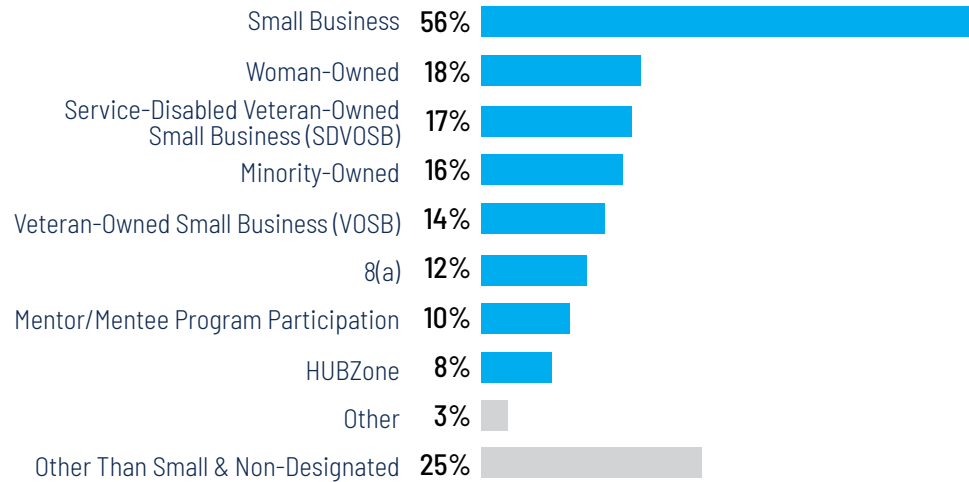


Respondents by Entity Structure

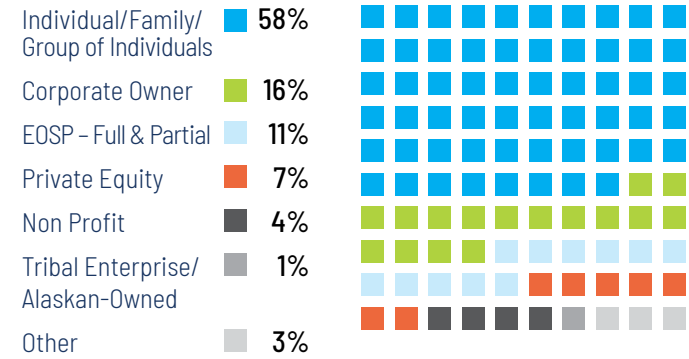


Respondents by Set-Aside Designations

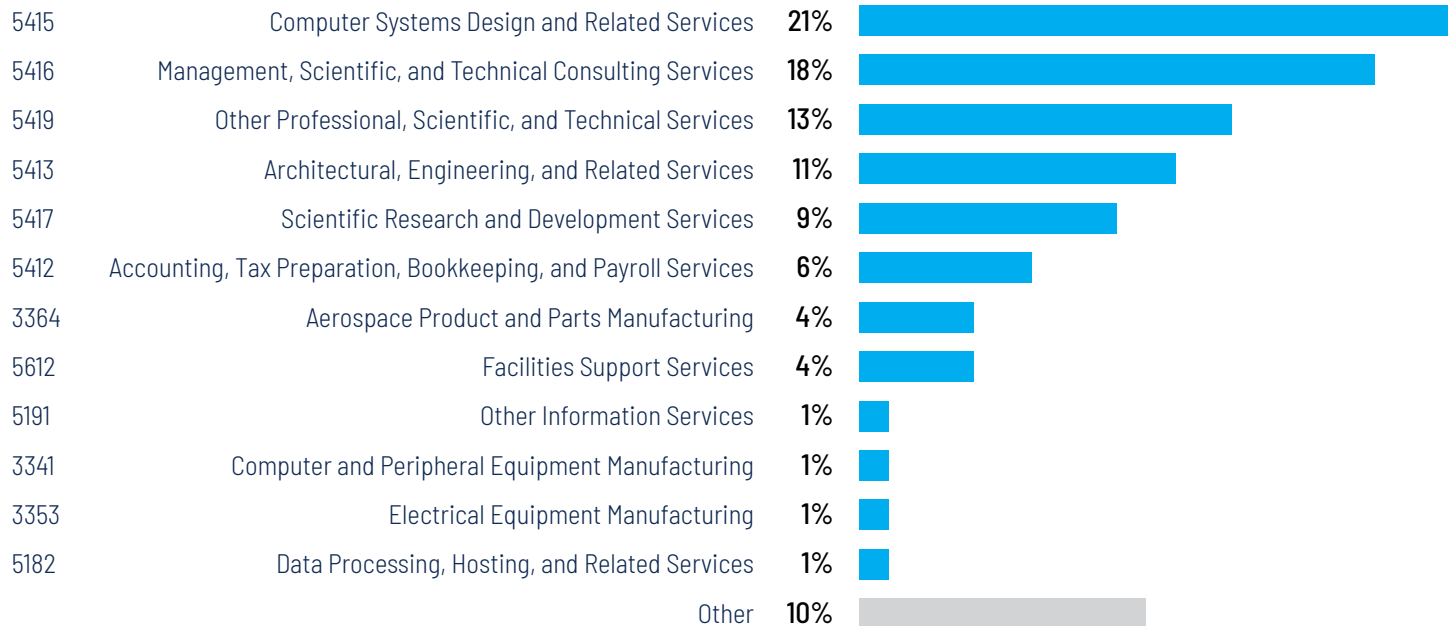
(Select all that apply)



Respondents by Company Ownership



Respondents by Primary NAICS Code



G.

GOVERNMENT CONTRACT COMPLIANCE



This section highlights the critical elements of being a compliant government contractor, along with identifying the key compliance trends companies should be watching closely, including some of the biggest audit challenges from the DCAA and other auditors. It also sheds light on training priorities, the business systems GovCons are most likely to need for solicitations, and where they stand in their CMMC journey. Plus, don't miss: [Monumental Moment](#) on establishing formal forecasting policies.

Key Takeaways

- Let's face it: Government contractors are under greater government scrutiny. While 51% of all survey respondents said the level of government oversight they've experienced over the past five years has essentially held steady, almost half — 46% — indicated they're subject to greater government oversight. That's particularly true for companies in the highest (more than \$50 million) annual revenue band, 61% of which reported an increase in government oversight.
- Among the litany of audit challenges GovCons face, indirect rates again ranked highest, as they did a year ago. Timekeeping and adequate business systems swapped places from last year; the former landing second among biggest audit challenges, and the latter third. Indirect rates are the biggest audit challenge for all companies regardless of size; and for firms in the largest annual revenue band (greater than \$50 million), rates are the biggest challenge by a wide margin.
- Business systems remain a big focus for DCAA. Expect 2023 and beyond to be much like 2022, when the audit agency reported completing 288 such audits. Also expect the DCAA to continue to focus on business system audits because they reinforce long-term process confidence.
- By a wide margin, the accounting system was the business system most frequently required for winning or gaining points in a solicitation. Thirty-eight percent of respondents said their solicitations always require an accounting system. No other system was even close. A key competitive consideration to keep in mind here: Your firm's ability to demonstrate proficiency with business systems may be a differentiator in a given solicitation. So don't miss an opportunity because of the lack of, or deficiency in, a business system.

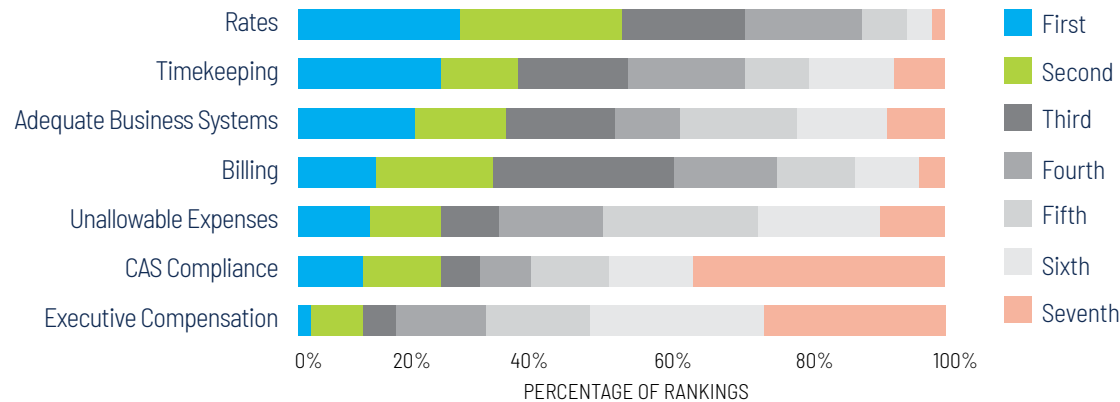
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- GAUGE respondents reported unanimously that incurred cost submissions were the most common type of audit, with accounting systems/1408 and provisional billing rate audits rounding out the top three.
- As government contracting firms work toward CMMC 2.0 compliance by 2026, they're progressing along the CMMC (Cybersecurity Maturity Model Certification) compliance continuum: 29% of respondents said they would assign themselves Level 2 and 18% said they would assign themselves Level 3. That suggests measurable progress from last year, when 27% reported Level 2 and just 14% reported Level 3. If that progress continues, a majority of firms subject to CMMC 2.0 could be in good shape to earn certification, however, they still need to solidify an auditor.
- Firms in the largest annual revenue band (greater than \$50 million) are significantly more prone to experience a labor floor check, with 40% reporting a DCAA audit in that area. Expect more of the same in coming years as regulators keep tabs on firms in the era of hybrid work.
- A large share — 60% — of companies with annual revenues under \$25 million reported not seeing a DCAA auditor this year, about the same share as last year. The likely causes: An increase of FFP contract awards combined with DCAA's issuance of 2,900 low-risk memos last year.
- On the training front, the largest number of firm respondents — 71% — said they provide annual code of conduct training, as they have in the past. Conflict of interest training is the only other category where at least 50% of firms report providing training. ESG has remained consistent from our previous results at close to one-fifth of respondents performing some type of ESG training.

Rank the following audit challenges for your company from the most to the least significant last year.

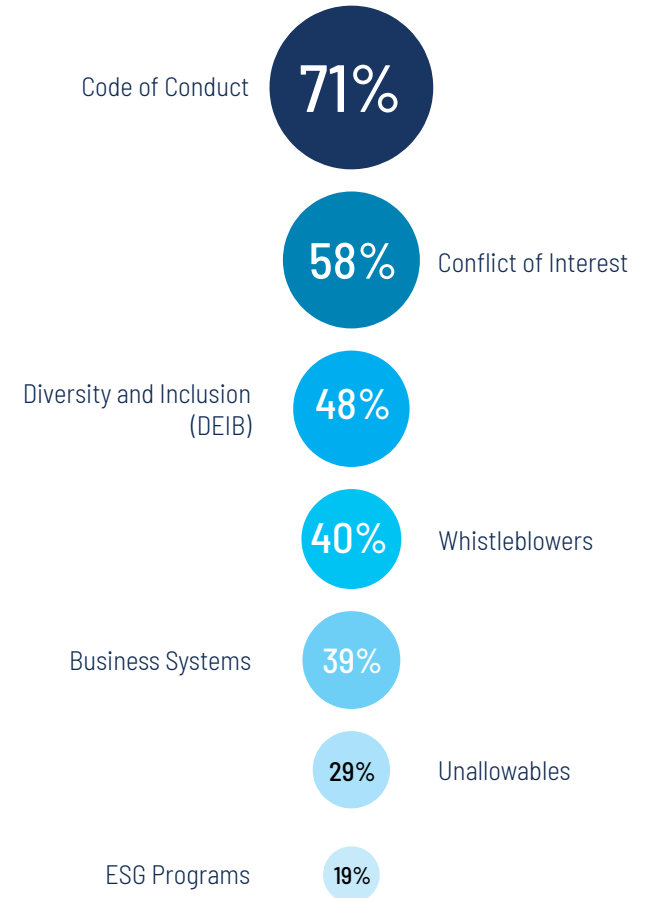
(% Ranked 1st and 2nd Shown)



How would you describe the change in government oversight of your company over the past 5 years?

