

Deltek

Clarity 2022: Government Contracting Industry Study

Trends and Benchmarks in North America and Canada

13th Annual Comprehensive Report



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INTRO

Government contracting businesses rose to the challenges brought about by the pandemic. They did so by remaining receptive to client needs, adapting to supporting a modern workforce, and making key technology investments to transform critical business functions.

The government contracting industry has proved resilient through the past two years, with new government initiatives, legislation, and other funding sources providing businesses opportunity despite turbulent overall economic conditions. As respondents looked back on 2021 and ahead to the rest of 2022, many revealed that their businesses outperformed financial expectations and managed better than expected.

For instance, companies of all sizes are growing, positioning themselves to win new contracts, and embarking on new initiatives around talent, technology, and digital transformation to optimize processes and drive down costs.

While the pandemic led to opportunities for some, it also drove many new contractors to seek alternative revenue streams from the government, making it even harder to stand out in an already competitive marketplace. Leaders are challenged to be more agile and versatile with their business operations to account for changes in project scope, to monitor shifting funding priorities, and to overcome pervasive supply chain difficulties. In addition, addressing talent shortages has become a ubiquitous concern presenting barriers to business development, information technology, finance, and manufacturing. Cybersecurity also emerged as a concern beyond just IT functions, cited as a key compliance requirement and a top priority overall.

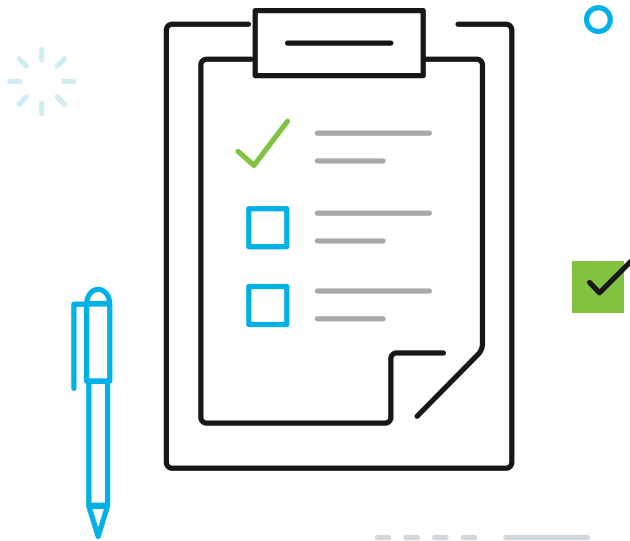
While the outlook for 2022 is positive, key challenges remain including:

- Continued support for business development teams to capture the opportunity in the market
- Increasing investments in critical functions including finance, procurement, and project teams to help them reduce manual processes and capture risks before they become systemic
- Creating processes and operations to adjust to the rapidly evolving needs of the modern, distributed workforce
- Strategically reducing the cost of doing business, especially around compliance, which is of critical importance on several fronts including cybersecurity, and diversity, equality, and inclusion (DEI)
- Adjusting operations to stay nimble and handle disruptive, global, and domestic events like supply chain adversities, the war in Ukraine, the current climate of the Great Resignation, the global COVID-19 pandemic, and a potential U.S. recession

15% Median profit margin across all contractors - the highest in 10 years

ABOUT THE STUDY

For the last 13 years, Deltek has conducted an annual survey of government contractors to identify key performance indicators, market conditions, industry challenges, and the performance outlook for businesses.



Methodology

The latest iteration of the survey was fielded between March 8 and 28, 2022. It was developed in close consultation with industry experts and is utilized by thousands in the industry. The survey consisted of over 60+ questions, divided into 9 functional roles that respondents self-identified with based on their experience and qualifications.

All respondents were government contractors who work in professional services, defense, information technology (IT), transportation, energy and oil, healthcare, engineering, and research.

In total, 654 responses were collected. Additionally, a subset of (10) respondents participated in 30-minute interviews which provided further context and lent support to the quantitative findings described in this report.

Respondents were sourced through a combination of:

- Online panels targeting government contractors
- CATI (computer-aided telephone interviewing)
- Deltek client portfolio

Sample Composition

The three largest industries represented in this sample were:

- Information technology (19%)
- Defense, weapons, aerospace, or manufacturing (15%)
- Professional services (13%)

Out of all respondents, 82% work with the federal government, 60% with state, local, K-12 or higher education (SLED), 42% are active in both markets, and 9% work with the Canadian government.

This sample consisted of 18% small-size companies (under \$20 million in revenue), 32% medium-size companies (\$20 million-\$99.9 million) and 49% large-size companies (\$100 million-\$1 billion and above).

A large segment of respondents were based in the capital area, with 19% in DC, Maryland or Virginia; 24% were located in the South, with 22% each in the Northeast and West regions, and 13% in the Midwest.

High Performers

New to this year's report, Deltek has broken out a group of high performers for additional analysis. High-performing firms are defined as falling in the top 10% of all participants for key metrics including win rate percentage, retention rate, net profit margin, projects under budget, among other functional metrics. For analysis purposes, for various metrics in the Study, high performers are contrasted with all other contractors.

EXECUTIVE SUMMARY

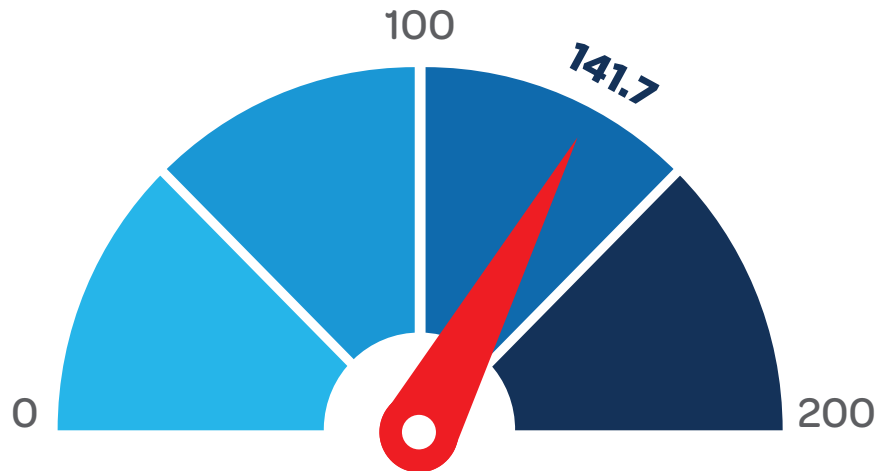


The survey comes at a key inflection point, as government contracting businesses emerge from the pandemic and face new challenges and opportunities.

The government contracting industry is emerging from the COVID-19 pandemic looking back on two years of reprioritization brought about by global market conditions that continue to present opportunities to improve go-forward operations and make updates to organizational culture. Meanwhile, most contractors are optimistic in light of growing government funding from new sources.

The pandemic has ingrained new business practices including but not limited to placing a greater emphasis on strategic teaming, investments in government compliant systems, and prioritizing cybersecurity maturity and digital transformation ambitions. Moving forward, companies are still navigating how to best support and secure remote and hybrid workforces, and how to overcome shortages in labor while swiftly adapting to government mandates. At the same time, they are facing increased competition in the industry as new challenges arise around the world.

GOVERNMENT CONTRACTOR CONFIDENCE INDEX



Despite the trends and challenges outlined above, the composite Government Contractor Confidence Index (GCCI) reveals a modest improvement in confidence for 2022.

The Government Contractor Confidence Index (GCCI) measures overall confidence that government contractors can grow their public sector sales over the next 12 months. It is measured on a scale of zero to 200, with zero indicating the lowest confidence level, 100 reflecting neutral confidence, and 200 indicating the highest confidence.

The calculation is based on a series of questions regarding government sales in the last 12 months and respondents' impressions of the spending environment. Though the index is subjective, it is an informative indicator of the level of risk business leaders perceive in the marketplace.

This year's GCCI calculates to 141.7, representing a 1.1 percent-point increase compared to last year's score (140.1). Because this year's confidence is not as high as it has been in pre-pandemic years (2019; 143), it may reflect that contractors feel cautiously optimistic in the face of a world-wide pandemic, a potential U.S. recession, and ongoing conflicts overseas.

SECTION ONE

Market Conditions

The current climate in the government contracting industry is characterized by tense competition over funding and talent.

As they look forward to a productive 2022, respondents highlighted increasing competition, not only for their business, but also for top talent to deliver on contracts. Notably, they made investments in technology to fortify their

workforces while adapting to new regulations and compliance requirements.

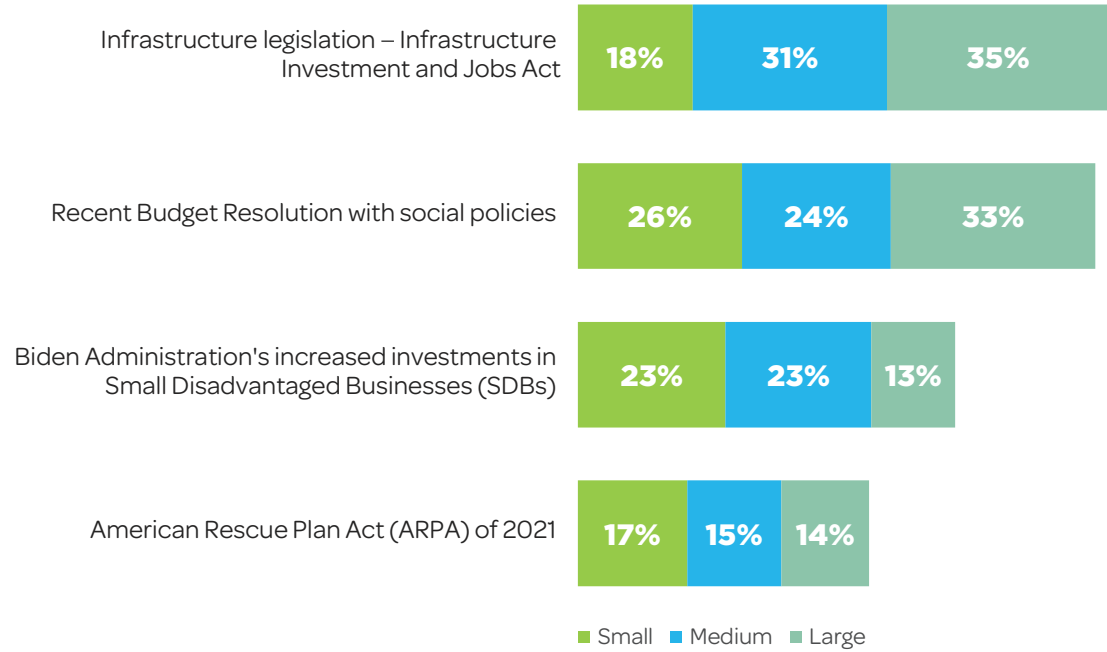
64% of respondents expect their company's revenue from government contracts to increase this year



Funding Opportunities Strengthen Businesses and Intensify Competition

The government contracting industry persevered through two difficult years with the aid of a well-funded government pandemic response stimulus and other novel programs that continue to support federal, state and local governments. As for which funding sources respondents anticipate having the greatest impact, the Infrastructure Investment and Jobs Act (IIJA) led the way at 31%, followed by the recent 2022 budget resolution and social policies at 28%, and the Biden’s administration investment in small disadvantaged businesses (SDBs) at 18%. Large-size businesses anticipated the most impact to their bottom line from IIJA and budget resolution and social policies. Conversely, their small-size counterparts expected to benefit the most from Biden’s investment in SDBs.

