Post-Sequester Federal Contracting Outlook in the Washington Metropolitan Area

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“...dull tools can cause more hazards than sharp ones.”

GFY 2012: $77.5B  
GFY 2013: $69.1B (preliminary)  
Probable CAGR: -9.5% to -10%

Source: BirchGrove analysis of Federal Procurement Data System for contracts performed in Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Statistical Area 47900; map derived from National Atlas

Bottom line

- Federal market for services and products still a good place
- However, continual decline and residual uncertainty
- Inherent risks, economic conditions notwithstanding
- Agile companies are better positioned to win
Entering a state of lightly-enhanced stability

- Effects of sequestration continue, abated
  - Dull axe sometimes bruises more than cuts
  - Indiscriminate cuts not internalized
- Some requirements lost in the sawdust
  - Requirements rationalization is difficult
  - How to take cuts without derailing programs, now or in the future
- Continuing risk aversion due to
  - Lack of skills and experience
  - Visceral oversight
Complexity of acquisition enterprise

- A process not well-adapted to how things are produced
  - Agile development at odds with precision in requirements
  - Precision in requirements at odds with financing
  - Just-in-time or surge buying not always flexible in pricing
- Procurement policy often leads to over-reaction
  - Fixed price contracting pressures
  - Faulty source selection methods
  - Use of socioeconomically disadvantaged contractors
- Contractor reaction to declining market
  - Anxiety about winning or retaining contracts
  - Large number of competitors for fewer contracts leads to “buy-in”

DoD construction programs reflect the challenges

Source: BirchGrove analysis of President’s Budget and DoD spending plans
Contract services spending has declined 7% CAGR

Source: BirchGrove analysis of the President’s Budget for workforce and contract spend plans

Contract spending will continue to decline

Source: BirchGrove analysis of President’s Budget, sequestration reports, and appropriations
Choosing revenue or growth

Source: BirchGrove analysis of President’s Budget, sequestration reports, and appropriations; depicts Near-Term (GFY 12-13) and Long-Term (GFY 12-17) Compound Annual Growth Rates.

Another sequester?

Final appropriations for GFY 14

More changes to BCA spending caps

Sequester decision

Revised GFY 14 spend plans

Contract spending potentially reduced by $1B to $17B
Business opportunities still strong in metro Washington

- Cyber security
- IT infrastructure consolidation
- Data analytics for program integrity
- Veterans medical and benefits programs
- Support services for programs at risk

Companies that do well in the federal market

- Deliver to customer needs
- Act with agility (big & small)
- Offer differentiated position
- Do the right thing
- Maintain enough size/scale
- Understand margin control
- Adapt to market realities
Q & A

About BirchGrove Consulting LLC

Ray Bjorklund

Experience:
- President, BirchGrove Consulting LLC (2013 to present)
- VP and Chief Knowledge Officer (CKO), Deltek Information Solutions, Deltek, Inc. (2011 to 2013)
- SVP, Market Intelligence and CKO, SVP, Market Intelligence, FedSources, a Washington Management Group company (2003-2011)
- VP, Market Intelligence and CKO; VP Consulting; Manager, Consulting Operations; Senior Principal Consultant, Federal Sources Inc. (1998-2003)
- Assistant Deputy Director (and Acting Deputy Director) for Procurement and Logistics, Defense Information Systems Agency (1995-98)
- Program manager, operations manager, and systems engineer for technology systems (1969-1995)

Expertise:
- Market consulting
- Procurement analysis
- Defense program management
- Working knowledge in more than a dozen domains

Education:
- Defense Systems Management College 1993
- MS, Procurement and Acquisition Management, Northrop University School of Law 1985
- BS, Soils and Plant Nutrition, University of California, Davis 1971