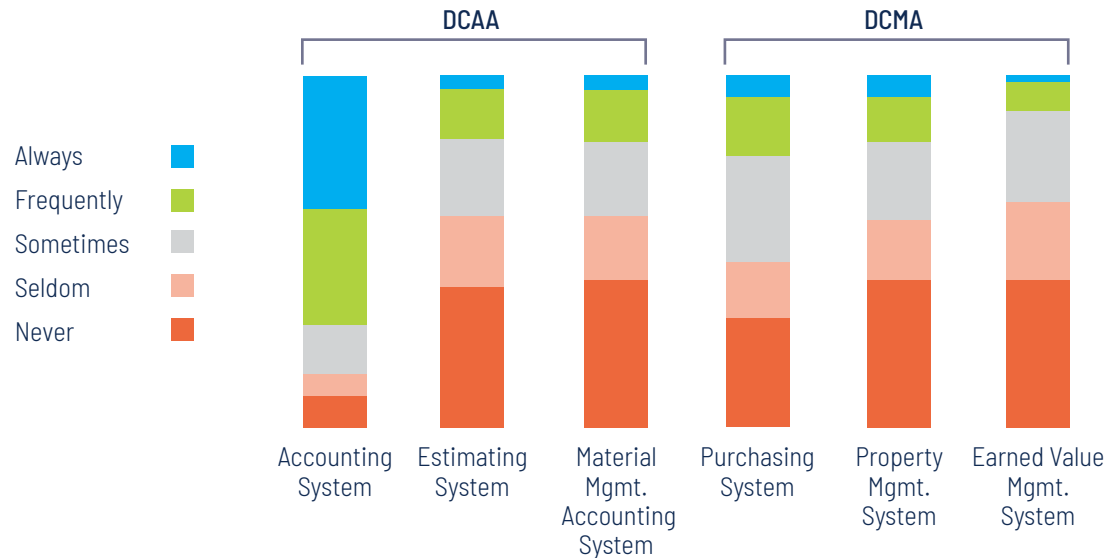
	Average	By Annual Revenue			
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+
Increased Oversight	46%	37%	38%	46%	61%
Decreased Oversight	3%	6%	1%	3%	2%
Oversight Stayed About the Same	51%	57%	61%	51%	37%

For which of the following does your company provide annual training? (Select all that apply)



Which of the following approved Business Systems have you experienced as being required on (new) solicitations in the past year?

(Rate each)



Rank the following audit challenges from the most to the least significant last year.

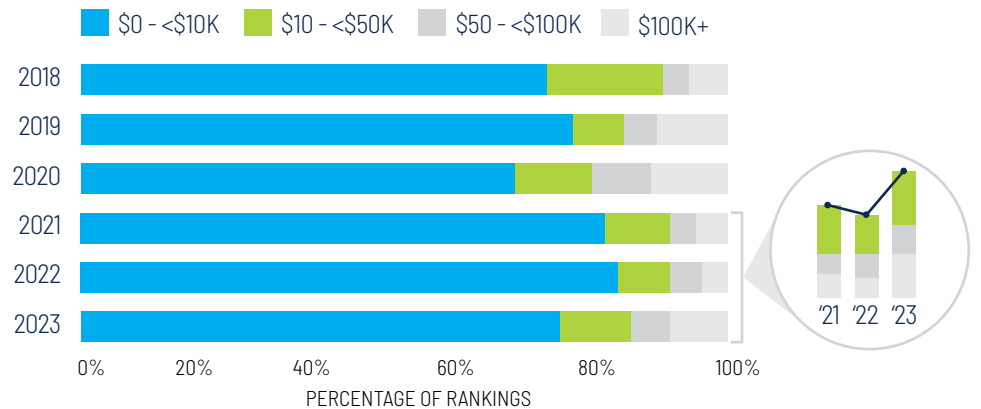
(% Ranked 1st and 2nd Shown)

	Ranking by Year		2023 By Annual Revenue				2023 By Employee Size		2023 By NAICS Code				
	2022	2023	\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+	Arch. & Engr. (5413)	Comp. Systems Design (5415)	Mgmt/ Sci/Tech Consult. (5416)	Sci Rsrch & Dev. (5417)	Other Prof/ Sci/Tech Svcs. (5419)
Rates	50%	50%	42%	52%	57%	53%	44%	55%	78%	63%	46%	42%	32%
Timekeeping	33%	34%	42%	39%	30%	25%	43%	27%	31%	41%	28%	32%	40%
Adequate Business System	35%	32%	26%	41%	23%	33%	35%	29%	22%	30%	36%	42%	24%
Billing	30%	30%	43%	21%	20%	30%	36%	26%	35%	22%	23%	21%	40%
Unallowable Expenses	20%	22%	18%	20%	27%	25%	16%	26%	17%	24%	23%	26%	32%
CAS Compliance	19%	22%	18%	18%	37%	24%	19%	25%	17%	11%	26%	32%	28%
Executive Compensation	13%	10%	11%	9%	6%	10%	7%	12%	0%	9%	18%	5%	4%

What CMMC level would you assign to your company?



What was the amount of questioned cost from your company's last Incurred Cost Submission?



Which of the following DCAA Audits did your company endure last year?
(Select all that apply)

	Ranking by Year		2023 By Annual Revenue				2023 By Employee Size	
	2022	2023	\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+
Incurred Cost Submission	26%	▲ 32%	26%	21%	32%	50%	24%	39%
Accounting System (Pre- or Post-Award)/1408	24%	▲ 25%	19%	21%	32%	33%	21%	29%
Provisional Billing Rate Audit	17%	▲ 22%	15%	17%	24%	35%	17%	27%
Labor Floor Check	11%	▲ 13%	4%	2%	8%	40%	3%	23%
Proposal	13%	▼ 9%	2%	13%	8%	13%	8%	10%
Purchasing System (CPSR)	7%	▲ 8%	4%	4%	0%	23%	3%	13%
CAS Compliance or Disclosure Review	4%	▲ 7%	4%	6%	0%	17%	3%	11%
Property Management System	6%	◄ 6%	0%	4%	8%	13%	0%	11%
Estimating System	4%	▼ 3%	0%	0%	8%	6%	0%	5%
Material Management Accounting System (MMAS)	5%	▼ 3%	0%	0%	4%	8%	1%	4%
Defective Pricing	0%	▲ 3%	2%	2%	0%	6%	2%	3%
EVMS	3%	▼ 2%	0%	0%	4%	6%	1%	3%
Not Applicable	53%	▼ 47%	60%	60%	36%	25%	59%	36%

The Case for Developing – and Complying With – Comprehensive Forecasting Policies

In a business where competition for projects and talent is fierce, the edge goes to government contractors that are proficient at managing people, processes, and tools. Having clear, explicit, and widely followed policies for forecasting is critical to gaining that edge. Regardless of where your firm’s forecasting priorities lie, here’s why having – and following – formal forecasting procedures is worthwhile for an organization, regardless of its size:

1. Financial planning excellence leads to more accurate and reliable financial plans: By forecasting project costs, revenue, and cash flow, you can allocate resources more efficiently, set realistic financial targets, and make informed decisions regarding investments, expenses, and pricing strategies.

2. Risk mitigation for financial stability: By analyzing historical data, market trends, and project-specific factors, firms can identify potential risks and uncertainties, then proactively take steps to mitigate them in a timely way. Risk management strategies such as contingency plans and insurance coverage can help protect financial stability.

3. Better resource allocation: By forecasting resource requirements for upcoming projects – demand for labor, equipment, materials, and subcontractors – firms can allocate resources more effectively and efficiently, avoiding shortages or excesses that can lead to delays, cost overruns, and quality issues.

4. Better informed decision-making: Accurate forecasts often yield valuable insights that lead to better pursuit and project decision-making. Accuracy helps contractors assess the viability of specific pursuits, evaluate the profitability of projects, and determine

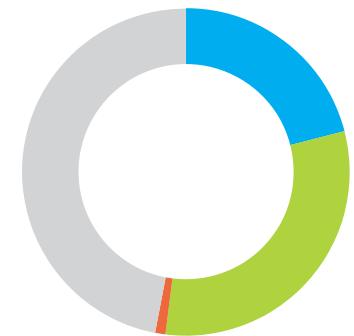
optimal pricing and bidding strategies. Forecasts are also handy in helping companies assess the potential impact of changes in regulations, market conditions, and customer demands.

5. More competitive bids and better project outcomes: Reliable forecasts enable contractors to develop realistic and competitive bids, which can increase their chances of winning contracts. Moreover, reliable forecasts give contractors a better chance of delivering projects on time and within budget, which is key to building the positive reputation that generates future opportunities.

6. Streamlining compliance with contractual requirements: Firms that follow clear forecasting policies and procedures have a leg up in meeting the reporting and forecasting requirements of many government contracts, better enabling them to dodge costly penalties and contract disputes. These policies also will likely help companies be better at financial reporting, a crucial consideration when dealing with public funds.

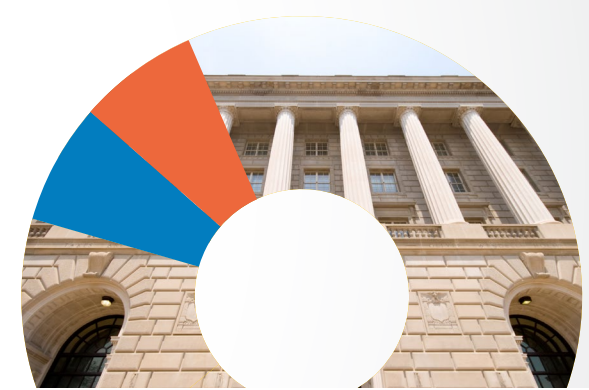
Collectively, the benefits that come with formal, widely followed forecasting processes add up to a competitive advantage that’s too compelling for growth-minded GovCon firms to ignore; And yet, stunningly 47% of respondents say they have no policies!

Are your forecasting policies followed?



Yes, strictly	■	21%
Yes, compliance is flexible	■	31%
No one uses or follows	■	1%
No policies	■	47%

A. ACCOUNTING



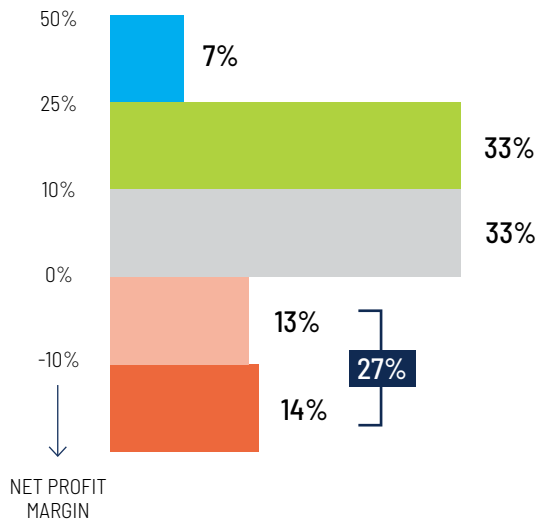
GovCon success hinges on how well — and how transparent — the company can track, manage, and report on an enormous range of costs. In this section, we shed light on the accounting practices companies are using to run their businesses more efficiently and profitably; assess how they are faring in terms of profit margin and days sales outstanding; and how they're dealing with the huge compensation and benefits challenge. We also take a revealing look at your peers' M&A intentions. Plus, don't miss: [Monumental Moment](#) on cash flow forecasting.