New Funding Sources With Greatest Impact by Company Size



FROM YOUR PEERS

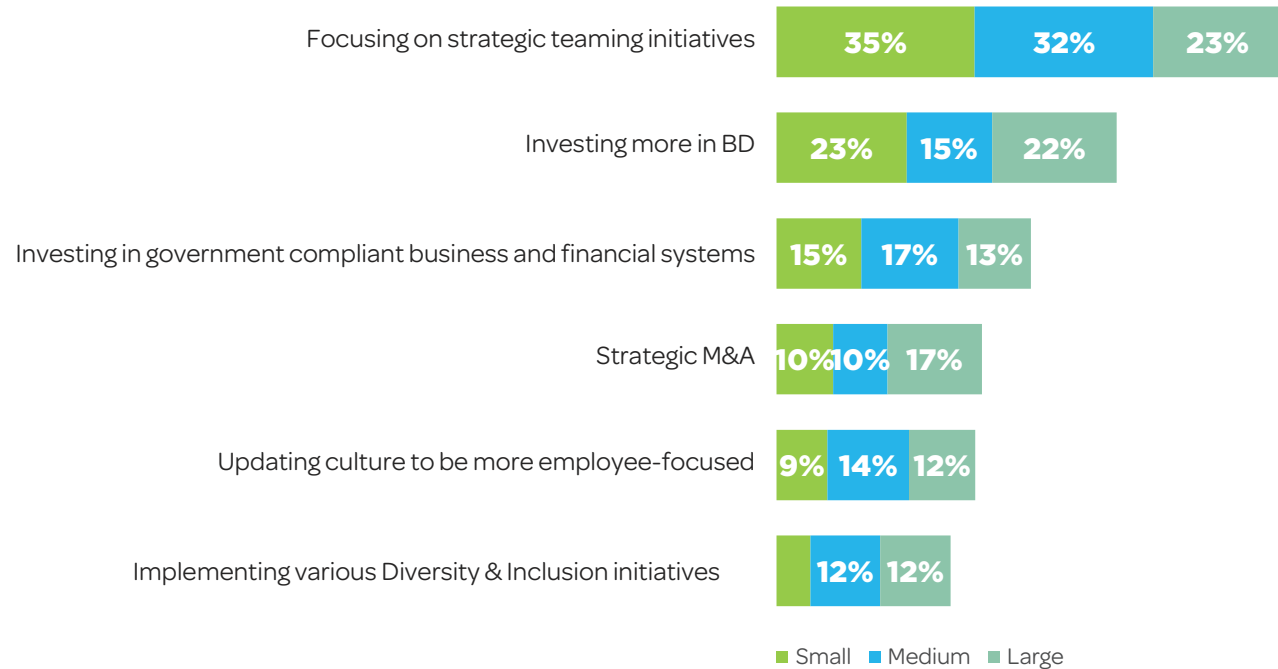
“In 2020, when discussing government contracts we had some pretty important, fast-paced temporary COVID hospital jobs that wrapped up in 2020 that actually allowed for the company to outperform.”

Shrinking GSA Contracts Prompt Focus on Business Development

Consolidation continued to be an imminent reality in 2021 particularly as it pertained to government wide contracts managed by the General Services Administration (GSA). As a result, businesses are feeling the need to update their capture planning strategies to seize shrinking prime opportunities.

The most prominent courses of action respondents mentioned to aid in this area are focusing on strategic teaming initiatives and investing more in business development. Of note, small (35%) and medium-size (32%) companies drove the tendency to lean more heavily on teaming. Whereas, large-size companies tended to have more faith in making broader investments into business development resources.

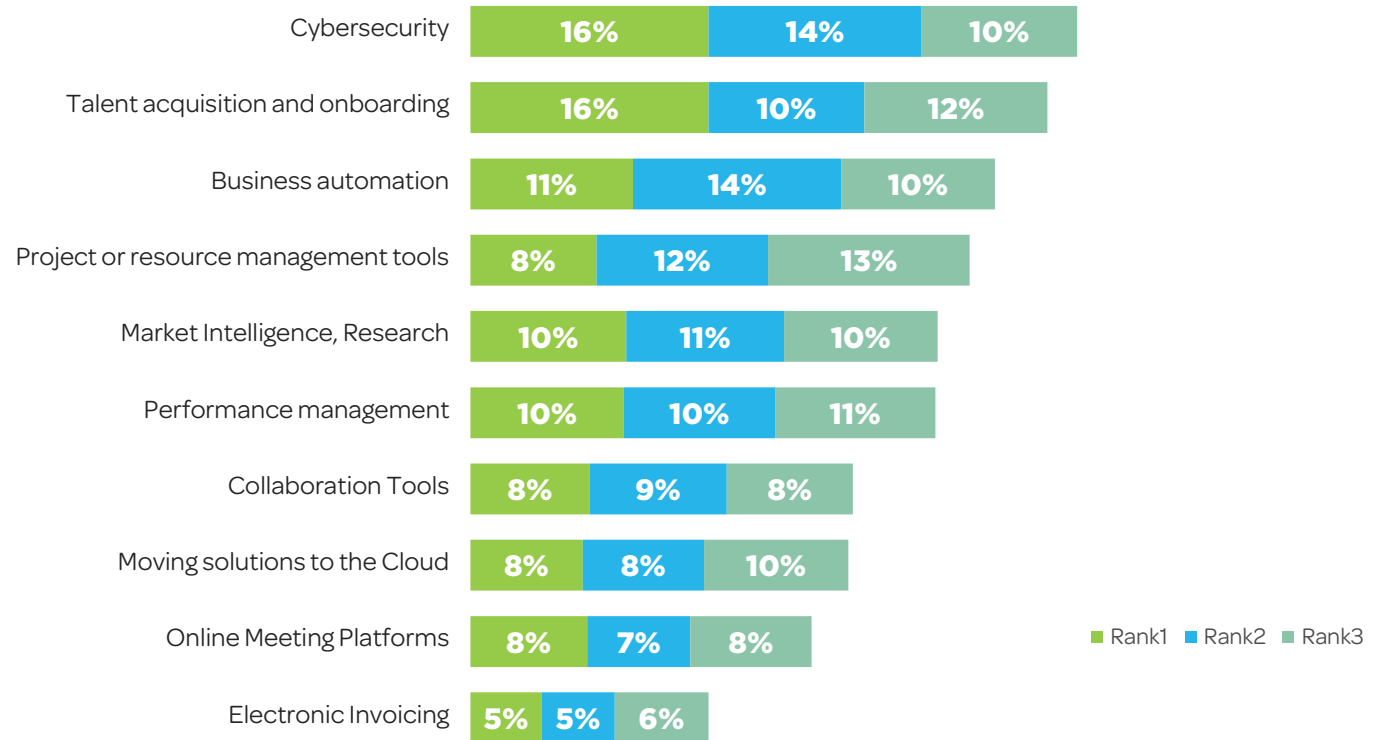
Top GSA Capture Priority by Company Size



Cybersecurity and Talent Are Top Technology Priorities

In both 2020 and 2021, technology has been a key factor in keeping companies performing at optimal levels and projects on track. Technology investments to support critical functions are expected to be a key input to companies' overall strategy. To remain at the cutting edge of technological advancements, companies of all sizes plan to prioritize investing in cybersecurity, talent acquisition, business automation, and project and resource management tools. Importantly, Canadian government contractors (28%) were more likely to place talent acquisition at the top of their investing priorities than their Federal (17%) and SLED (16%) counterparts.

Top Three Post Pandemic Technologies by Government Market



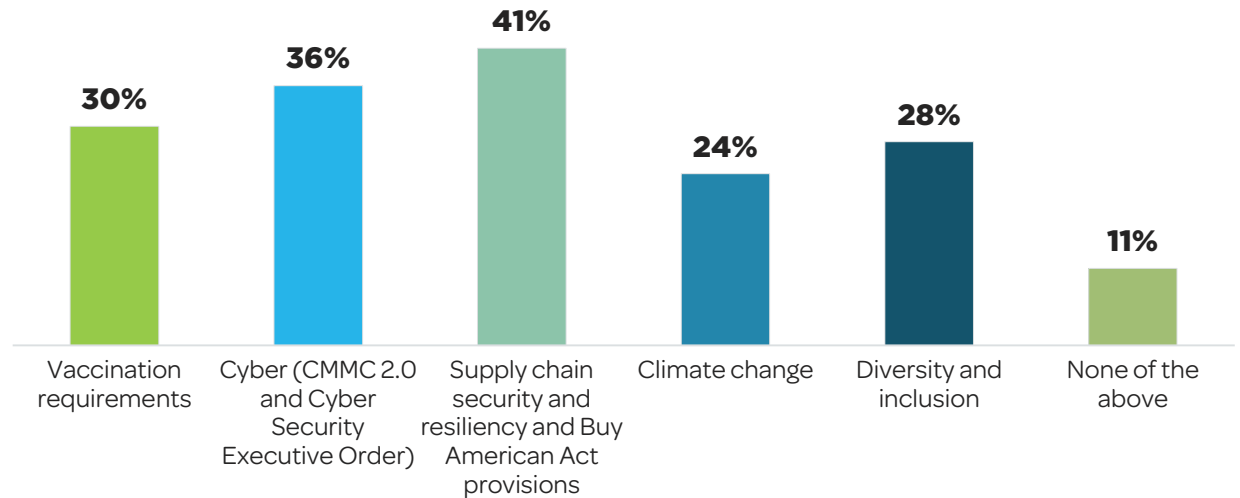
FROM YOUR PEERS

“We are spending a lot more on technology these days. There’s a technology fee associated with every project that’s between two and three percent depending on the project and depending on contract terms. That’s been a growing cost that we’ve seen in the construction world that really differentiates projects.”

Regulation & Compliance Have Major Impacts on Supply Chain Security

Contractors anticipate that supply chain security and resilience and Buy American Act provisions (41%) will have the greatest impact on their business in 2022. This is particularly true for those in the architecture, engineering, and construction industries. The second most impactful compliance element is cyber security requirements (i.e., CMMC 2.0 and Cyber Security Executive Order, 36%). It appears to be especially important for Canadian government contractors and for those in the IT and Research and Development industries. Additionally, vaccination requirements (30%) ranked third and tended to be a larger concern for SLED (38%) compared to federal government contractors (29%). This requirement appeared to be very salient for those in architecture, engineering, construction and the healthcare industries.

Compliance Requirements Making Biggest Impact



FROM YOUR PEERS

“Another [challenge] is the supply chain issues that have risen. China and Ukraine, just everything that’s been going on in the world with COVID. This has become an issue with companies going out of business, and supply chain issues maybe even caused some of the companies to go out of business. Those are definitely big challenges for us.”

Pandemic's Longtail Effects on Labor Shortages

Even though vaccination requirements tied for third in order of importance of compliance requirements convergent evidence shows that it is a contributing factor to labor shortages. Moreover, social science studies have shown that flexibility in working conditions (e.g., remote work) and an unprecedented number of vacant positions across many industries has motivated talent, particularly Gen Z and Millennials, to leave their jobs, move across the country, and take professional risks to search for job opportunities that are the most lucrative and personally inspiring to them.

The results of this Survey highlight the impact of labor shortages across business development, finance, human capital, IT, and project & risk management.



FROM YOUR PEERS

“There is a labor shortage, especially now with the new COVID rules and mandates, not every union employee - which [is] most government contracts... or the majority of. Union guys.. [and] non-union guys don't want to get vaxxed, and they don't want to get boosted, and all of these government contracts require vaxxed and boosted workers for the project. It's really tough to get qualified manpower that also have that on their resume... It has become pretty difficult recently.”

Market Conditions Wrap Up

It remains to be seen how businesses will rise to the challenge of overcoming pronounced supply chain disruptions and steep shortages in labor into 2022

Although revenue dollars tied to COVID-19 relief in addition to other funding programs have helped to soften the blow for many government contractors, businesses are entering a critical stage in the government market where only the fittest may survive. Now more than ever, it is imperative that

contractors carve out opportunities for growth, adapt operations to mitigate the effects of supply chain disruptions, strengthen digital capabilities to improve efficiency, and increase profitability by controlling cost structures.



SECTION TWO

Business Development

Business development emerged as a key investment area across companies of all sizes.

Government contracting is an attractive marketplace. At the same time, contracts and vendors are being consolidated as agencies gravitate to indefinite delivery / indefinite quantity (IDIQ) contract

vehicles to supply their staffing and supply needs in bulk at favorable prices. This is creating a heightened struggle for businesses to stand out, build winning teams, and pursue diversified opportunities.