Key Takeaways

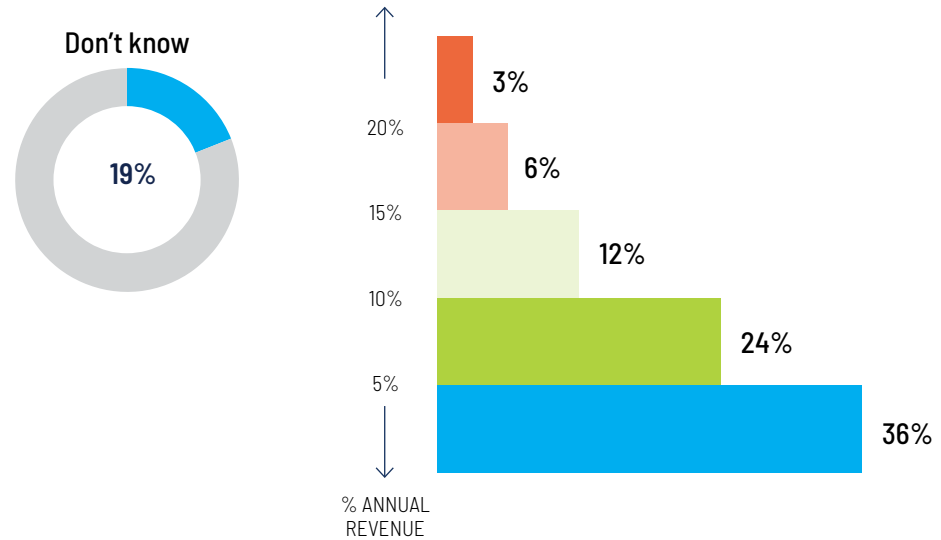
- Bottom-line results: One-third of respondents reported a net profit margin of 0% to 9%, and the same share indicated profits of 10% to 24%. Profit margin was in negative territory for 27% of respondents overall, with about one-third of smaller-revenue government contractors (annual revenue under \$10 million) reporting a negative net profit margin.
- Consistent cash flow is the lifeblood of a GovCon business, and billing is how companies maintain a steady flow of cash into the business. The most common DSO (days sales outstanding) among all respondents is 31 to 45 days, holding steady from previous years; Although a larger share of companies (25%) report a DSO of more than 45 days, up from 19% last year.
- Relative to their larger counterparts, smaller GovCon firms are twice as likely to have an invoice cycle of zero to five days.
- For 39% of government contractors, healthcare is the top indirect cost other than indirect labor, far outdistancing facilities and business development costs.
- The mergers and acquisition (M&A) market remains active, with more than one third — 36% — of respondents reporting that M&A is a priority for them in 2023, up one point from a year ago. Potential buyers outnumbered potential sellers by more than two to one.
- Operational IT and bonus cost continue to rank similarly year over year as a significant indirect cost. IT costs have climbed 5% over the past three years, suggesting that IT spend will surpass bonuses in future years, making them key to appropriate forecasting.

Net Profit Margin

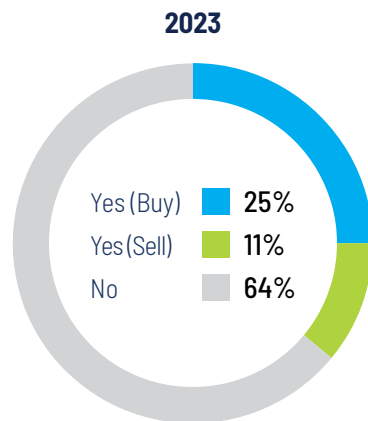
(Revenue-Direct & Indirect Contract Cost/Revenue)



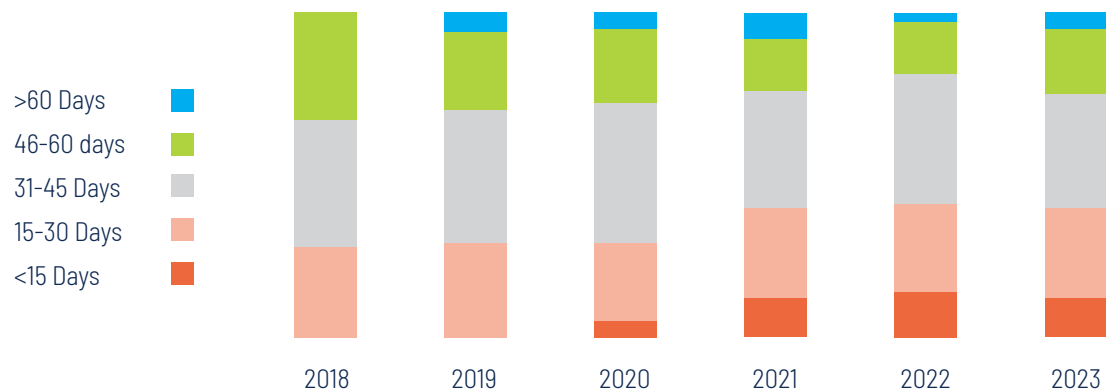
What percent of your organization's annual revenue is your annual operational IT spend (e.g. ongoing expenses such as cybersecurity, IT personnel, and subscriptions but not capital expenses) forecast to represent for the upcoming year?



Is M&A a priority for your company in 2023?



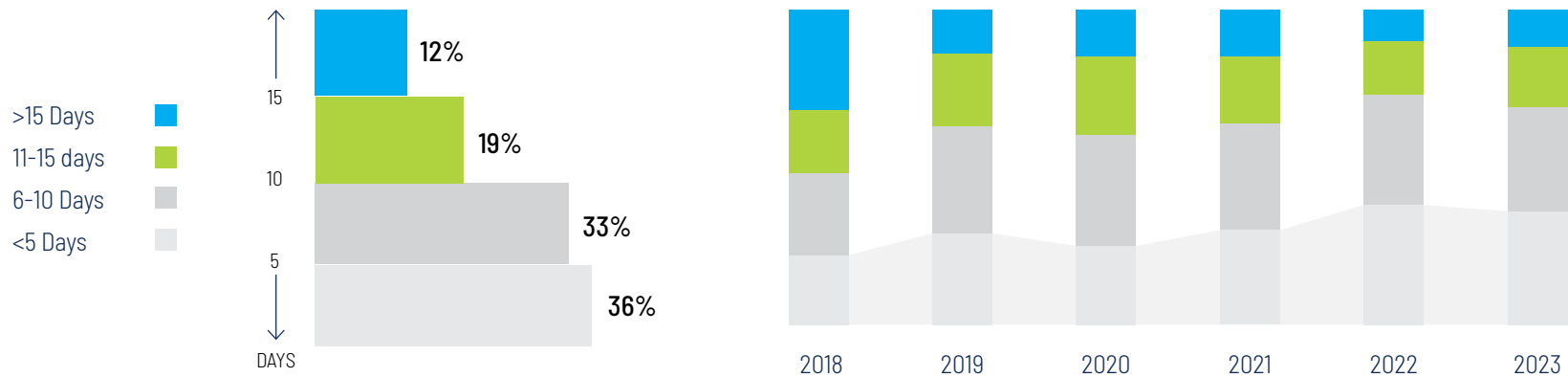
What is your approximate Days Sales Outstanding (DSO) excluding invoice preparation time?



What is your approximate Days Sales Outstanding (DSO) excluding the invoice preparation time?

Average	By Annual Revenue				By Employee Size		By NAICS Code				
	\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+	Archt. & Engr. (5413)	Comp. Systems Design (5415)	Mgmt/ Sci/Tech Consult. (5416)	Sci Rsrch & Dev. (5417)	Other Prof/ Sci/Tech Svcs. (5419)
> 60 Days 5%	9%	4%	0%	5%	8%	3%	13%	3%	6%	8%	5%
46-60 Days 20%	22%	20%	12%	23%	20%	20%	14%	18%	18%	25%	18%
31-45 Days 35%	30%	32%	34%	46%	31%	39%	41%	32%	41%	25%	36%
15-30 Days 28%	30%	32%	42%	10%	29%	25%	18%	34%	26%	42%	27%
<15 Days 12%	9%	12%	12%	16%	12%	13%	14%	13%	9%	0%	14%

What is your average Invoice Cycle (preparation and review time) in days (last day of the month until the last invoice is out the door)?



Business Benefits of Accurate Cash Flow Forecasting

Critical functions such as hiring and keeping quality talent, providing competitive benefits, resourcing projects, managing IT spend, maintaining compliance, pursuing business development, and marketing are all dependent on maintaining a steady cash flow. It's no surprise, then, that 89% of GAUGE respondents deemed forecasting cash flow either somewhat or very important and similarly very accurate to their organization. However, it is surprising that IT spend makes the list in our top six highest cost, other than indirect labor, as 46% of the respondents considered it somewhat important and 26% thought it was not important at all to forecast. Spending the time to produce accurate cash flow forecasts pays off in important ways:

1. Improved cash flow management

With a clear line of sight into the timing and amount of cash inflows and outflows, firms can better plan expenditures, manage working capital, and help ensure they have sufficient funds to cover their obligations.

2. Fulfilling financial obligations

Government contracts often involve complex payment terms, including progress billing, milestone payments, and reimbursement for incurred costs. With an accurate cash flow forecast, contractors can anticipate when they will receive payments on projects which, in turn, enables them to meet their financial obligations to suppliers, employees, and subcontractors in a timely way while also informing operational planning.

3. Meeting working capital needs

Most government contracts require contractors to fund project costs upfront before receiving payment. Accurate cash flow forecasting enables contractors to more closely estimate working capital requirements. Plus, GovCons can make better informed decisions about borrowing, managing credit, and pursuing financing options to bridge funding gaps and help ensure uninterrupted project execution.

4. On-point strategic planning

Accurate cash flow forecasting is an invaluable source of insight for strategic decision-making. It helps firms evaluate the financial feasibility

of pursuing new contracts, expanding operations, investing in equipment or technology upgrades, and engaging in research and development. With an accurate picture of future cash flow, contractors can assess how well resourced they likely will be for new pursuits.

5. Stronger risk management

Identifying potential cash flow gaps and mitigating financial risks becomes more straightforward with accurate cash flow forecasts. Firms can anticipate periods of reduced liquidity and potential shortfalls so they can take proactive measures such as cost-cutting, negotiating more favorable payment terms with suppliers, and securing additional funding to mitigate these risks.

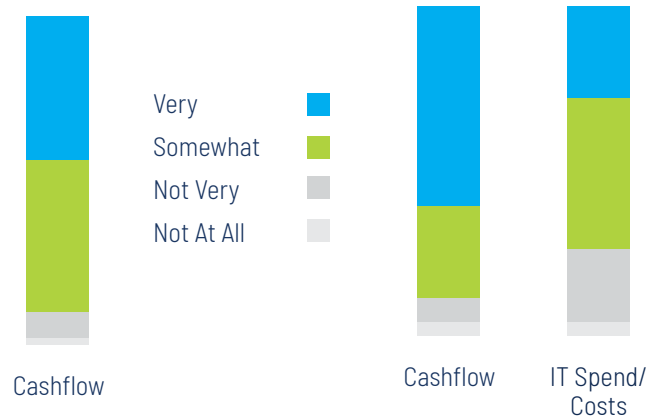
6. Streamlined compliance and reporting

Accurate cash flow forecasting is essential to fulfilling the reporting obligations associated with government contracts, and to demonstrating a firm's financial accountability to relevant government agencies.