1 in 3 respondents perceived increased competition as a critical challenge in 2021



TOP BUSINESS DEVELOPMENT CHALLENGES

1 Increased competition

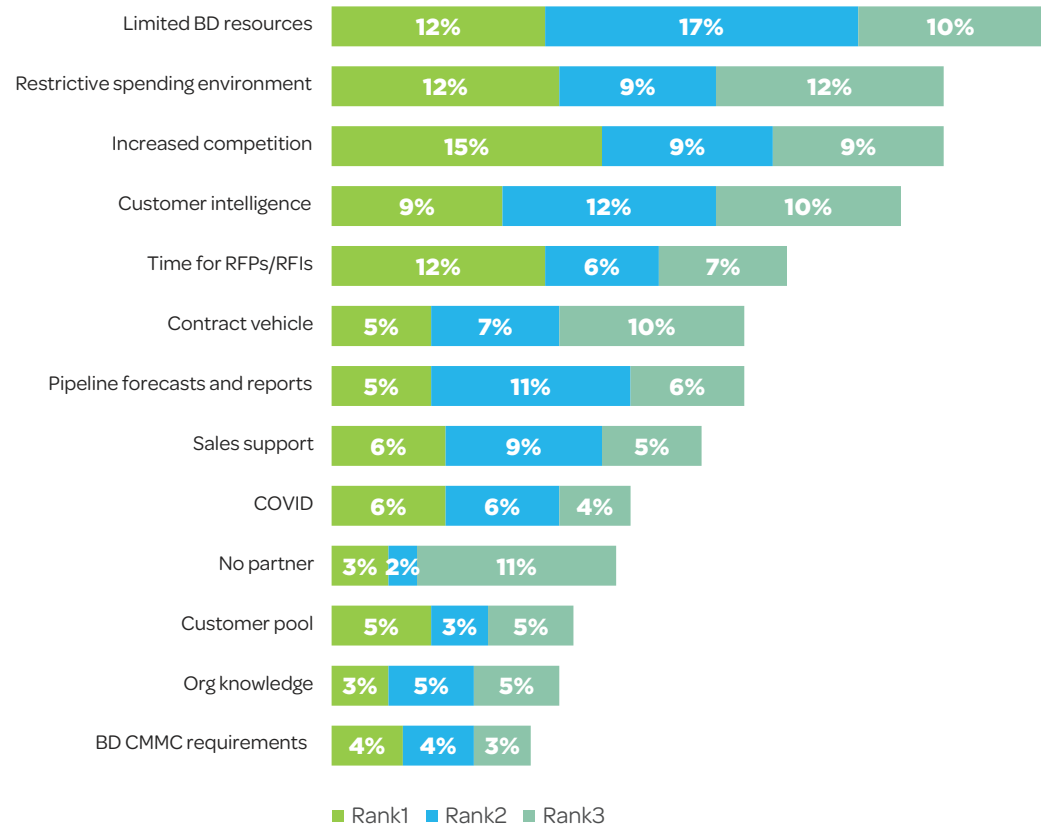
2 Limited BD resources

3 Restrictive spending environment

When asked to rank their top three business development challenges, 15% chose increased competition first overall, and about a third ranked it in their top three (33%). This trend was primarily driven by small (21%) and large-size companies (19%). Limited BD resources also emerged as a high priority concern. Specifically, 12% of respondents ranked it first overall, and 39% placed it in their top three

challenges. For the first time in many years, restrictive spending environment was also expressed as a concern (12%), as the lack of progress on appropriation debates in Congress became top of mind for many. This lack of clarity into what the spending environment would be was expressed more so by large-size companies (15%) than their small-size counterparts (7%).

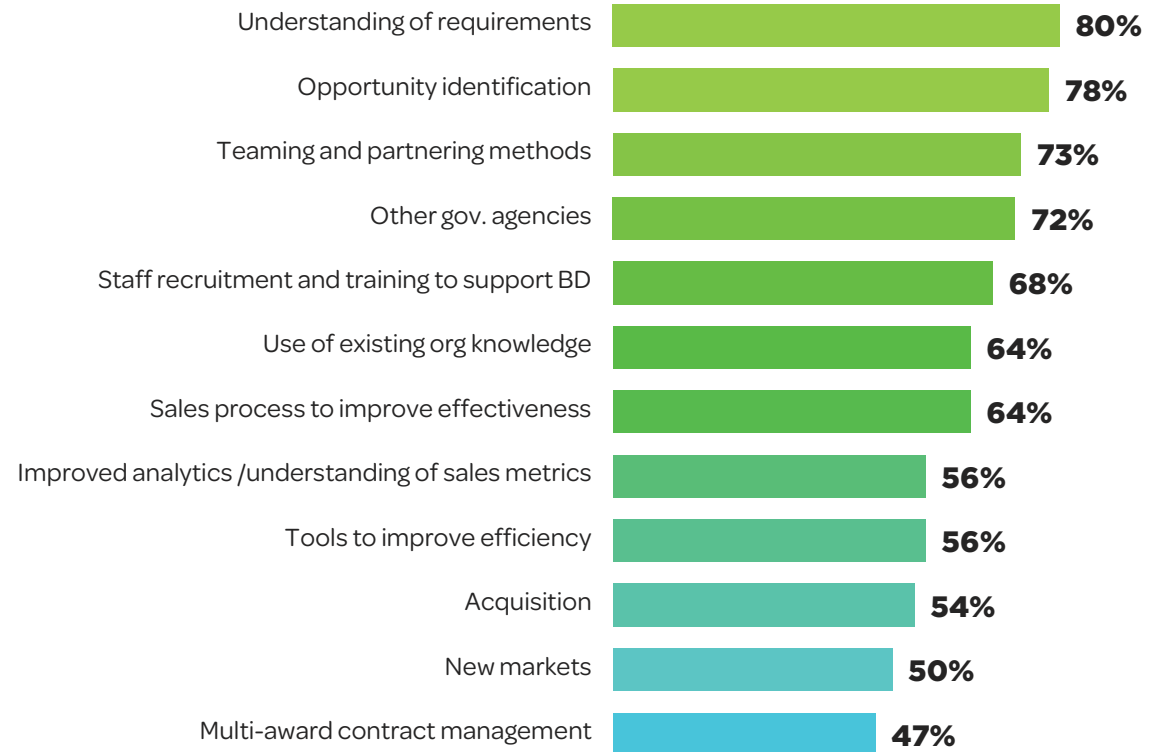
Top Business Development Challenges Over Next 12 Months



Companies Need to Stand Out in Highly Competitive Market

Companies are taking a variety of approaches to counteract competition. Specifically, gaining a better understanding of opportunities and their requirements earlier in the procurement process (80%) emerged as the most important BD initiatives across all revenue sizes. Second in importance was more or better opportunity identification (78%), followed by obtaining more or better teaming and partnering methods (73%), which was of particular importance for small-size companies (86%) than it was for their large (66%) counterparts. With all of these initiatives in mind, uncertainty remains over future challenges and adaptations.

Approaches to Overcome BD Challenges



FROM YOUR PEERS

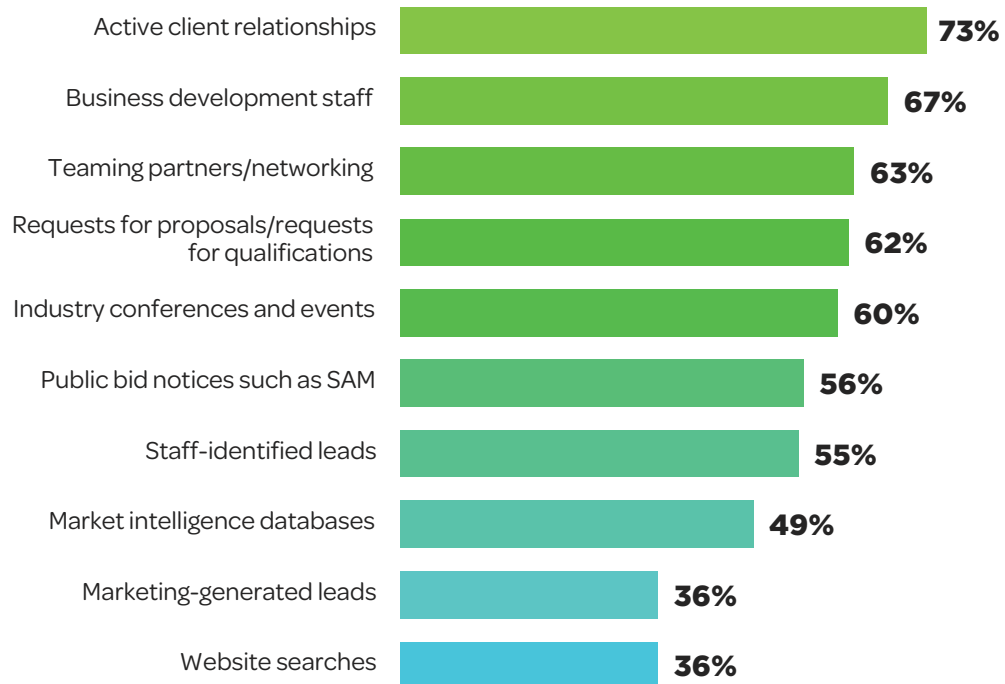
“I think that if we don’t apply enough internal resources to understand track and monitor the opportunities and find the opportunities before they come out publicly, I think that will have the most impact positive or negatively depending on how well we do.”

Overcoming Competition with Existing Relationships, BD Staff and Partners

Almost three quarters of respondents (73%) count on their active client relationships to win business over competitors. Additionally, two thirds (67%) rely on their business development staff to do

their roles, underscoring the importance of talent. The third most common approach is to identify new pipeline opportunities through teaming partners or networking.

Identifying Business Development Opportunities

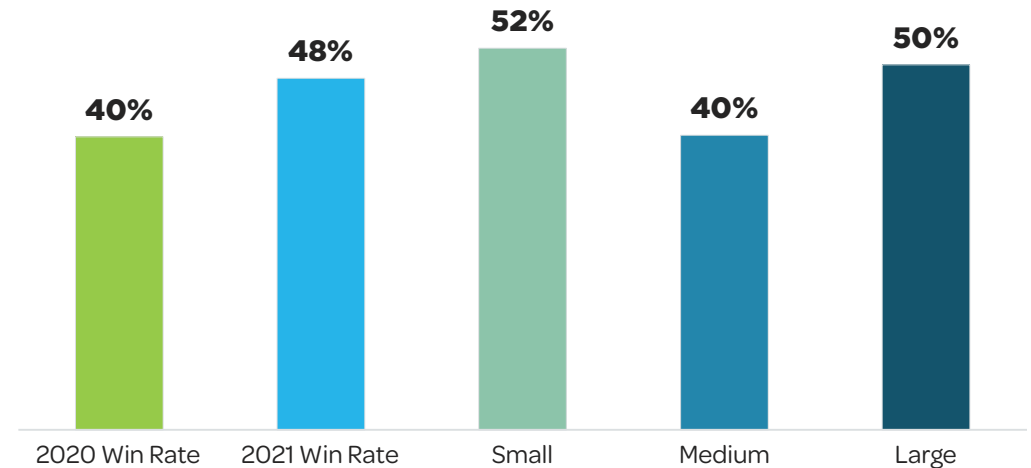


Win Rate and Outlook Trending Upward

Despite competitive pressures, sentiment in the government contracting industry remains optimistic. In fact, the majority of respondents (78%) in business development predict their win rate to trend upward in future years.

Having weathered difficult economic conditions, companies have been seeing fruitful results. For example, the average win rate in 2021 edged upward to 48%, which is 8 percent-points above the average reported in 2020. Unsurprisingly, companies of all sizes made significant gains, with large-size recording the highest win rate increase (10 percent-points YoY).

Company's Proposal Win Rate In 2021

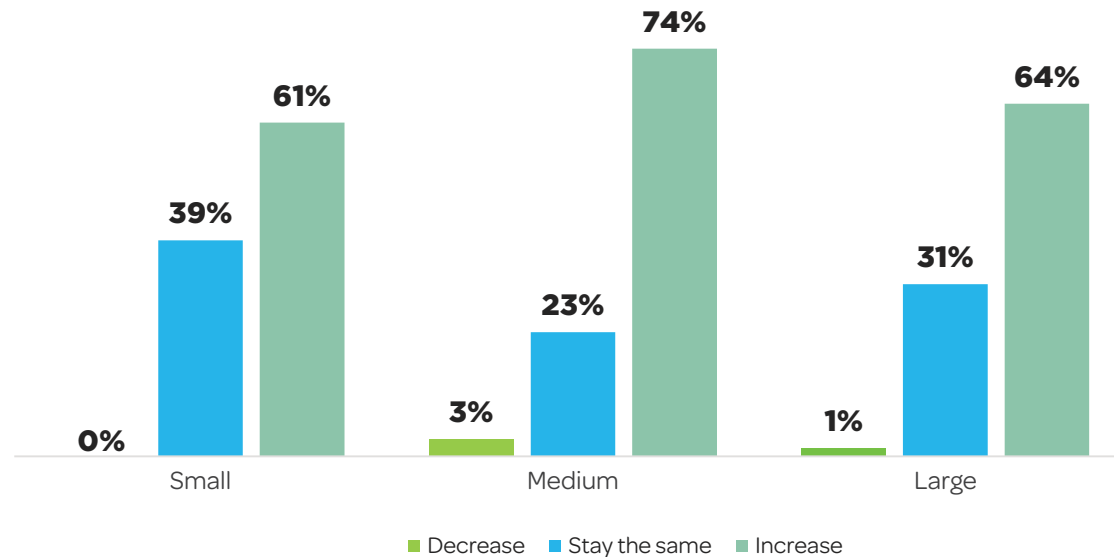


Resource Investment is Critical to Capture Opportunities

Though many respondents acknowledged having limited business development resources - particularly smaller organizations - their positive outlook and rising expectations appear to be rooted in renewed support within their companies.

Thirty percent of all respondents indicated that their organizations will continue to invest in business development in similar fashion as they have done previously. However, the overwhelming majority are prioritizing growth within business development. Specifically, 65% indicated that they expect their organizations to increase investments in business development. This is true for all company sizes, which is in stark contrast with results reported in 2020, where only large organizations prioritized this type of investment.

Investment in Business Development by Company Size



FROM YOUR PEERS

“I would say that the majority of the costs associated with running the business for the company are around...market research for development of new business opportunities. There is a fair amount of recruiting work that has to go into this because when we win contracts, we have to find people to fulfill those contracts and so there is a fair amount of resourcing that we have to do.”



HIGH PERFORMERS: BUSINESS DEVELOPMENT

The highest performing BD teams reported winning contracts at a rate of 83.3% in 2021, compared to a 47.7% average win rate reported by all other contractors. Of course, a company's win rate is affected by how aggressive companies are in seeking new business.

The choice to bid on opportunities that are speculative decreases the win rate and may squander business development resources - signaling a need for rigor in objectively evaluating which contracts to pursue.

With the number of contractors vying for government funding increasing, teams are looking for novel ways to approach proposals more strategically to ensure they are investing in the right efforts. As an example of this, more than eight in 10 of high performers (84.6%) identified teaming partners/networking as critical to their opportunity identification strategies.

83.3%

High Performer Win Rate

Business Development Wrap Up

Organizations are facing increased competition in government contracting, making business development departments an area of investment

In 2021 business development continued to experience challenges faced in 2020. Namely, limited resources, steep competition, and constraints in their spending ability. Looking into 2022, the expectations are that their leadership

will continue to invest in their function, with opportunities in terms of talent, as well as technology, to help them succeed.

Resources to Aid in Public Sector Business Development:

Below are free resources to help your organization navigate these government contracting business development challenges in the year ahead:

- **Webinar:** [The Evolution of Teaming: Virtual Networking is Here to Stay](#)
- **Guide:** [Selling to the Government as a Small Business](#)
- **Guide:** [Selecting the Right Public Sector Sales Solution](#)



Project & Risk Management

As their companies emerge from the pandemic and business picks up, project managers are rightly concerned about delivering on schedule.

A clear effect from the financial challenges brought on by the pandemic was reduced headcount in project management; this trend continued in 2021, with cuts creating dips in project performance. This may be attributable in part to inexperienced project

managers being responsible for assessing schedule maturity with rudimentary tools and processes. With more businesses focusing on both the top and bottom lines, increasing precision around project scope and managing limited resources will be crucial.

71% of projects were on schedule in 2021, up from 68% in 2020



TOP PROJECT & RISK MANAGEMENT CHALLENGES

1 Schedule maturity and risk management

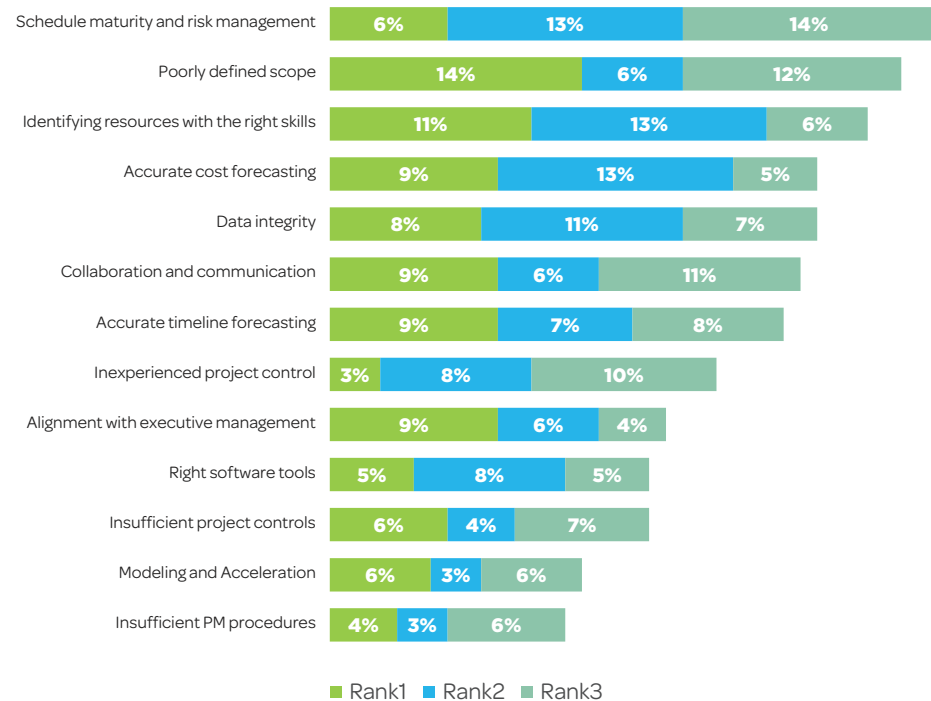
2 Poorly defined scope

3 Scarcity of talent with the appropriate qualifications

Looking ahead to 2022, project managers indicate that their top challenges will be schedule maturity and risk management (33% ranked top 3) and poorly defined scope (32%). Over a quarter (27%) cited accurate cost forecasting among their top three challenges. This trend was mainly driven by respondents from mid-size and large companies, who were more likely to report challenges with cost forecasting than their small-size counterparts.

As market conditions remain unpredictable due in part to labor shortages and breakdowns in the supply chain, precision in cost estimates and steering projects true to schedule and scope have grown in difficulty. Pivoting to fulfill new priority orders driven by emergency or time-sensitive funding may have further complicated matters even still. Investing in processes and tools to increase visibility and flexibility are imperative to mitigate uncertainty and accelerate the readiness to act in a disruptive environment.

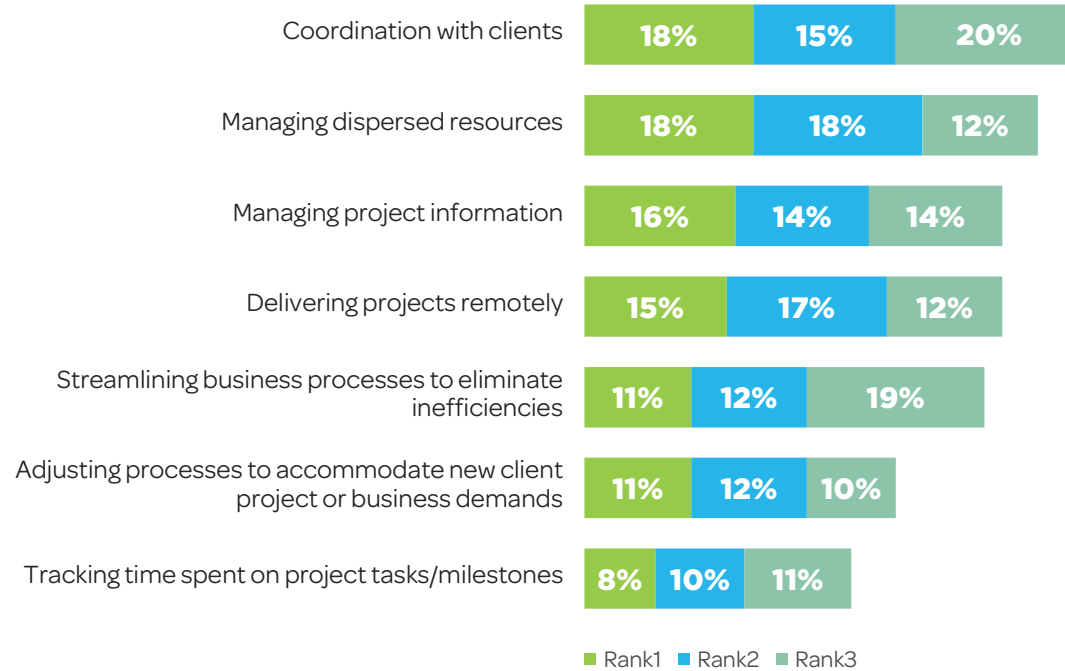
Top Challenges in Project & Risk Management Over Next 12 Months



Coordination Remains a Challenge Post-Pandemic

Another trend from 2020 that carried into 2021 was the importance of prioritizing contract delivery. Specifically, the majority of respondents indicated that coordination with clients was their most significant challenge (53%). Internally, gradual return to in-person workplaces, managing dispersed resources (48%), and delivering projects remotely (44%) also figured highly. Related to this, managing project information also proved a struggle in 2021, with 44% choosing it in their top three challenges.

Top Contract Delivery Challenges

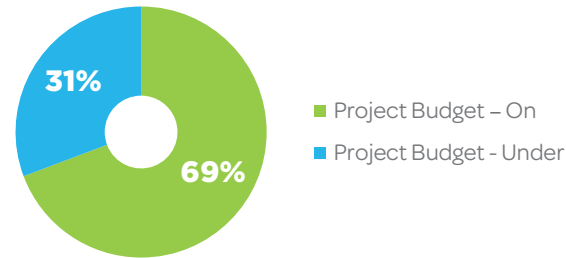


Difficulties Impacting Schedules

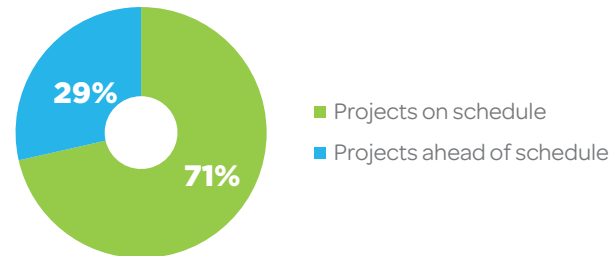
These barriers to effective client-coordination and communication contributed to some struggles delivering projects as planned in 2021. In fact, there was only a modest improvement in projects delivered on schedule versus 2020 (71% and 68%, respectively). Fewer projects (69%) were on budget in 2021 than there were in 2020 (77%).

In interviews conducted with survey takers, many indicated that staying on schedule tended to present a greater challenge than budgets did in 2021. Labor shortages and breakdowns in the supply chain required businesses to pivot to source and avoid falling behind. These are barriers that will likely remain into 2022.

Project Budgets In 2021



Project Schedules In 2021



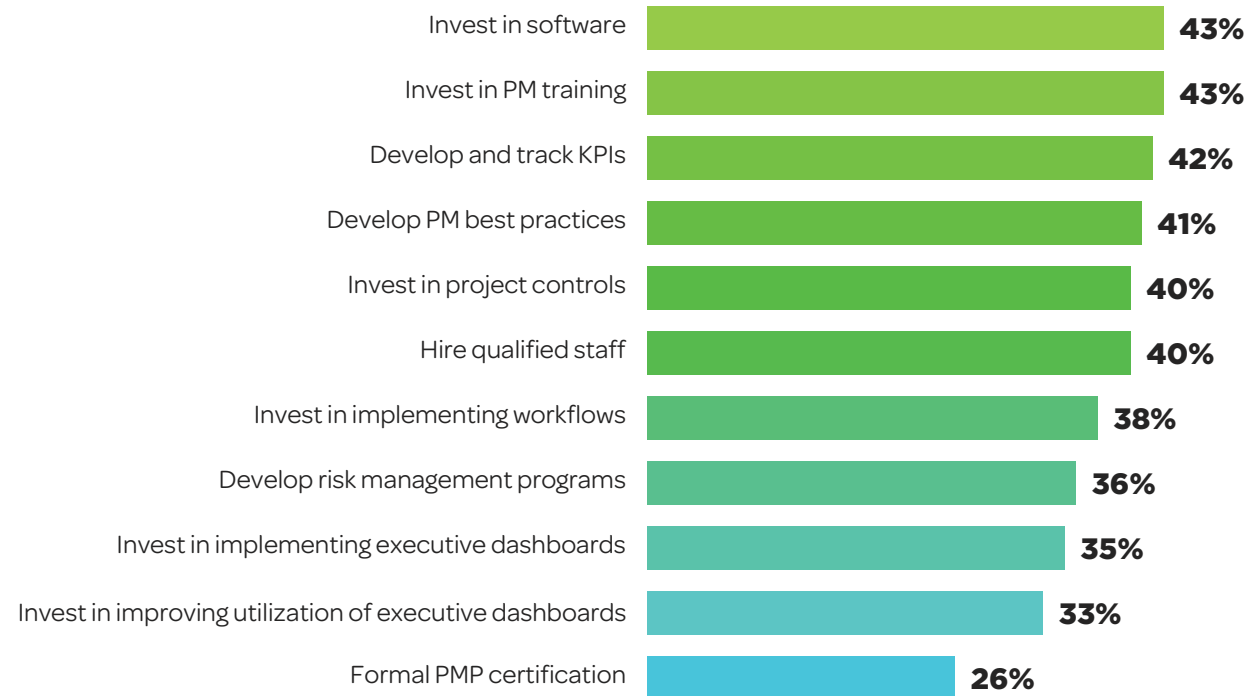
FROM YOUR PEERS

“We do fairly well keeping on budget. Schedule has been more of a challenge and schedule overruns tend to lead to not necessarily big budget overruns but it does increase our project management cost if we miss deadlines.”