Strong cash flow forecasting capabilities reverberate in positive ways across a government contracting business. They give a clear picture of the timing and availability of cash resources so firms can maintain financial stability (and financial capability), and successfully execute projects on a consistent basis. Indirect cost, as shown on the next page, including indirect labor represent the types of cost that are extremely influential to the forecast.

How *accurate* are your cashflow forecasts?

How *important* are your cashflow and IT Spend forecasts?



Other than indirect labor, rank the following indirect cost from the highest to lowest.

(% Ranked 1st and 2nd Shown)

	Ranking by Year		2023 By Annual Revenue				2023 By Employee Size		2023 By NAICS Code				
	2022	2023	\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+	Arch. & Engr. (5413)	Comp. Systems Design (5415)	Mgmt/ Sci/Tech Consult. (5416)	Sci Rsrch & Dev. (5417)	Other Prof/Sci/ Tech Svcs. (5419)
Healthcare	69%	▲ 70%	75%	79%	45%	67%	76%	65%	80%	73%	67%	69%	73%
Facilities	41%	▼ 34%	33%	32%	40%	33%	39%	29%	25%	24%	44%	44%	36%
Business Development	38%	▼ 32%	30%	38%	35%	27%	30%	34%	30%	51%	30%	12%	27%
Bonuses	20%	▲ 24%	25%	23%	40%	18%	20%	28%	25%	19%	33%	19%	23%
IT Infrastructure (including Cybersecurity)	20%	▲ 24%	27%	13%	20%	33%	21%	26%	30%	19%	13%	25%	27%
Pensions	12%	▲ 16%	10%	15%	20%	22%	14%	18%	10%	14%	13%	31%	14%

U. UTILIZATION

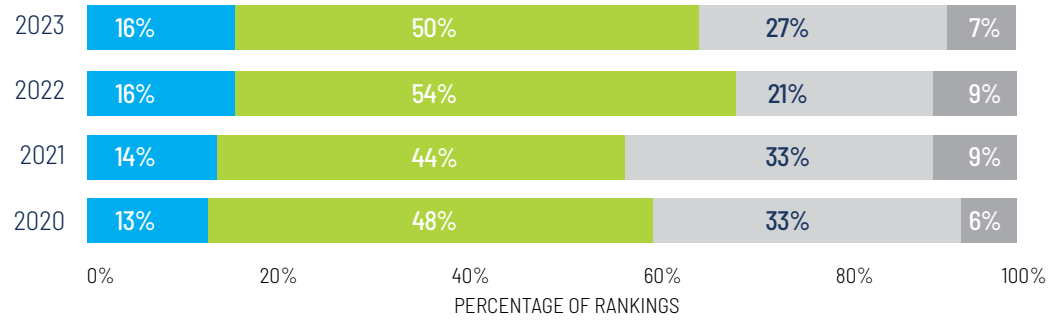
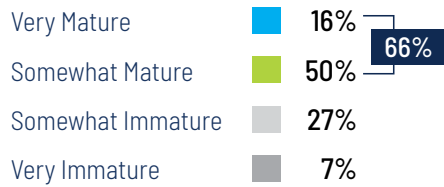


Managing projects, the internal workforce, subcontractors, consultants, and other resources, are always a delicate balance for government contracting firms and has never been more challenging than in recent years. In this chapter, we focus on why some firms are markedly better at managing resources than others, while also revealing their biggest project management challenges along with the organizational issues most likely to keep GovCon executives awake at night. We also document how firms are faring in terms of project outcomes and detail the dynamics driving the shift by many firms to a centralized project management organization. Plus, don't miss: [Monumental Moment](#) on resource forecasting.

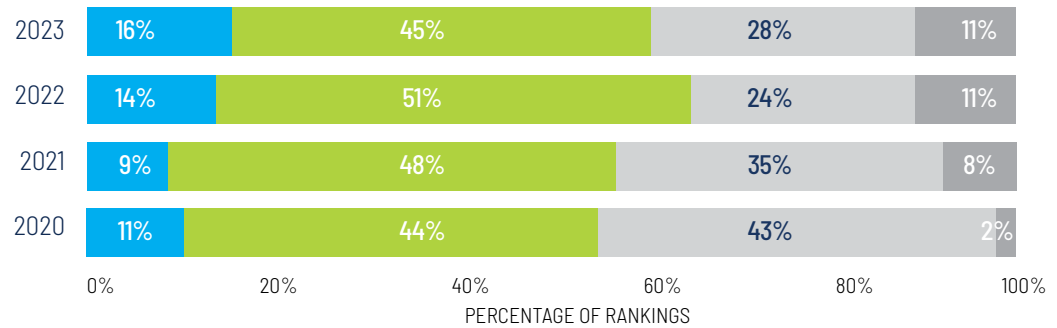
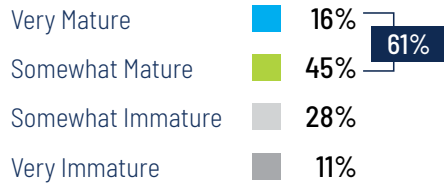
Key Takeaways

- Across all company types, respondents identified resource recruiting/retention as most likely to keep executives awake at night, easily outdistancing increased competition for contracts. What's more, talent recruiting/retention is a significantly greater concern for executives at SMBs (with annual revenues less than \$25 million) than in companies with greater than \$25 million in revenue.
- Managing resources is an area of high concern for GovCons. Respondents identified resource management as their #1 project management challenge. A sizable chunk of respondents continue to wrestle with that challenge, although almost two-thirds — 61% — reported their firms are mature in the resource management discipline. This remains an anomaly in the survey results.
- Organizations are embracing the centralized project management office model. Since 2018, we've seen a sharp increase in the number of firms with a centralized PMO, from 37% to 55%, a clear indication that more firms across the GovCon landscape view standardizing their project management practices as a smart business approach.
- More than half — 56% — of SMBs in the GovCon space (with annual revenues less than \$25 million) have a centralized PMO, a sign that SMBs view project performance as a competitive differentiator.
- The on or under budget, and on-time or sooner metrics were steady through 2020. In 2022 there was a slight uptick, however, this was reversed in 2023. All told, respondents indicated their projects come in on-time and on-budget (or ahead on both counts) about two-thirds of the time.
- Timeliness of subcontractor cost is reported as a more significant project management challenge this year compared to last.

How would you rate your company's *project* management maturity?

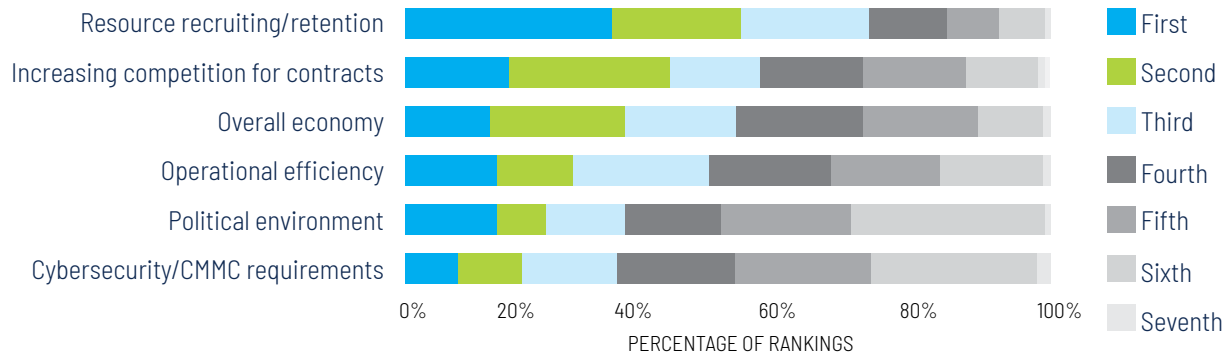


How would you rate your company's *resource* management maturity?



What issues “keep you up at night” regarding your organization today?

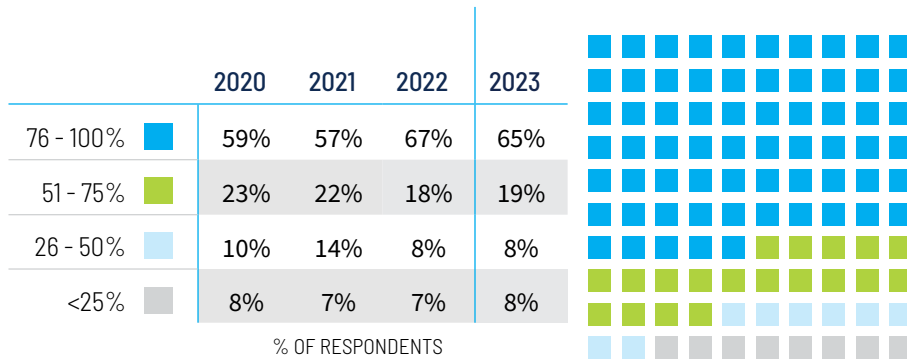
(% Ranked 1st and 2nd Shown)



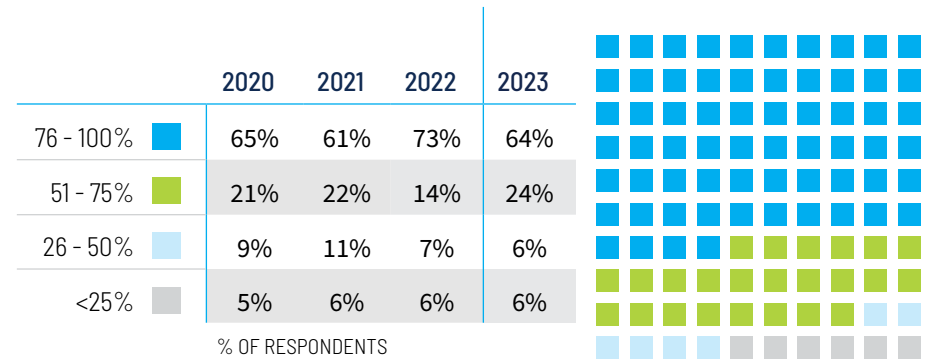
What issues “keep you up at night” by revenue, employee, and NAICS code:

	Average	By Annual Revenue				By Employee Size		By NAICS Code				
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+	Archt. & Engr. (5413)	Comp. Systems Design (5415)	Mgmt/ Sci/Tech Consult. (5416)	Sci Rsrch & Dev. (5417)	Other Prof/ Sci/Tech Svcs. (5419)
Resource recruiting/retention	52%	51%	65%	46%	45%	51%	53%	59%	59%	51%	50%	55%
Increasing competition for contracts	41%	41%	41%	40%	41%	38%	43%	37%	65%	49%	14%	41%
Overall economy	35%	35%	29%	49%	33%	38%	32%	19%	28%	40%	27%	38%
Operational efficiency	26%	28%	29%	11%	29%	27%	25%	30%	19%	26%	45%	28%
Political environment	22%	18%	17%	29%	27%	22%	22%	15%	15%	21%	23%	17%
Cybersecurity/CMMC requirements	18%	22%	11%	14%	22%	16%	19%	19%	11%	12%	36%	21%
Other	6%	5%	8%	11%	3%	8%	6%	21%	3%	1%	5%	0%

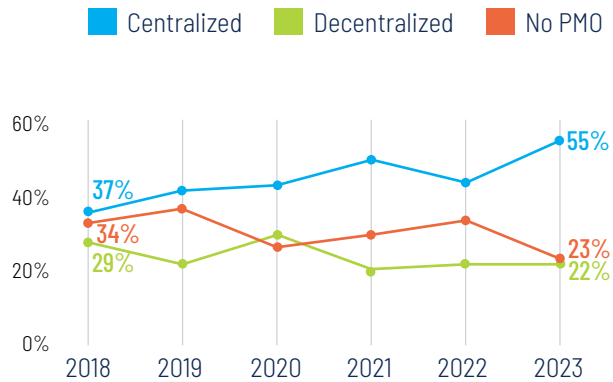
What percent of your company's projects are reported as on or under budget?