Investing in Software and Program Management Training Rose in Importance

The most prominent strategy used to combat project and risk management adversity was investing in software and program management training. Crucially, investment in software has grown in popularity in terms of investment prioritization year-over-year and this trend is expected to continue in 2022. Additionally, organizations are opting to prioritize on-time project delivery and client satisfaction among their top three key performance indicators (KPIs).

Initiatives to Address PM Challenges



FROM YOUR PEERS

“It would be nice to have [a software solution] to do more scheduling, more planning, more design, and not have multiple programs that you have to add data to.”

HIGH PERFORMERS: PROJECT & RISK MANAGEMENT

Contractors who demonstrated high performance reported this year that 52.5% of projects are under budget, outperforming all other firms by 22%. Firms that have a clearly defined project management process are more likely to keep projects on track and tend to perform better because they identify challenges sooner. Among high performers, schedule maturity and risk management and concerns about data integrity accounted for greater than 50% of the responses received for a top challenge heading into 2022. PMs are seeking and need better visibility into key metrics so they can work more successfully and sustain excellence for a remote workforce.

52.5%

High Performers projects under budget

Project & Risk Management Wrap Up

A highlight in project and risk management is that contractors reported delivering more projects on schedule in 2021 than were delivered on schedule in 2020

In 2022, whether managing large projects or small, continued investment in technology to support risk analysis and to give project managers better visibility into resource utilization will be crucial to continue this performance. Contractors should look to update their processes in order to maximize schedule and resource efficiency

in an environment rife with disruptions. Having integrated tools in place to support project teams has become an imperative to allow for accurate risk-adjusted forecasts and risk models that can be acted on, and to enable efficient collaboration around delivery.

Resources to Support Meeting Project Management Schedules:

Below are free resources to help your organization navigate the government contracting project and risk management landscape in the year ahead:

- **Whitepaper:** [Ineffective Risk Management](#)
- **Webinar:** [Which Scheduling Tool is Right for Me?](#)
- **Whitepaper:** [The True Cost of Project Delay](#)



Finance & Financial Compliance



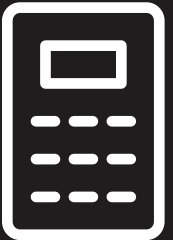
With 2021 in the rear-view, financial leaders are prioritizing challenges they have some control over, such as profitability, costs and cash flow.

In the post-pandemic environment, where disruptions, market uncertainty, and inflation are the new normal, contractors have learned that doing more with less and shifting towards lean processes is necessary to stay competitive. Uncovering new opportunities and finding new markets created either

during the pandemic or through technological advances are still considered by many the best way to mitigate financial challenges. However, these opportunities are being viewed through the lens of optimizing profitability through agile execution.

10%

year over year growth across all contractors, signaling financial rejuvenation



TOP FINANCE AND FINANCIAL COMPLIANCE CHALLENGES

1 Increasing profitability

2 Reducing costs

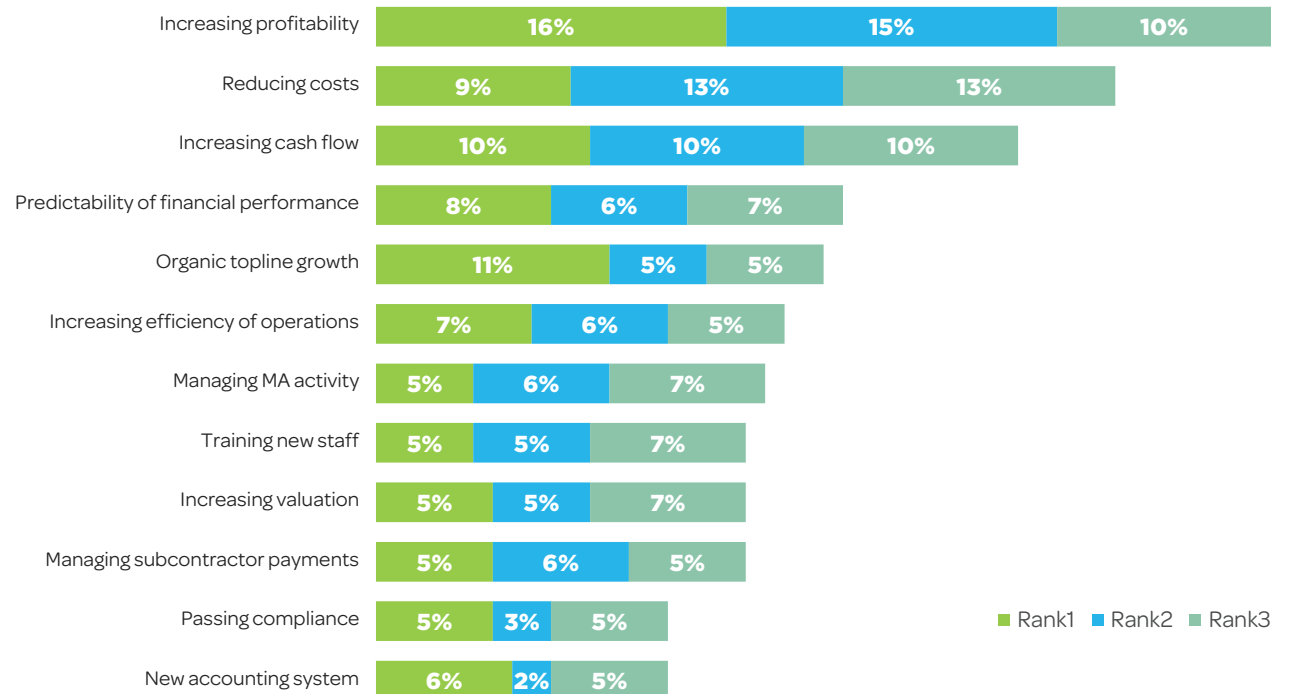
3 Increasing cash flow

Lower Operational Expenses Due to Pandemic Added to Profitability

Although the COVID-19 pandemic brought a number of challenges to businesses, it too laid the groundwork for profitability drivers. Specifically, funds originated from COVID stimulus payments, hiring freezes, reduced business travel costs, and those related to facility maintenance contributed to helping businesses remain profitable. In

fact, companies in this study reported experiencing an 8 percent-point increase in average profit margin compared to last year's (10%). Importantly, medium companies reported an average profit margin of 20% signaling a more pronounced financial resiliency over that of small companies (15%).

Top Finance Related Challenges in Next 12 Months



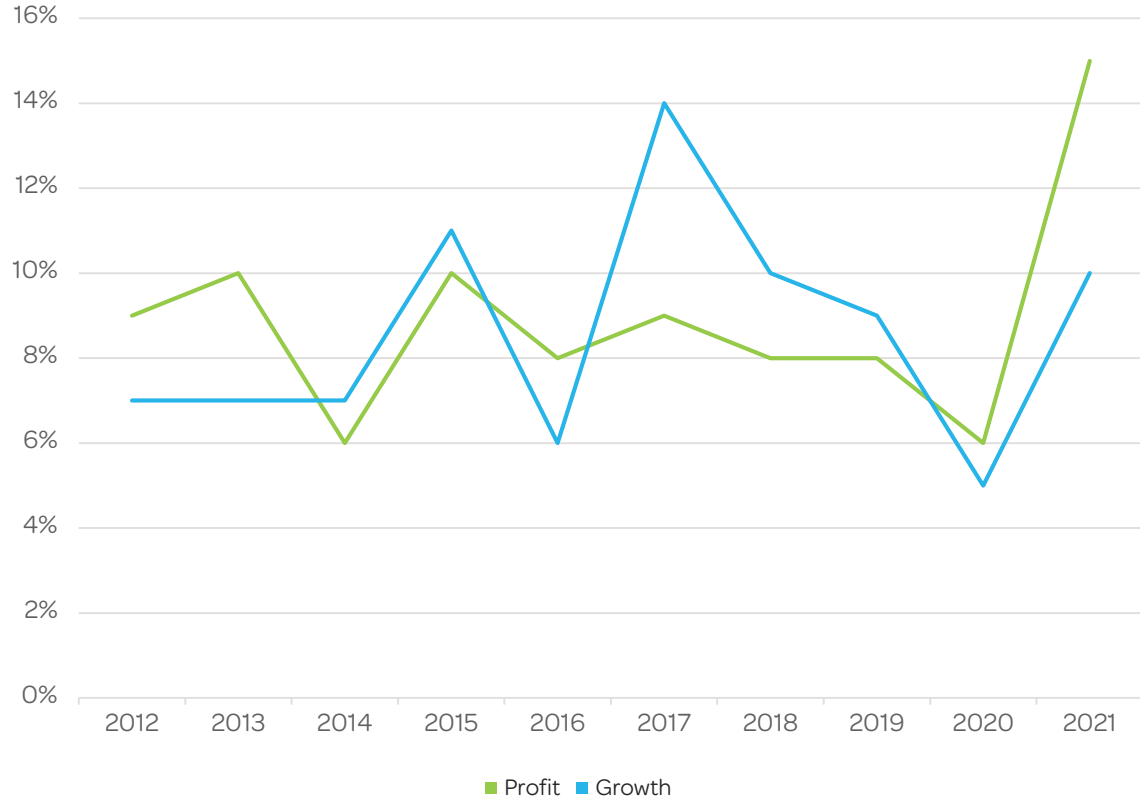
Higher Median Profit Margin Over Last Year

Median profit margin was higher (15%) compared with what has been observed since 2012 (6-10%). This may be at least in part due to larger companies' ability to withstand and successfully battle the effects of the pandemic and other erratic market conditions.

Profit and Growth Rates Both Rose to Double Digits

Driving organic growth was top of mind in 2021 particularly for large-size companies. Compared to last year when both profit and growth rates plummeted, this year both metrics rose to double digits (15% and 10%, respectively) highlighting major improvements in overall financial health and rejuvenation.

Profit Loss Margin (Ten-Year Trend)



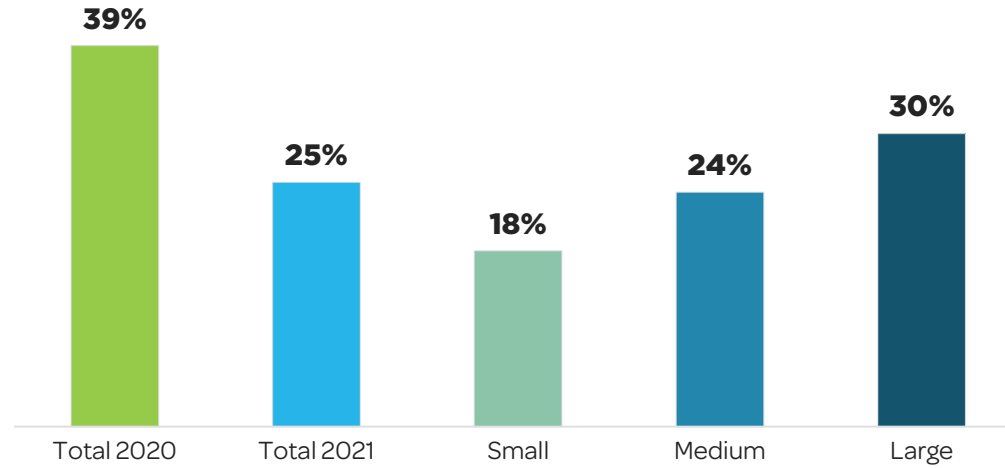
Overhead Rates Declined

Compared to 2020, average overhead rates declined from 39% to 25%. This trend was driven by small and mid size companies' downward rates (18%, 24% respectively). Conversely, large companies recorded an overhead rate (30%), that is nearly on par with what was reported in 2020 (29%).

Rent and labor are often large drivers of overhead costs. Small businesses may have found it easier to downsize facilities due to work from home taking over. In addition, contractors may have realized savings from restrictions on travel and limitations on employee get-togethers.

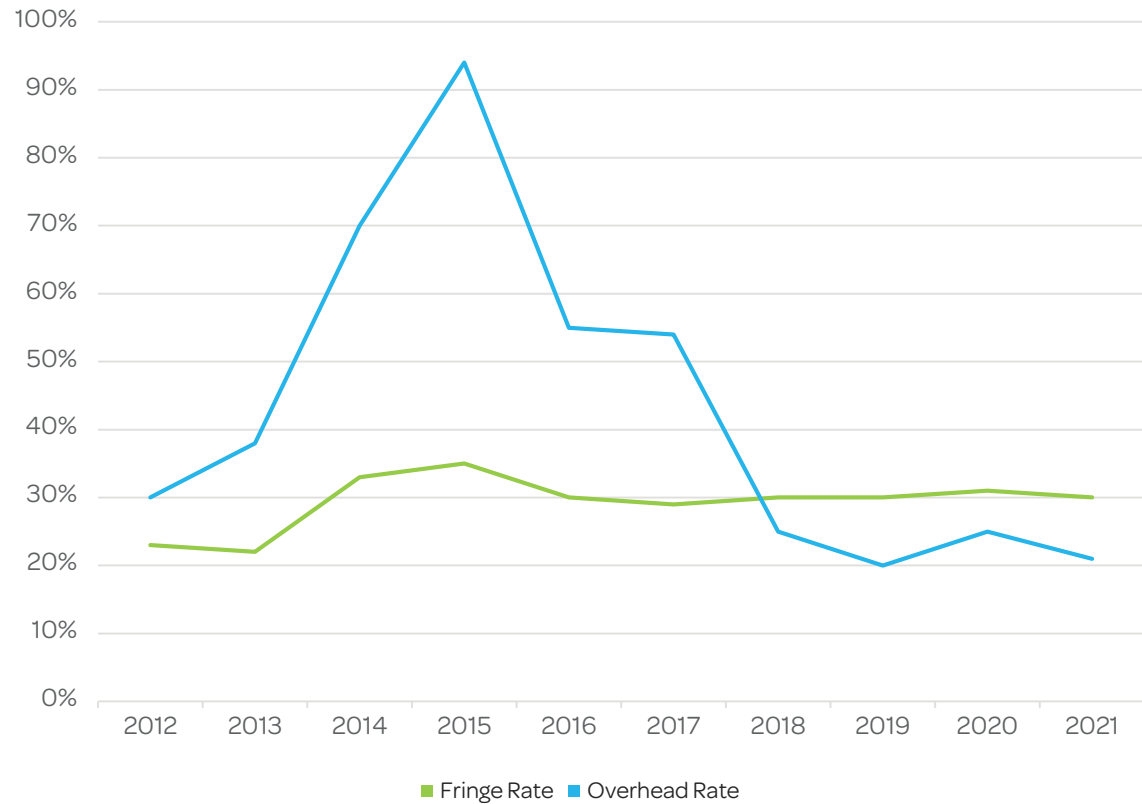
Labor shortages and turnover rates are also impacting overhead rates. As contractors backfill positions, there could be longer ramp times leading to non-billable periods as projects are transitioned.

Overall Composite Overhead Rate



Median Fringe Rates Remain Stable While Overhead Rates Took a Slight Dip

Median fringe rates appear to remain stable since 2016 and have mainly revolved around 30%. This is true for mid and large-size companies as well. Though, this year, small companies saw a higher median fringe rate (34%) than their midsize (30%) and large counterparts (25%). Similar to these rates, median overhead rates have remained relatively stable in the last 3 years finishing at 21%- down four percentage points compared to 2020 (25%) respectively. Conversely, large companies recorded an overhead rate (30%), that is nearly on par with what was reported in 2020 (29%).

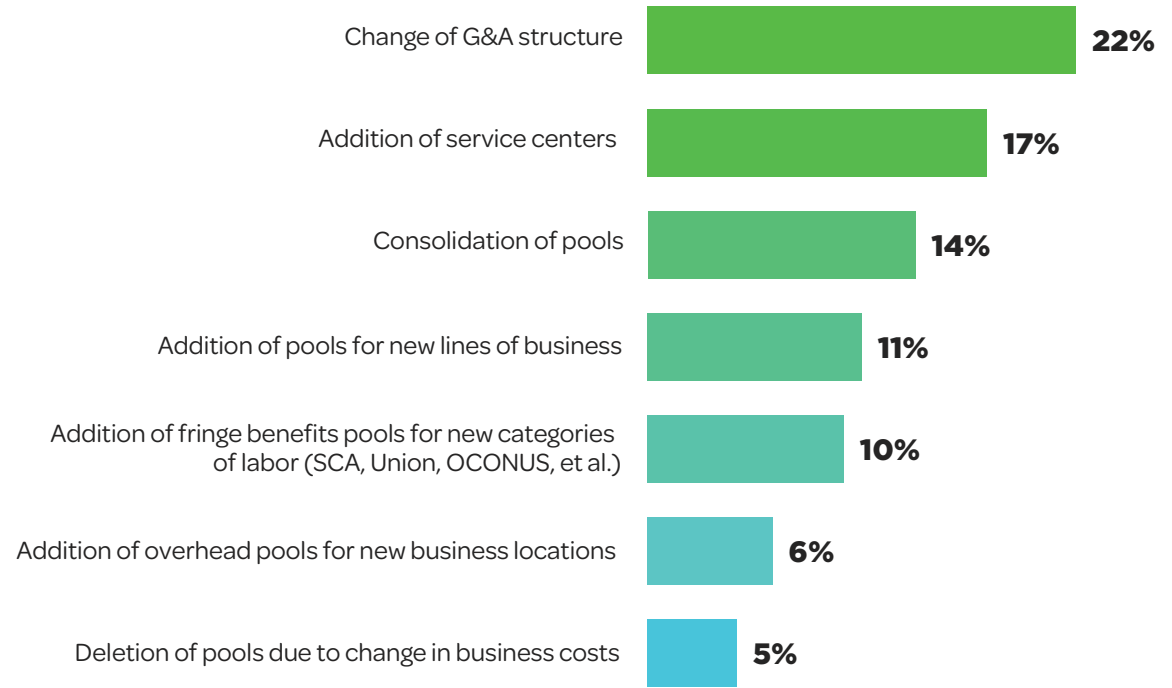


Over Half of Those That Had Indirect Rate Structure Changes, Reported Experiencing 1-2 Changes

Of the 30% of companies that reported changes in indirect rate structure, over half (60%) reported experiencing 1-2 changes in the last 2 years. Importantly, companies identified general and administrative (G&A) cost structure, addition of service centers, and consolidation of pools as key drivers of change. Most notably, mid-size companies (33%) were more likely to prioritize addition of service centers than their small (4%) and large-size (9%) counterparts.

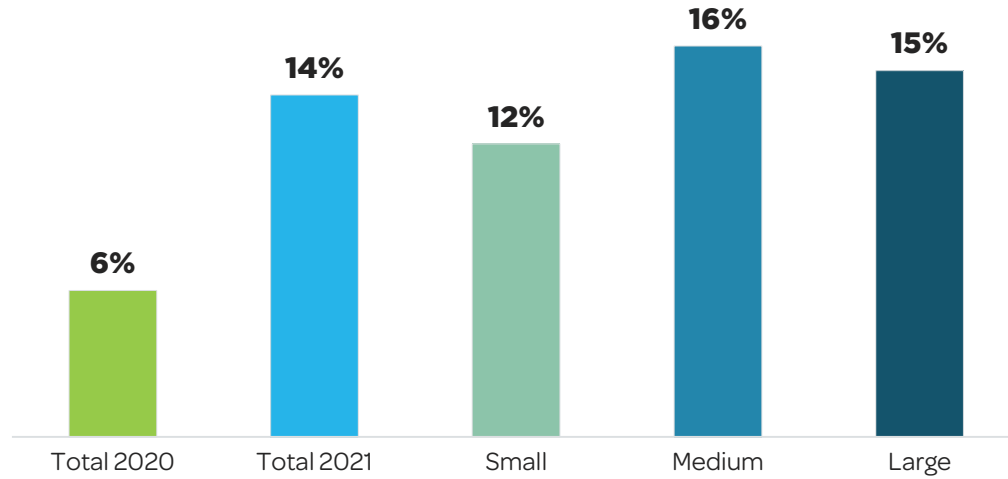
The uptick in B&P costs in 2021 may have been a downstream consequence of contract work was delayed in 2020 and pushed in 2021. Additionally, smaller businesses may have devoted capture resources to pursuing the opportunities tied to the Biden Administration's increased investment in SDBs.

Indirect Rate Structure Change



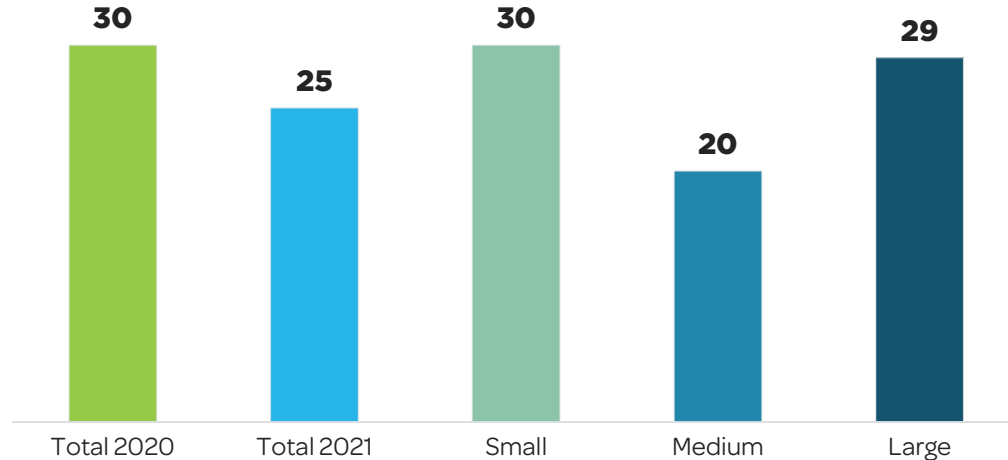
Bid & Proposal Costs Rise

Average bid and proposal cost rates were higher in the last 12 months (14%) compared to 2020 (6%). Yet, small companies were better able to remain leaner and more efficient than their mid and large-size counterparts were.