What percent of your company's projects are reported as on time or sooner?



What best describes your Project Management Office (PMO) model?



Rank the following project management challenges for your company from the most to least significant.

(% Ranked 1st and 2nd Shown)

	2023	2022	2021	2020
Resource management	51% ▼	54%	39%	43%
Inexperienced project managers	41% ▲	39%	44%	54%
Forecasting	40% ▼	42%	50%	40%
Timeliness of subcontractor costs	26% ▲	18%	23%	NA
Poor scope definition	24% ▼	29%	24%	33%
Lack of visibility into project status	18% ◀▶	18%	20%	30%

Indicate the full-time equivalent (FTE) headcount in your company for each of the following functions:

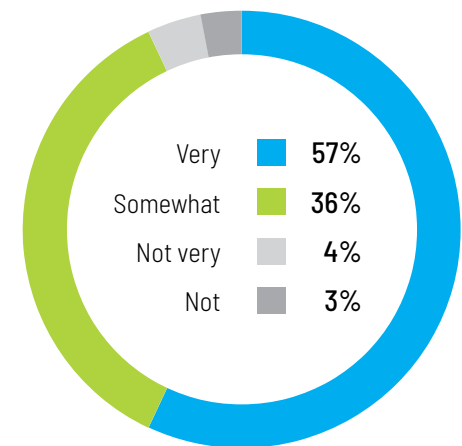
	Ranking by Year		2023 By Annual Revenue				2023 By Employee Size		2023 By NAICS Code				
	2022	2023	\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+	Arch. & Engr. (5413)	Comp. Systems Design (5415)	Mgmt/ Sci/Tech Consult. (5416)	Sci Rsrch & Dev. (5417)	Other Prof/ Sci/Tech Svcs. (5419)
Accounting	3.4	▲ 4.7	1.4	3.3	4.0	9.3	2.0	6.9	2.9	3.4	3.4	5.9	4.0
IT	2.8	▲ 4.3	2.3	2.0	3.0	8.7	1.7	6.3	2.1	4.8	3.1	5.5	4.2
Business Development	3.3	▲ 4.2	1.7	2.7	3.9	8.0	1.8	6.1	2.5	4.5	3.2	3.8	5.2
Human Resources	2.5	▲ 3.5	1.0	1.8	2.5	7.8	0.9	5.6	2.1	2.9	2.6	3.0	3.5
Project Controls	2.3	▲ 3.5	1.2	1.8	3.1	7.3	1.2	5.3	2.8	3.4	2.0	3.7	2.4
Contracts	2.5	▲ 3.3	1.6	1.6	2.1	6.7	1.6	4.6	1.5	2.5	2.0	4.4	2.7
Recruiting	1.9	▲ 2.8	1.0	1.5	1.9	6.1	0.9	4.3	1.5	3.1	2.9	2.0	2.9
Compliance	1.4	▲ 2.0	0.8	1.4	1.8	3.8	0.9	2.9	0.8	1.6	1.3	1.1	1.6
Internal Audit	0.8	▲ 1.5	0.6	0.4	0.6	3.5	0.6	2.2	0.2	0.9	0.9	0.7	0.8
Legal	0.8	▲ 1.3	0.3	0.3	0.3	3.5	0.3	2.1	0.0	0.7	0.7	0.9	1.2

For Consistently Successful and Profitable Project Outcomes, Focus on Resource Forecasting

Why do some firms consistently deliver projects on-time and on-budget, and beat resource-management benchmarks, while others chronically struggle with late, over-budget outcomes? Oftentimes, the difference is a matter of better resource forecasting. Here are seven reasons why it’s worthwhile for firms to sharpen their resource forecasting practice:

1. Creates improved visibility into, and control over, enterprise resource needs and utilization.
2. Enhances improved predictability and understanding of overall performance.
3. Optimizes project management staff freed to focus more on the customer and less on turning the crank.
4. Strengthens communication within and between project teams, and senior leadership.
5. Provides for easier implementation of organization-wide standards to help ensure consistent reporting, reduce rework, and reduce dependence on “heroes.”
6. Generates valuable real-time insight into project financials and enables firms to take proactive steps to address identified risks.
7. Leads to more delighted customers because their projects more consistently deliver value and come in on-time and on-budget.

How important is it to create labor resource forecasts?



What tools does your company use to forecast labor resources?

(Select All That Apply)

	Average	By Annual Revenue			
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+
Spreadsheet	70%	75%	70%	73%	65%
Integrated into timekeeping system	37%	18%	48%	50%	39%
Off-the-shelf software	16%	9%	15%	27%	17%
Manual	13%	18%	7%	5%	17%
Custom built software	10%	2%	2%	9%	22%

How mature is your firm's resource management practice?

Use the following to figure out where you stand. Use the assessment below as often as necessary. Be frank in your answers, then identify the areas you need to shore up in order to move onto the next level.

Resource Management Maturity Model (RMMM)

	Level 1: Ad-Hoc or Initial	Level 2: Project-by-Project	Level 3: Organization Wide	Level 4: Data-Driven	Level 5: Continued Improvement	Your Co. Rank
People/ Training	<input type="checkbox"/> Minimal training on process or tools — no focus.	<input type="checkbox"/> Training is project-specific on policies and procedures. Some ad-hoc tool training.	<input type="checkbox"/> Enterprise role-based training on policies, procedures, and tools.	<input type="checkbox"/> People are trained regularly, and certified on skills and tools.	<input type="checkbox"/> The enterprise is attracting top talent and providing career paths.	_____
Policies & Procedures	<input type="checkbox"/> Very basic guidance that is not enforced. The resource management world is the Wild West.	<input type="checkbox"/> Most policies are for a single project. Resourcing procedures are project-by-project.	<input type="checkbox"/> Policies and procedures are enterprise-wide and all understand the need for a comprehensive resource planning discipline.	<input type="checkbox"/> The organization uses metrics to drive business decisions around hiring and resource usage across the enterprise.	<input type="checkbox"/> KPIs and metrics are rightly coupled with organizational goals to continue to advance the success of the business.	_____
Tools/ System	<input type="checkbox"/> Use of spreadsheets and combo of tools (silos).	<input type="checkbox"/> Use of project-based ERP with fully integrated time/resource management. Combination of manual and automated operations.	<input type="checkbox"/> Enterprise use of project-based ERP. Resource plans are loaded, and the enterprise can see supply and demand.	<input type="checkbox"/> Enterprise use of project-based ERP at an expert level. Stakeholders access role-based dashboards and reports in real time.	<input type="checkbox"/> The ERP provides all necessary resource management info to everyone in the organization as part of the fabric of the business.	_____
Culture/ Vision	<input type="checkbox"/> “We have always done it this way.” “Spreadsheets are cheaper.”	<input type="checkbox"/> The need to improve project performance and resource planning is seen as a way to help improve execution.	<input type="checkbox"/> Resource management is a key part of overall project and organization management. Operating as a matrix organization.	<input type="checkbox"/> Resource management metrics are reviewed daily, and the information is reliable and trusted for decision-making.	<input type="checkbox"/> Resource management is seen as a discipline with a career path. C-suite has the desire to continue to improve based on results.	_____
Your Co. # Each Level	_____	_____	_____	_____	_____	_____

G. GROWTH

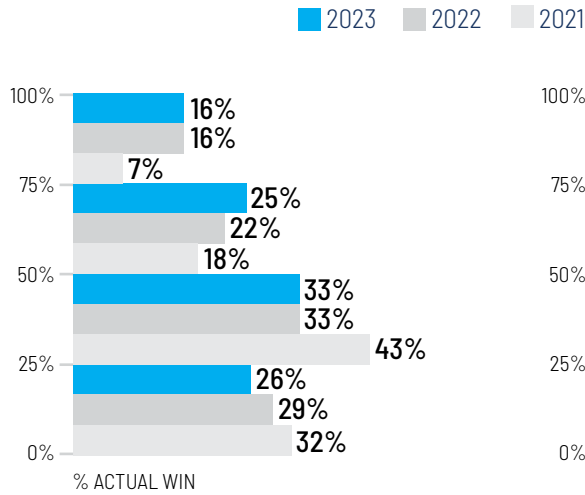


Sustainable growth is the goal for any GovCon firm. But what percentage of GovCons are actually growing, and by how much? At what rate are they winning projects? What are your peers projecting as far as growth and win rate in the year ahead? What approaches are they using to find new opportunities and capture more of the kind of business they desire? Is ESG compliance going to affect your company in the future? This chapter offers a revealing snapshot of the current competitive landscape, with a detailed look at how GovCons are positioning themselves for growth. Plus, don't miss: [Monumental Moment](#) on short versus long term forecasts.

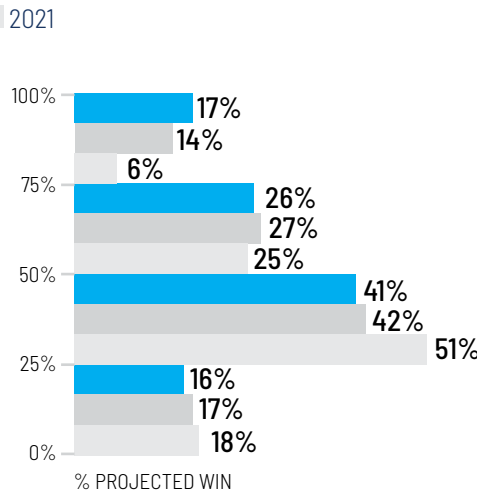
Key Takeaways

- 70% of firms reported some level of growth in annual revenue, up from 59% in last year's survey. The share of respondents reporting a drop in annual revenue held steady at 17%. More than 40% (48% and 42%) of respondents put their projected and actual growth rate between 1%-14%.
- Win rate is on the rise. The portion of respondents reporting a win rate of 25% or below is the smallest in the history of the GAUGE Report at 26%, while the portion of respondents reporting a win rate above 50% is the largest it's ever been at 41%. The same holds true with projected win rate, which 43% of firms expect will exceed 50% in the next 12 months.
- Relative to larger firms, SMBs with annual revenue under \$10 million are more often using virtual events and conferences, and less often using public notices, to unearth new opportunities.
- By a wide margin, leveraging personal relationships and market intel tools are popular avenues for finding new opportunities.
- As valuable as a formal capture/gate process can be, smaller firms are far less likely than larger GovCons to have such a process in place. Those that do (46% of firms with annual revenue under \$10 million) give themselves a decided advantage over those that don't in pursuing opportunities that best fit the firm's capabilities, expertise, and performance history.
- Larger companies report pursuing far more opportunities than their smaller GovCon counterparts, highlighting how important it is for them to have some type of customer relationship management (CRM) software to help efficiently manage opportunities every step of the way. Furthermore, 41% of tracked major contract proposals for all company sizes are actually submitted.