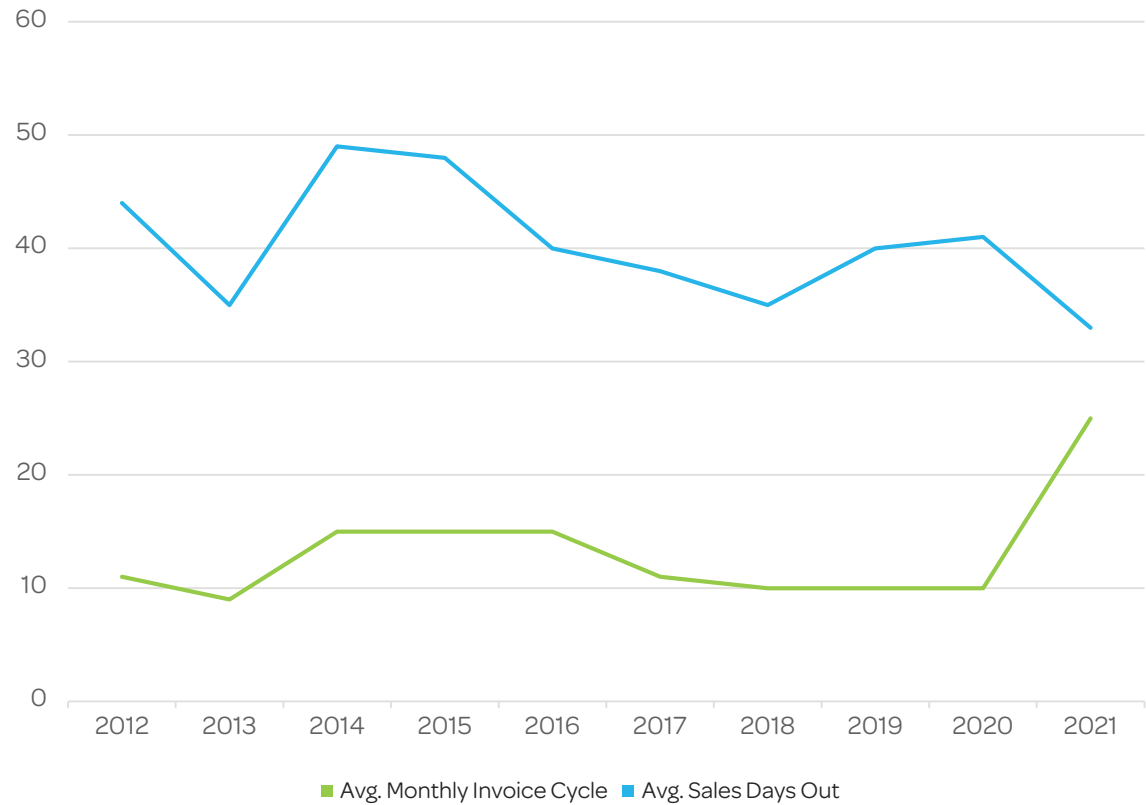
Median Days Payable Outstanding (DPO) Shrinks

Receivable collection represented by DPO was 25 days in 2021, with small companies accounting for a longer payment period (30 days) than medium (20 days) and large-size companies (29 days).



Average Days Outstanding (DSO) & Monthly Invoice Cycle Show Divergent Trends

In 2021, average days sales outstanding (DSO) and monthly invoice cycles showed divergent trends. Specifically, businesses recorded a downward trend in average DSO (33 days) compared to the ranges reported in 2020 (35-49 days). The adoption of digital payments utilities and automation tools to streamline invoice challenges may have contributed to this trend. Conversely, the monthly invoice cycle showed an upward trend, reporting an average of 25 days, compared with 9-15 days in 2020.

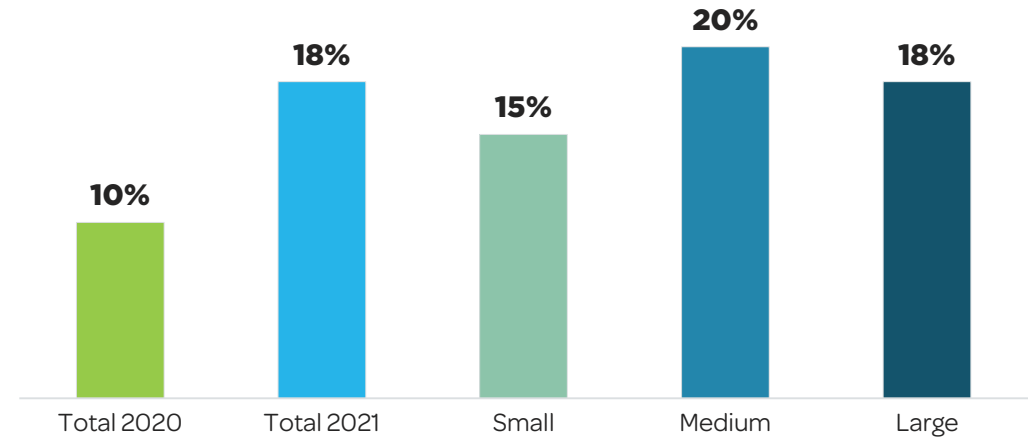




FROM YOUR PEERS

“Yes, I think [federal contracts increased]. I think there are a lot..out there right now especially in the healthcare sector. There was a lot of money that the fed gave out on the state level to healthcare, and this is private and public hospitals...And I think part of that is because there was such a lag during the COVID years where a lot of that funding was either taken out and given for certain COVID events or COVID hospitals.”

Average Profit Margin by Company Size



Federal Contracts Grew

Compared to 2020, the percentage of companies reporting an increase in the number of federal contracts grew from 36% to 55%. This increase was driven by large-size companies (62%) who reported securing more contracts than mid-size (53%) and small companies (40%). Small-size companies reported the largest decrease in federal contracts (20%). This may be in part attributable to greater risk, volatility, and less access to financial cushioning and contract vehicles. Across all industries surveyed, Professional Services (66%), IT (59%), and Healthcare (57%) were more likely to report an increase in their number of federal contracts than all others.

Indefinite Delivery Quantity (IDIQ) Revenue Remain Stable

Conversely, revenues from IDIQ contract vehicles in 2021 remained stable YoY at an increase of 32%, with mid-size companies recording the largest increase (36%) in revenues from these contract types.

Hiring Top Talent Becomes Primary Strategy

Contractors have a number of strategies at their disposal to address their financial audit challenges. Hiring better people, investing in systems training, reengineering business processes, and conducting internal audits all emerged as go forward strategies.

Notably, large companies (53%) are planning to prioritize conducting internal audits more so than small (31%) and mid-size companies (28%).

Initiatives to Address Financial Audit Challenges



Small Companies Reported Fewer Audits

Medium and large-size companies reported receiving a higher level of oversight than small companies, which reported fewer audits overall. This suggests that large companies had to do more preparation for these audits, putting additional strain on their resources. Consequently, large-size companies (60%) were more likely to report an increase in the cost of compliance than small 39% and mid-size 48% companies. Unsurprisingly, respondents from large companies highlighted challenges that come with audit and compliance processes.

Financial Audits in 2021 by Company Size

	Total	Small	Medium	Large
Financial Audits Started 2021	5	1	6	6
Government Compliance Audits Started 2021	4	1	4	5
Cybersecurity Audits Started 2021	4	1	4	5
Days Prep/Participate Shop Floor Audits	34	21	26	53

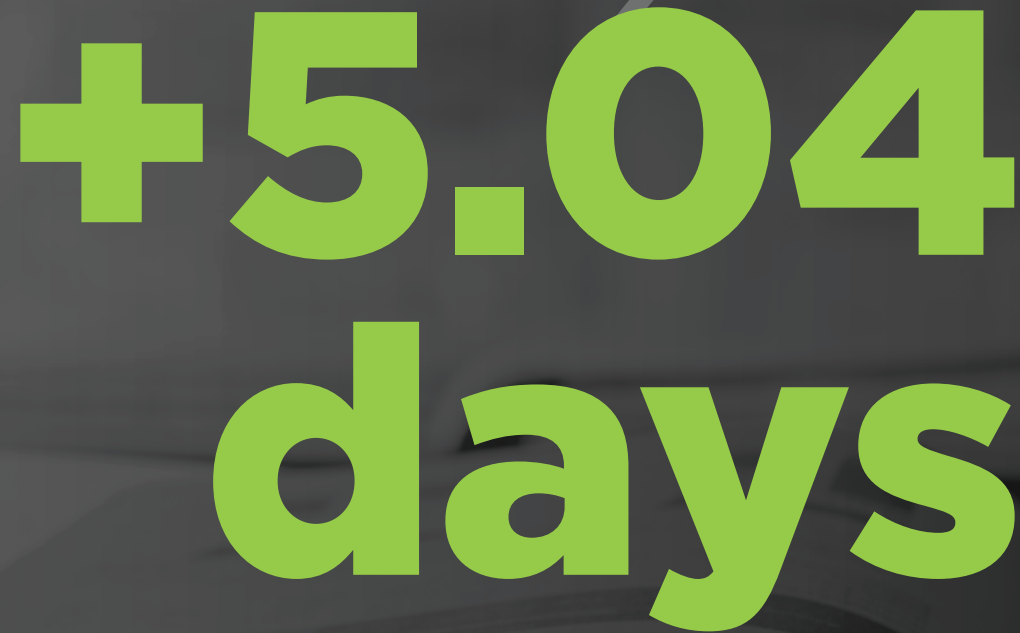
FROM YOUR PEERS

“The audits and compliance process is...pretty challenging for large companies, especially a large-scale project. There’s a lot of red tape associated with it.”




HIGH PERFORMERS: FINANCE & FINANCIAL COMPLIANCE

High performers achieved a nearly three days improvement (+2.97 days) for the average amount of days sales outstanding compared to all organizations. They also enjoyed greater than five days of an edge in performance (+5.04 days), compared to all organizations, for average monthly invoice cycle time - defined as the days from the end of the project billing cycle to when the invoice is sent. Small differences in invoicing and collections can be critical to maintaining an acceptable cash flow. High performers are taking a variety of approaches out of necessity to address their financial audit challenges, but among high performers (72.7%), reengineering business processes stood out as a clear go-forward strategy.



+5.04 days



High Performers outperformed rest of population
on average monthly invoice cycle time

Finance & Financial Compliance Wrap Up



Following a year of reprioritization which emphasized attention to fundamentals and business continuity, the focus for financial leaders in 2022 will be on increasing profitability through efficiency and controlling cost structures

In addition to retaining the best employees, proactive adjustments to approved rate structures are expected to be a key differentiator and key input towards driving profit margin improvements. Moving from generic accounting tools to a system that allows for comparisons of rate structures and the flexibility to design advanced job costing for resources will become important.

Digital transformation is emerging as a way to support finance teams and overcome financial challenges. Process optimization and integrating information systems remained at the top of the rankings, followed by controlling costs, highlighting again the need for smarter and more efficient financial strategies.



Resources to Aid in Finance and Financial Compliance

Below are free resources to help your organization navigate the government contracting finance and financial compliance landscape in the year ahead:

- **Guide:** [DCAA Compliance](#)
- **Guide:** [Learn the Basics of FAR and CAS](#)
- **Webinar:** [Improving Cash Flow through Automation of the Project Lifecycle](#)



SECTION FIVE

Manufacturing



Contractors who support the government's manufacturing needs identified a number of urgent concerns stemming from 2021 market conditions.

Widespread supply chain disruptions, for example, created a scarcity in the availability of materials and skilled talent, with many expressing a desire for improvements in supply chain visibility. Delays related to spikes in the price of fuel, global dependence on oil and gas, inaccessible airspaces, and compromised cybersecurity

further complicated operations. Meanwhile Russia's recent invasion of Ukraine, while creating business opportunities for some, is exacerbating supply disruptions to U.S. supply chains over the ensuing months, putting pressure on contractors to improve visibility into projects costs and to assess the sustainability of their supplies.

60% of respondents cited supply chain issues as the greatest risk concern



TOP MANUFACTURING CHALLENGES

1 Supply chain

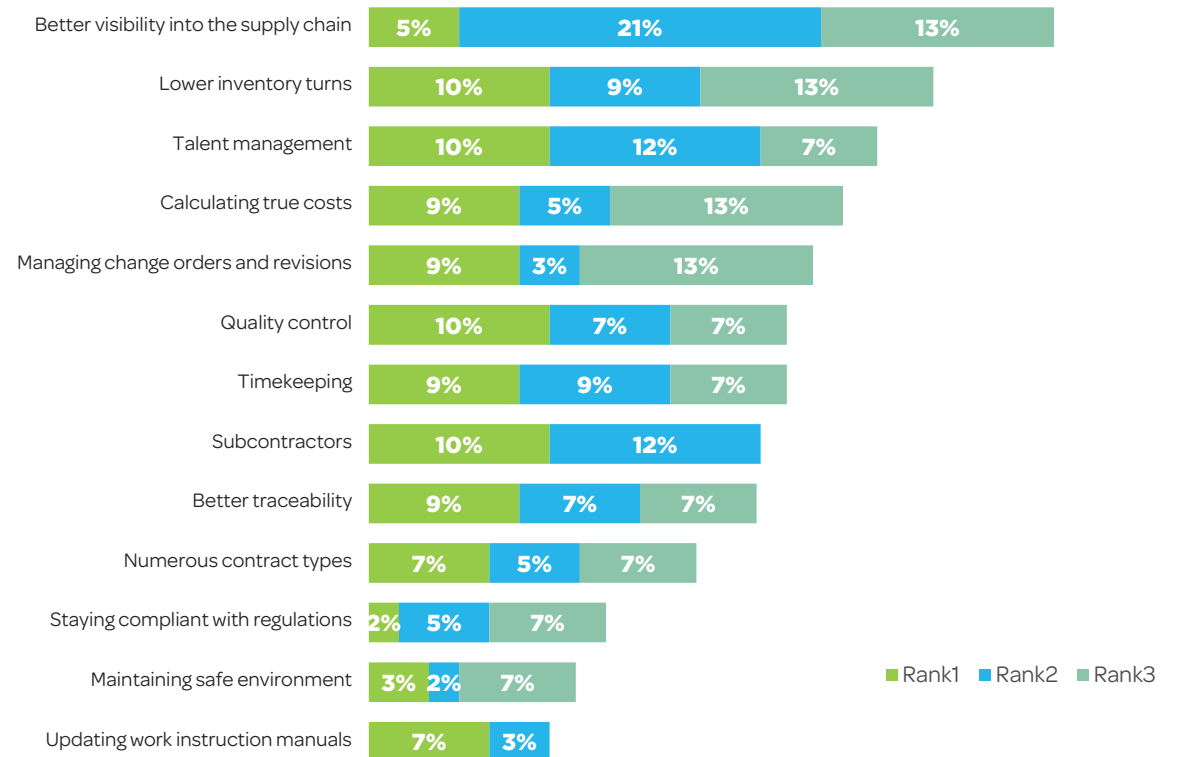
2 Talent shortages & management

3 Quality control

The top challenges contractors with manufacturing operations are facing in 2022 are a need for improved supply chain visibility, talent management concerns, and a desire for better quality control. To address these challenges, the main approaches companies plan to take include integrating manufacturing solutions with finance, providing suppliers access to systems, and investing on

execution systems. Lower inventory turns - a measure of how fast a company is selling its inventory - is another challenge area. A low turnover implies weak sales and possibly excess inventory, also known as overstocking. It may indicate a problem with the goods being offered for sale or be a result of too little marketing