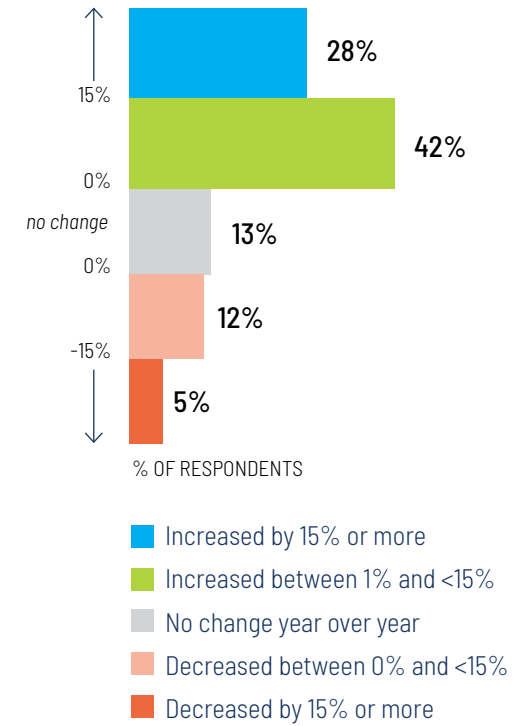
Actual Win Rate Over Past 12 Months



Projected Win Rate Over Next 12 Months



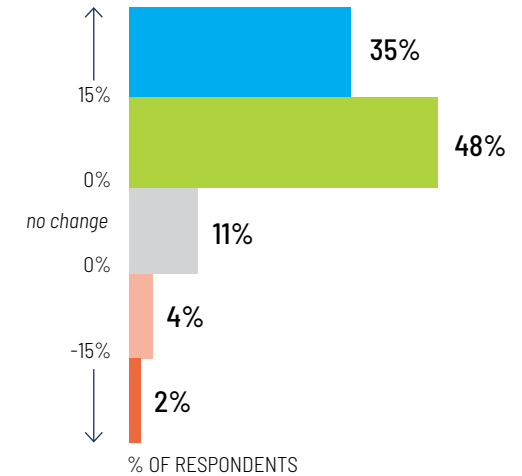
Actual Growth Rate Over Past 12 Months



How will ESG compliance affect your company in the next 1-2 years?

	Total	By Annual Revenue				By Employee Size	
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+
Significantly	6%	4%	8%	9%	3%	6%	5%
Moderately	28%	21%	20%	31%	40%	19%	35%
Minimally	46%	50%	46%	51%	40%	47%	45%
Not At All	20%	25%	26%	9%	17%	28%	15%

Projected Growth Rate Over Next 12 Months

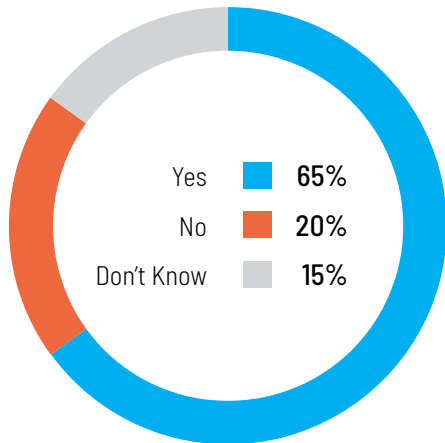


What was your actual %/projected % proposal win rate over the past 12 months?

	Total	By Annual Revenue				By Employee Size		Actual Projected
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+	
75% - 100%	16% / 17%	20% / 19%	11% / 11%	13% / 12%	19% / 22%	14% / 14%	18% / 18%	
50% - < 75%	25% / 26%	23% / 29%	22% / 23%	35% / 28%	24% / 24%	26% / 25%	24% / 27%	
25% - < 50%	33% / 41%	29% / 29%	40% / 50%	26% / 44%	35% / 45%	29% / 39%	37% / 44%	
< 25%	26% / 16%	28% / 23%	27% / 16%	26% / 16%	22% / 9%	31% / 22%	21% / 11%	

% WIN RATE

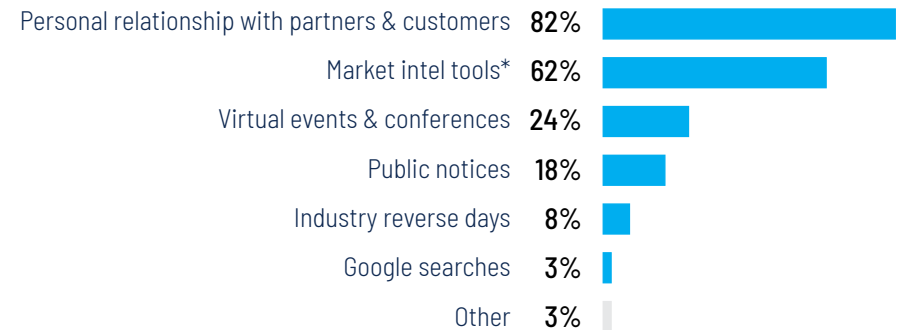
Do you have a formalized Capture/Gate process for federal proposals?



	By Employee Size	
	1-99	100+
Yes	59%	71%
No	30%	11%
Don't Know	11%	18%

What are the top two approaches you are currently using to find new opportunities?

(Select all that apply)

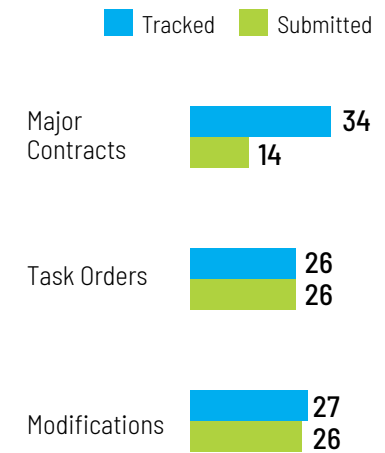


*Includes FedBizOpps, GovWin, Fedmine, Pulse, GovTribe, Federal Compass, Capture2Proposal, etc.

Approximately how many proposals (opportunities) does your company prepare/submit in a 12-month period?

	Ranking by Year		By 2023 Annual Revenue				By 2023 Employee Size	
	2022	2023	\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+
	Major Contracts	19 ▼	14	5	13	10	27	9
Task Orders	18 ▲	26	5	14	9	71	8	41
Modifications	14 ▲	27	4	11	14	74	9	42

2023 Opportunities Tracked vs. Submitted



Approximately how many proposals (opportunities) does your company track in a 12-month period?

	Ranking by Year		By 2023 Annual Revenue				By 2023 Employee Size	
	2022	2023	\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+
	Major Contracts	34 ◀▶	34	10	25	21	77	17
Task Orders	23 ▲	26	8	21	17	55	14	36
Modifications	15 ▲	26	3	7	17	75	6	43

AOP and LRP Plans: Find the Right Level to Forecast

Forecasts are used in many ways throughout the business (pipeline, backlog, etc) and multiple methods will be needed. This next point is obvious, but near-term forecasts are more accurate than long-term forecasts since there is more visibility into the Pwin, scope, schedule, current economic conditions, resource availability, etc. Looking into the future is more difficult and the level of granularity of the forecast will be less detailed since many long-term projects are still in the proposal phase or in the “crystal ball” phase with many unknowns.

Grouping projects makes it easier to forecast, especially in the mid-range time (3-5 years). Those groupings may be by programs, customer, product, business unit, portfolios, or functional groups. You can look at these forecasts in aggregate and derive an accurate forecast because you understand the customer demand, your capacity, and potential growth.

There is also a check of reasonableness that needs to be added. C-suite members and project teams need to work together to decide on the level of forecasting required and for what purpose it will be utilized. For example, an Annual Operating Plan (AOP) is a short-term forecast and

granularity is necessary. A Long Range Plan (LRP) may need to utilize detailed forecasting for an agreed upon time period and then utilize a grouping for out-years. One other thing to think about is the frequency of the update and who is needed to provide input.

Forecasting using constraints and other pertinent information can make for a very good forecast. However, using very detailed forecasts in the long-term will take lots of time and will not be accurate. Save the detailed forecasting for 0-2 years (unless you have a high level of confidence in the customer and market).

Frequency of Forecasts



E. EFFICIENCIES



From winning the right work to meeting project schedules and overall firm profitability, much is riding on a GovCon's ability to efficiently and effectively manage costs and rates. In this section, we look closely at how firms are approaching indirect costs, rate structure and composition, overhead allocations, G&A base, and other factors that drive efficiency inside projects and across a firm. Plus, don't miss: **Monumental Moment** on efficient rate forecasting, and how technology can boost forecasting efficiency.

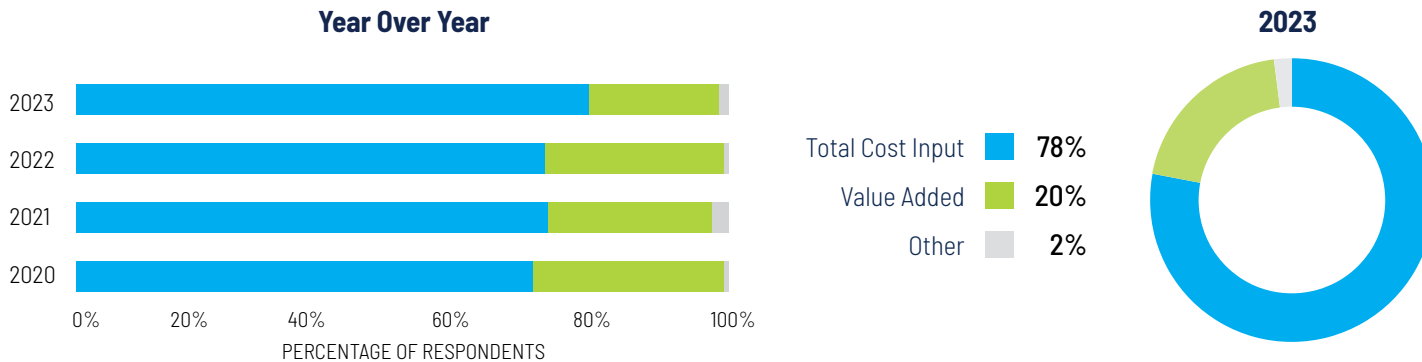
Key Takeaways

- GovCons reporting they have changed their indirect rate structure during the past 12 months keeps escalating, hitting 41% in 2023, a high for the GAUGE Report. Close to seven in 10 firms (69%) said their indirect rate structure had changed within the past three years. Meanwhile, only 10% reported never having changed their indirect rate structure, an all-time survey low. Clearly, fluctuating indirect costs are an issue that firms increasingly have to manage.
- GAUGE respondents identified consultant costs, along with rate composition and allocations, as their two most pressing indirect cost issues or deficiencies, followed closely by travel costs.
- Asked how they calculate their G&A base, a sizable majority of GovCons — 78% — reported using the Total Cost Input approach, a high for the GAUGE Report. On the other hand, the share of firms calculating G&A base with a value-added methodology stood at 20%, the lowest level we've seen over the history of the report.
- Mid-sized (GovCons with annual revenue of \$10 - <\$25 million) identified legal costs as their most pressing indirect cost issue or deficiency.
- Fringe rates continue to decline from a survey high of 35% in 2018 to 31% in 2023.
- A majority of firms (57%) indicated their overhead allocation base includes fringe costs.
- Mid-sized companies are more apt to include fringe costs in their overhead allocation bases.
- Location gained ground over other factors as respondents' most common basis for overhead rates as the pandemic has created some greater deviation because of remote workers.

When was the last time you changed your indirect rate structure?

	Average	By Annual Revenue				By Employee Size		Years
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+	■ 2023 ■ 2022 ■ 2021 ■ 2020
Within the past year	41%	43%	40%	40%	40%	45%	37%	41% 38% 38% 40%
2 or 3 years ago	28%	17%	28%	36%	35%	20%	35%	28% 25% 20% 16%
4 or more years ago	21%	23%	22%	20%	20%	23%	21%	21% 19% 20% 23%
Never	10%	17%	10%	4%	5%	12%	7%	10% 18% 22% 21%

Is your company's G&A base Total Cost Input (TCI) or Value Added?

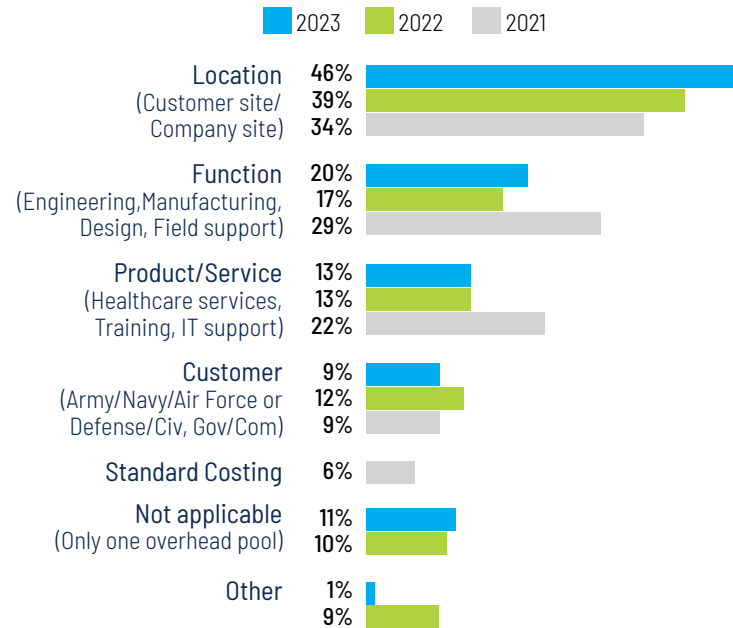


What is your organization's rate for each of the following (Median Rate)?

(Calculations adjusted to exclude responses of 0 for all years)

	Average	By Annual Revenue				By Employee Size	
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+
Fringe Rate	31%	31%	31%	34%	31%	32%	31%
Overhead Rate for contractor site	18%	20%	18%	18%	13%	20%	16%
Overhead Rate for customer site	12%	16%	13%	15%	10%	15%	11%
Material/subcontractor handling rate	5%	5%	5%	5%	4%	5%	5%
General and administrative rate	15%	17%	16%	15%	10%	16%	14%
Wrap Rate without fee at contractor site	1.71	1.77	1.73	1.75	1.58	1.76	1.68
Wrap Rate without fee at customer site	1.64	1.72	1.67	1.71	1.55	1.71	1.62
Year Over Year		2019	2020	2021	2022	2023	
Fringe Rate		32%	33%	32%	32%	31%	
Overhead Rate for contractor site		24%	25%	20%	20%	18%	
Overhead Rate for customer site		13%	15%	14%	15%	12%	
Material/subcontractor handling rate		4%	4%	7%	6%	9%	
General and administrative rate		14%	13%	15%	15%	15%	
Wrap Rate without fee at contractor site		1.78	1.79	1.75	1.75	1.71	
Wrap Rate without fee at customer site		1.65	1.67	1.68	1.69	1.64	

Which of the following do you use as the distinguishing factor between different overhead pools?



What are the most common indirect cost issues and deficiencies for your organization?

(Select All That Apply)

	Average	By Annual Revenue				By Employee Size	
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+
Consultant costs	24%	30%	27%	17%	18%	26%	22%
Rate composition and allocations	24%	25%	23%	22%	25%	25%	23%
Travel costs	23%	28%	19%	22%	21%	23%	23%
Legal costs	21%	17%	31%	26%	13%	20%	21%
Timekeeping	20%	23%	19%	22%	18%	23%	18%
Employee morale costs	17%	19%	10%	17%	20%	16%	17%
Internal controls deficiencies	16%	21%	15%	13%	14%	20%	13%
Executive compensation	14%	13%	15%	9%	18%	9%	19%
Other	1%	0%	2%	4%	0%	0%	2%
None of the above	31%	34%	25%	22%	36%	31%	30%

Keys to Efficient Rate Forecasting: Bottom-up, Top-Down, or a Blend of Both?

Why do high-performing government contracting firms consistently submit more competitive bids, win more business, and deliver positive and profitable project outcomes to customers? One reason is, they've mastered the discipline of forecasting various types of rates: labor, overhead, general and administrative, fringe, and the list goes on.

Forecasting rates isn't always easy, but once a firm becomes adept at it, the results often justify the effort. What makes forecasting rates such a challenge? For starters, it can be complicated because certain projects involve different labor types and labor rates. The contracts associated with these projects typically employ a time-and-material (T&M) rate methodology, where the customer purchases labor — and specific types of labor — at a defined rate.

Rates play a big role not only in revenue forecasting assumptions, but also in a firm's earning potential. For instance, if the overhead rates for a cost-plus project are less than were predicted, the actual revenue recognized from that project might be lower. With projects based on a fixed-price contract, higher-than-anticipated labor and indirect rates likely will cut into actual project profit relative to projections.

A big part of excelling at rate forecasting is expanding the revenue forecasting window to a one-to-five year horizon. This enables a firm's finance team to more accurately predict corporate provisional and forward pricing rates.

BENEFITS OF TOP-DOWN PLANNING:

- C-suite leaders typically develop the plan, so their buy-in is assumed.
- It's generally a quicker way to forecast, involving a shorter cycle time.
- It usually aligns tightly with corporate strategy because it's performed by the same leaders who likely devised that strategy.

PITFALLS OF TOP-DOWN PLANNING:

- A lack of understanding within the C-suite of issues and risks at the project level.
- Buy-in from project managers could be low because they lack input in the process.
- Top-down mandates require people to back into the resource plan.

Just as managing rate forecasts is an important discipline for all contract types that a government contracting firm is likely to encounter, so too is communicating rate changes to project and proposal teams to minimize those unpleasant rate impact surprises that can sour a project outcome. Teams should also prioritize predicting changes in an out-year rate, based on any potential new awards that will impact corporate rates.

What other efficiencies can be realized with different types of forecasting methodologies? Using the GAUGE discusses two such methodologies, bottom-up or grassroots forecasting/planning and top-down forecasting/planning.

The former draws from information gathered from multiple internal sources, while with the latter, the objectives and path to achieve goals are driven from the top. In the top-down approach, the C-suite sets goals and details exactly how they envision the firm achieving them. The specified steps to achieving goals gradually cascade down the organizational hierarchy to be broken down into tasks that will be assigned to specific teams to execute.

Here it's worth reiterating a point we make elsewhere in the report: While GovCons generally rely more on top-down inputs than bottom-up inputs for forecasting, both planning approaches warrant a place in a firm's decision-making processes.

Government contractors are still using spreadsheets, not only as their opportunity software and CRM tool, but for forecasting labor resources as well. Below, see the three areas where respondents are still using spreadsheets for tracking:





INDUSTRY INSIGHTS

SMBs: Fueling the GovCon Industry

On the surface, small and mid-sized government contracting businesses (SMBs) were a huge beneficiary of the federal government’s generosity in the last fiscal year, at least in terms of awarded contract value, as Uncle Sam handed them a record \$158.7 billion in contracts, according to market intelligence firm HigherGov.²

But dig a little deeper into the numbers and an unsettling trend emerges. The number of SMBs receiving federal government contracts in 2022 was less than half what it was in 2010, according to HigherGov, indicating a startling contraction of the government contracting SMB base, one that could negatively impact national security and market competition. Just as concerning: Small businesses owned by women and many minority groups saw a flat or declining share of contracts, HigherGov reported.

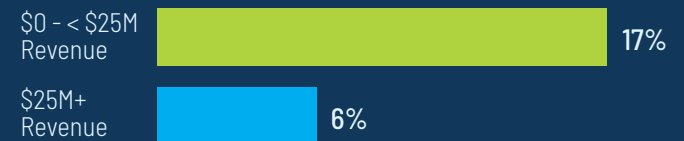
For a decade now, various administrations and agencies have been taking steps to counteract the attrition of SMBs from the industrial base, with mixed results. In early 2013, then-President Barack Obama signed the annual *Defense Authorization Act*, which included provisions to make the federal government’s business contracting programs more favorable to SMBs. That same year, the Defense Contract Audit Agency increased its focus on SMBs by implementing a small business outreach program. Even with specialized programs for SMBs, the United States has lost 30% of its overall



SMBs gross profit margins are above 50%, more often than larger revenue companies:

Gross Profit Margin

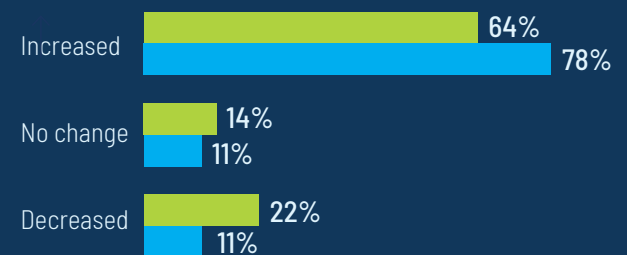
(Revenue - Direct Contract Cost / Revenue)



SMBs projected growth rate is similar to larger companies, but their actual growth rate increased less:

Actual Growth Rate

■ \$0 - < \$25M Revenue ■ \$25M+ Revenue



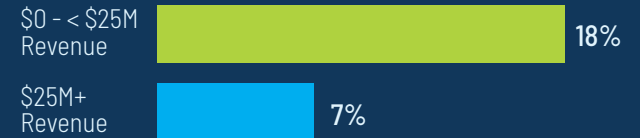
defense industrial base over the last 10 years, according to Isabella Guzman, administrator for the U.S. Small Business Administration (SBA). As HigherGov noted, more contract vehicles are available only to a limited number of firms, and regulations (such as cybersecurity requirements and business systems) have increased. What's more, the growing practice of contract bundling tends to benefit larger firms and incumbents. The government itself has emphasized increasing the dollars being awarded to small businesses over increasing the number and diversity of small businesses winning contracts.

The SBA and other agencies continue to take steps to attract more SMBs back into the government contracting fold. The SBA recently finalized a rule to allow SMBs that have previously done business with the federal government to use that experience to demonstrate past performance, helping them win new government contracts. And in early 2023, the U.S. Department of Defense unveiled a strategy to get more SMBs involved in its contracting and research work by reducing barriers to entry, increasing set-asides and leveraging programs to grow the industrial base.³

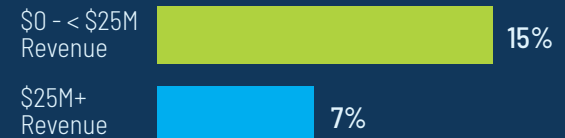
Initiatives like the above signal a coming wave of government contracting opportunities for SMBs in 2023 and beyond. Now the challenge is getting a piece of action in light of the competitive, economic, and institutional obstacles to be faced.

Here in the 2023 GAUGE Report, we dug into the data to better understand the unique opportunities and challenges GovCon SMBs (firms with annual income of \$25 million and under) face vis à vis their larger (annual revenue over \$25 million) counterparts. We found, for example, GovCon SMBs are experiencing significantly higher margins than larger GovCons. As surprising as that finding may seem, it begins to make sense with a closer look at the numbers, which suggest that while SMB contractors are good at short-term planning, they tend to struggle to put together reliable three- to five-year business plans.³

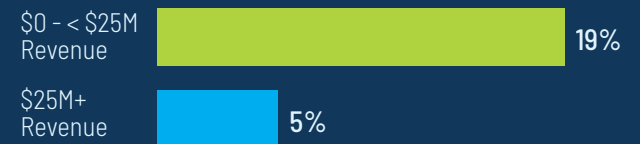
Compared to larger companies, SMBs more often say pipeline forecasts are not important:



Compared to larger companies, SMBs more often say their indirect rate forecasts are inaccurate:



Compared to larger companies, SMBs more often say their backlog forecasts are inaccurate:



The data suggests the type and number of contracts an SMB can execute often boxes them in. For example, an awarded indefinite-delivery/indefinite-quantity contract could comprise a large percentage of the business. What happens if the GovCon doesn't win the next competition for a contract that size? If everything's riding

on landing that next big contract, the SMB is taking on a major risk. Situations like these suggest why SMBs are generally better at shorter-term planning than looking further into the future. GAUGE findings below reveal the extent to which GovCon SMBs sometimes struggle with longer-term planning compared to their larger counterparts:

Category	Edge	What the Numbers Say
Gross profit margins	▲	SMB GovCons report higher gross profit margin compared to larger revenue GovCons in the >46% bracket.
Actual growth rates	▼	Twice as many SMB GovCons compared to larger GovCons indicated their actual growth rate is shrinking.
Pipeline forecasting importance	▼	Twice as many SMB GovCons compared to larger GovCons indicated pipeline forecasting are inaccurate.
Inaccurate indirect rate forecasting	▼	Twice as many SMB GovCons compared to larger GovCons indicated indirect rate forecasting is inaccurate.
Inaccurate backlog forecasts	▼	19% of SMB GovCons said their backlog forecasts are inaccurate, compared to 5% of larger GovCons.
Inaccurate pipeline forecasts	▼	30% of SMB GovCons reported inaccurate pipeline forecasts, compared to 16% of larger GovCons.
No forecasting policies (or in process of creating them)	▼	Close to two-thirds (60%) of SMBs have no forecasting policies in place compared to larger GovCons, that share is 29%.
Forecasting policies not followed	▼	A staggering 60% of SMB GovCons with forecasting policies reported those policies are not followed.

▲ Edge goes to SMBs ▼ Edge goes to other than small GovCons

The comparisons in the previous chart aren't meant to disparage SMBs, but rather to underscore the competitive edge a firm could gain versus its peers simply by raising its game in specific areas of forecasting and planning. Indeed, we see a golden opportunity for SMBs to turn themselves into better, longer-term business planners and, in doing so, position themselves to take advantage of the abundant opportunities the federal government wants to carve out for them.

Here are five best practices for SMBs to strengthen planning and forecasting:

1. Plan for the longer term.

Expand the SMB business planning time horizon beyond the near-term and instead look out to the next three to five years. This broader timeframe recognizes the longer contracting cycles associated with large government-wide acquisition contracts.

2. Invest in infrastructure and capabilities.

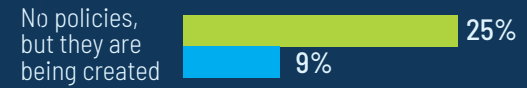
SMBs should review allocating cashflow from higher margins toward modern digital infrastructure, including forecasting and planning capabilities. This helps to mature the business.

3. Get a clearer picture of the pipeline.

Pipeline is the heartbeat of a business, so SMBs must be good at forecasting wins over the near and long term. Relying on siloed spreadsheets makes accurately forecasting pipeline difficult. SMBs should consider finding a customer relationship management (CRM) tool to assist in being target-smart and reinforcing a disciplined capture process to fill the pipeline with projects. Along with adding a CRM, be sure your company has a plan for a significant contract that is due to be re-competed. Another pipeline-related suggestion: Focus on capture. We found SMBs are far less likely to have a formal capture/gate process in place for federal proposals. Those with a formal capture/gate process give themselves a decided advantage in pursuing projects that have the greatest probability of win and best fit for the firm.

SMBs more often lack forecasting policies:

■ \$0 - < \$25M Revenue ■ \$25M+ Revenue



Larger companies report their forecasting policies are being followed more often than SMBs do:

■ \$0 - < \$25M Revenue ■ \$25M+ Revenue



4. Sharpen indirect rate forecasting.

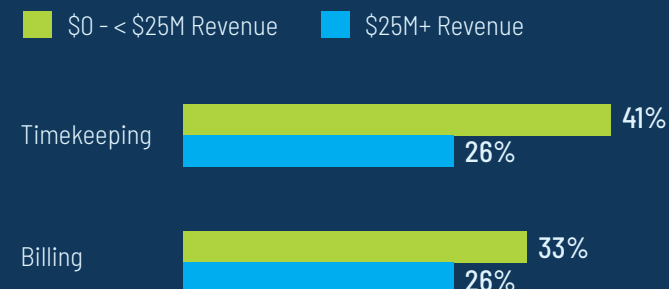
Many government contracts are won or lost based on the quality of indirect rate forecasting. Sales forecasts (derived in out years by pipeline forecasts) are key to optimizing indirect rates and need to be as solid as forecasting overhead expenditures. As the SMBs business environment changes, so should a firm's indirect rate strategy.

5. Focus on ROI.

As difficult as it can be, strong ROI forecasting capabilities tend to yield substantial benefits for government contracting firms. The contracting world is more predictable and course corrections can be made in a timely manner. By examining ROI, SMBs can see what is working and what is not.

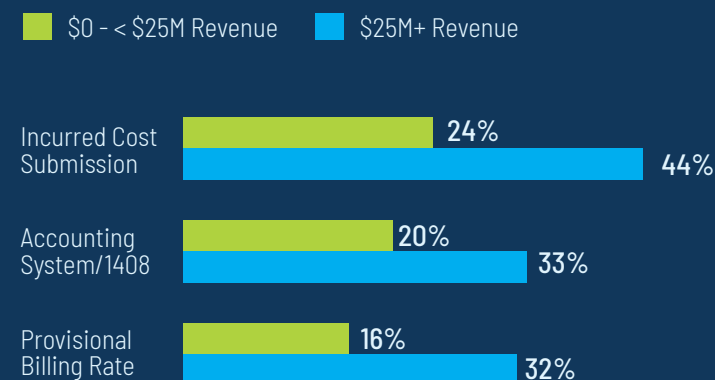
Timekeeping and billing are more significant challenges for SMBs than larger revenue companies:

More Significant Audit Challenges



Preparing for the future – larger companies endure a variety of audits more frequently than SMBs:

DCAA Audits





BENCHMARKING TOOL



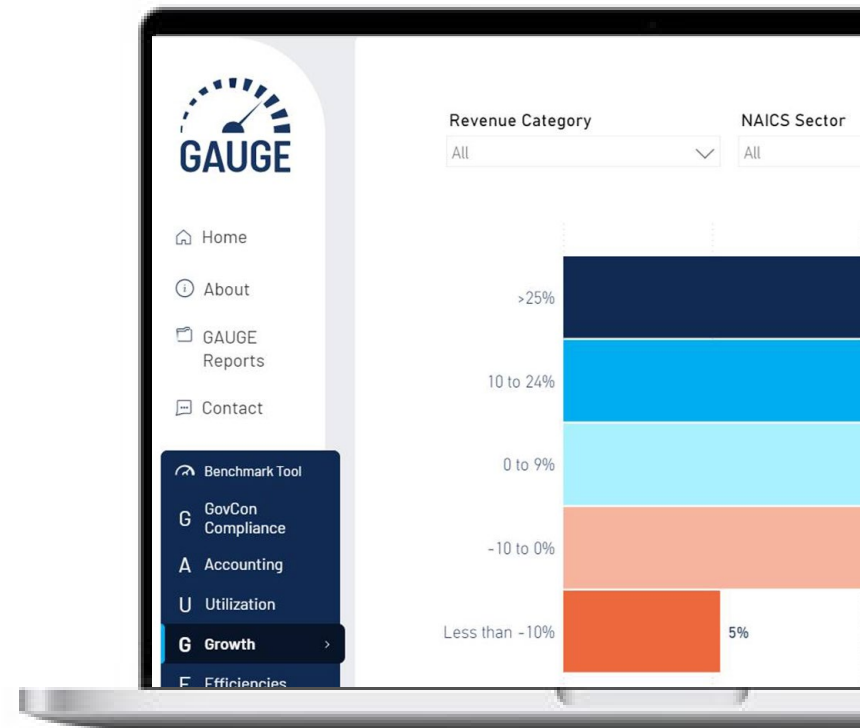
Gauging Your Own Firm: An Invitation to Use the GAUGE Benchmarking Tool

The GAUGE 2023 Report is designed to be a resource that keeps on giving. To help you maximize the value of the insights embedded within the report, Unanet and CohnReznick have developed the user-friendly GAUGE Benchmarking Tool to enable you to compare your business performance against hundreds of your peers in the government contracting world.

This report, plus the benchmarking tool, represent a critical asset for government contractors to understand where their business is heading in terms of big-picture trends, how companies with similar profiles to yours are performing, and what your firm could learn from others to give it a competitive advantage.

Armed with the data and analysis included in the GAUGE Benchmarking Tool, you now have an inexhaustible benchmarking resource to guide decisions on how best to invest resources, maximize efficiency, and tackle the challenges your firm faces.

To access the GAUGE 2023 Benchmarking Tool, simply click on the link below, then enter basic information about your organization and hit “Submit.” You’ll quickly receive data on how your company compares to others across the industry in a range of categories. The journey to becoming a more intelligent, nimble, and prosperous firm begins at www.gaugebenchmarking.com.





AFTERWORD



A Big Thank You!

We owe a huge debt of gratitude to the GovCon community who took the time to share their insights and data for the 2023 GAUGE Report. This report happens because of you! Our goal with the GAUGE Report is to create a relevant, insightful, timely, and widely accessible benchmarking resource for the government contracting industry; one GovCon execs can trust our report for reference, perspective, and guidance in their decision-making.

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A leading advisory, assurance, and tax firm, CohnReznick helps forward-thinking organizations achieve their vision by optimizing performance, maximizing value and managing risk. Clients benefit from the right team with the right capabilities; proven processes customized to their individual needs; and leaders with vital industry knowledge and relationships. Headquartered in New York, NY, with offices nationwide, the firm serves organizations around the world through its global subsidiaries and membership in Nexia International. For more information, visit www.cohnreznick.com.

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Contacting Us

Have questions or feedback regarding the 2023 GAUGE Report? Want to share your insights by taking part in the 2024 survey? We welcome feedback from you. We'd love to hear your suggestions and ideas for how the GAUGE Report can work for you. Here's how to reach the co-authors:

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GAUGE

2023 REPORT

CohnReznick & Unanet used information gathered from participants referenced in the “Respondents” section of the 2023 GAUGE. The information provided to us has not been independently tested or verified. Thus, we have relied exclusively on the 2017-2023 GAUGE participants for the accuracy and completeness of the data. No survey can be guaranteed to be 100% accurate, and errors may occur. CohnReznick & Unanet do not guarantee the completeness or the accuracy of the data submitted by GAUGE participants and thus do not accept responsibility for your reliance on this Report or any of the information contained herein. The information contained in the 2023 GAUGE includes estimations, approximations, and assumptions and is not intended to be legal, accounting, or tax advice. Please consult a lawyer, accountant, or tax advisor before relying on any information contained in this Report. CohnReznick & Unanet disclaim any liability associated with your reliance on any information contained herein.

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