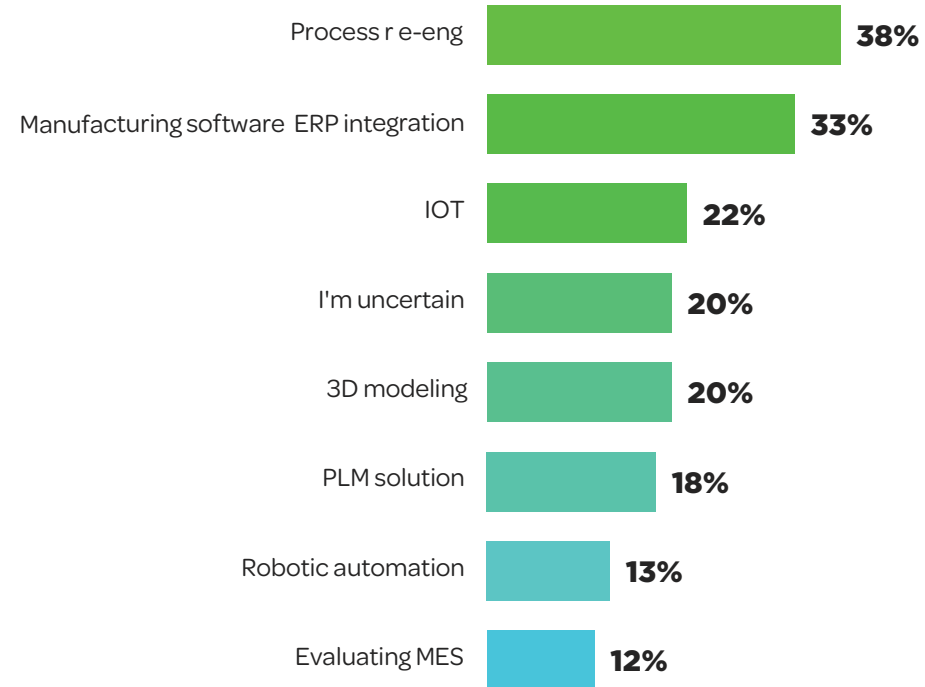
Top Manufacturing Operations Challenges in the Next 12 Months



Digital Transformation Initiatives Gain Momentum

Many manufacturers are putting their desire for digital transformation into action. Nearly four in ten companies (39%) are planning to re-engineer processes and nearly as many (34%) plan to integrate manufacturing software to ERP. Because re-engineering processes can be costly and can lead to delays in meeting critical shipping deadlines if gaps in highly-coveted talent exists, some will look to tools and technology to be successful in the long-term. Regardless of the approach, having the staff to execute these changes is essential.

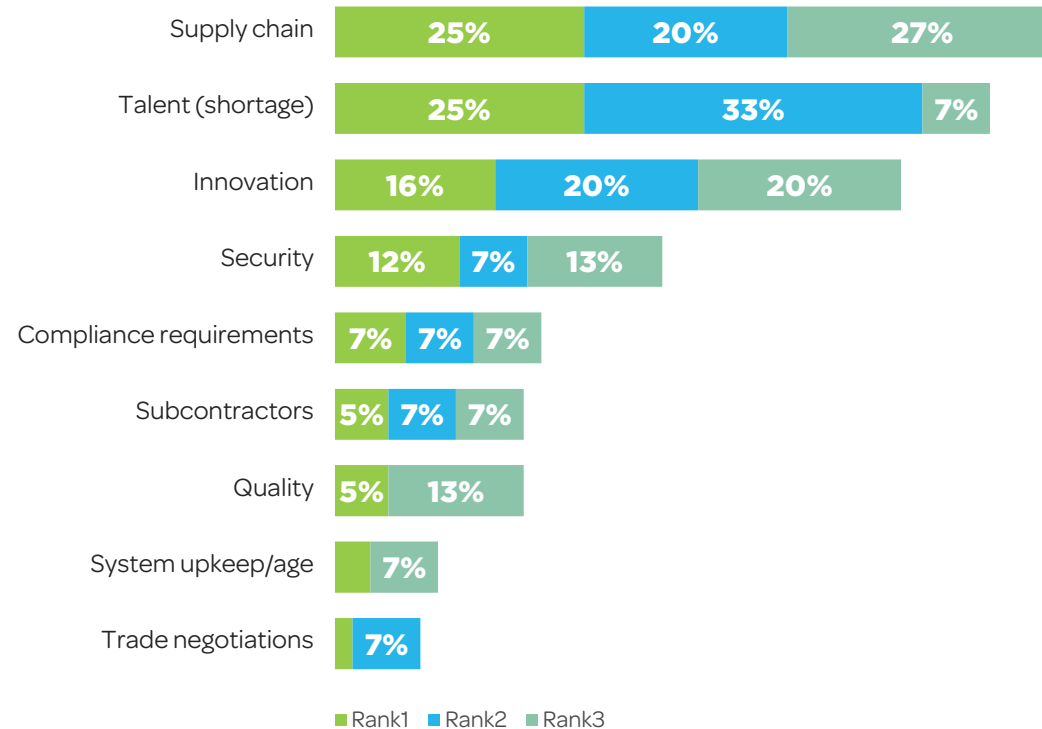
Initiatives to Digitally Transform Manufacturing Operations



Supply Chain Issues Present The Greatest Risk, Followed by Talent

Supply chain issues clearly present the greatest potential for risk, with 60% of respondents citing it as a concern. The talent shortage is also a priority concern (48%). As noted above, an inability to recruit and retain quality staff limits all other activities. As shown in other areas in this study, talent is undeniably an area of focus for the majority of businesses. “Security” is an area of strong concern (42%) in manufacturing just as it is for nearly every other area of businesses; “quality” emerged as a challenge too (35%) - often this is a result of strict quality guidelines and oversight.

Greatest Potential Supply Chain Risks



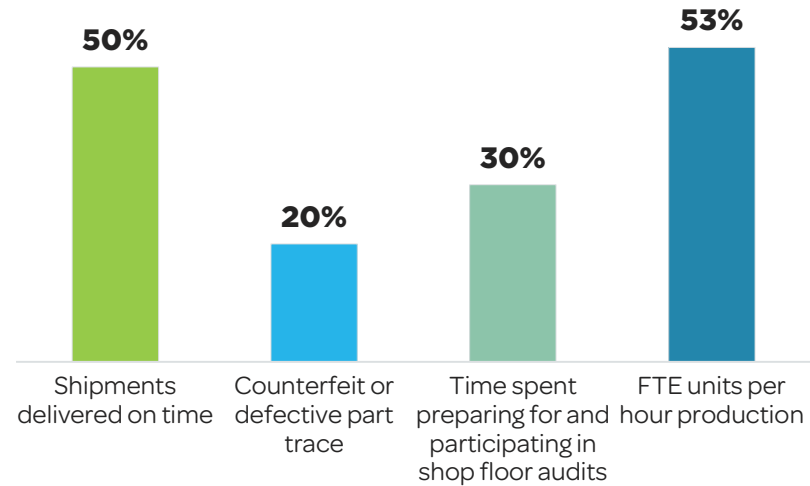
FROM YOUR PEERS

“The situation we’re dealing with right now, there’s a backlog both at suppliers and in our shop just because of the way that parts have continued to have been delivered. So then you have to discuss and figure out the best way to allocate resources both internally and externally at the suppliers. Once those resources are allocated, how do you prioritize which parts are gonna be made?...The nature of what’s going on in the supply chain as well as on the floor has driven delays in my deliveries as well.”

Tracking Efficiency of Workforce is Top Manufacturing KPI

More than half of the companies surveyed (54%) are tracking FTE units per hour production and shipments delivered on time (51%). Keeping a close eye on the time spent preparing for and executing shop floor audits, is of high interest to approximately a third of respondents. Moving away from outdated legacy systems and toward tools designed to meet rigid government compliance requirements is a meaningful step toward better quality control. This will be increasingly important as the use of subcontractors, and the need to manage them, increases.

Key Performance Indicators for Manufacturers





**HIGH
PERFORMERS:
MANUFACTURING**

62% of high performing manufacturing businesses have plans in 2022 to integrate their manufacturing operations with their financial operations.

62%

High Performers plan to integrate manufacturing operations with financial operations

Manufacturing Wrap Up



New supply chain bottlenecks are being set off by the hot labor market, continued COVID related lockdowns in China and Russia's invasion of Ukraine

These disruptions are, in turn, contributing significantly to driving prices higher around the world as demand exceeds supply. Unfortunately, businesses are facing the difficult realization that there is no viable way to predict when issues in supply chain will cease or at least improve.

Yet, while it is not feasible to calculate the duration of the war as well as its aftereffects, companies are taking a stand by working on increasing visibility into their supply chain, attempting to alleviate labor shortages, and focusing on digital transformation.



Resources to aid in Manufacturing

Below are free resources to help your organization navigate these government contracting manufacturing challenges in the year ahead:

- **Webinar:** [Improving GovCon Manufacturing and Compliance through Digitization](#)
- **Video:** [Manufacturing software for government contractors](#)
- **Blog:** [Three Pillars of Successful Manufacturing](#)



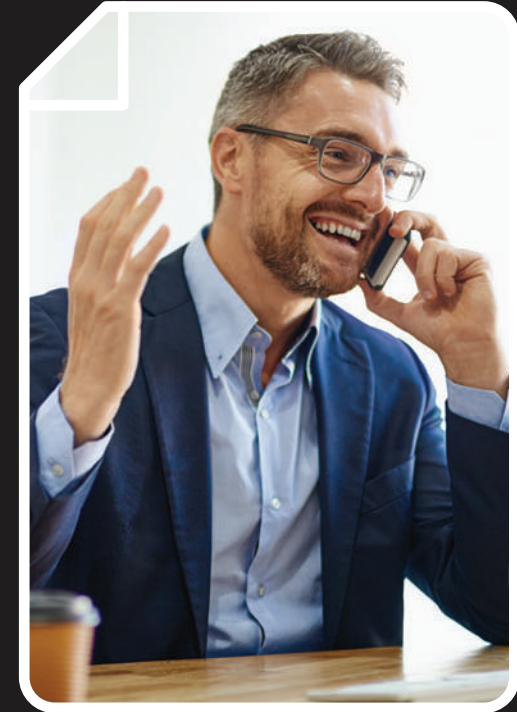
Contract Management & Procurement



The increasing complexity of government contracting is underscoring the need for technology and contract management integration.

As in previous years, contract management and procurement professionals recognize the potential impact that their functions have on the enterprise's success. In too many instances, however, they are asked to keep track of financial and non-financial contract data without the use of

integrated tools. To overcome these challenges, contractors are dialing up the focus on hiring additional resources to support overworked teams.



54%

of respondents indicated that their companies are actively hiring to address contract management challenges



TOP CONTRACT MANAGEMENT & PROCUREMENT CHALLENGES

1 Monitoring amendments

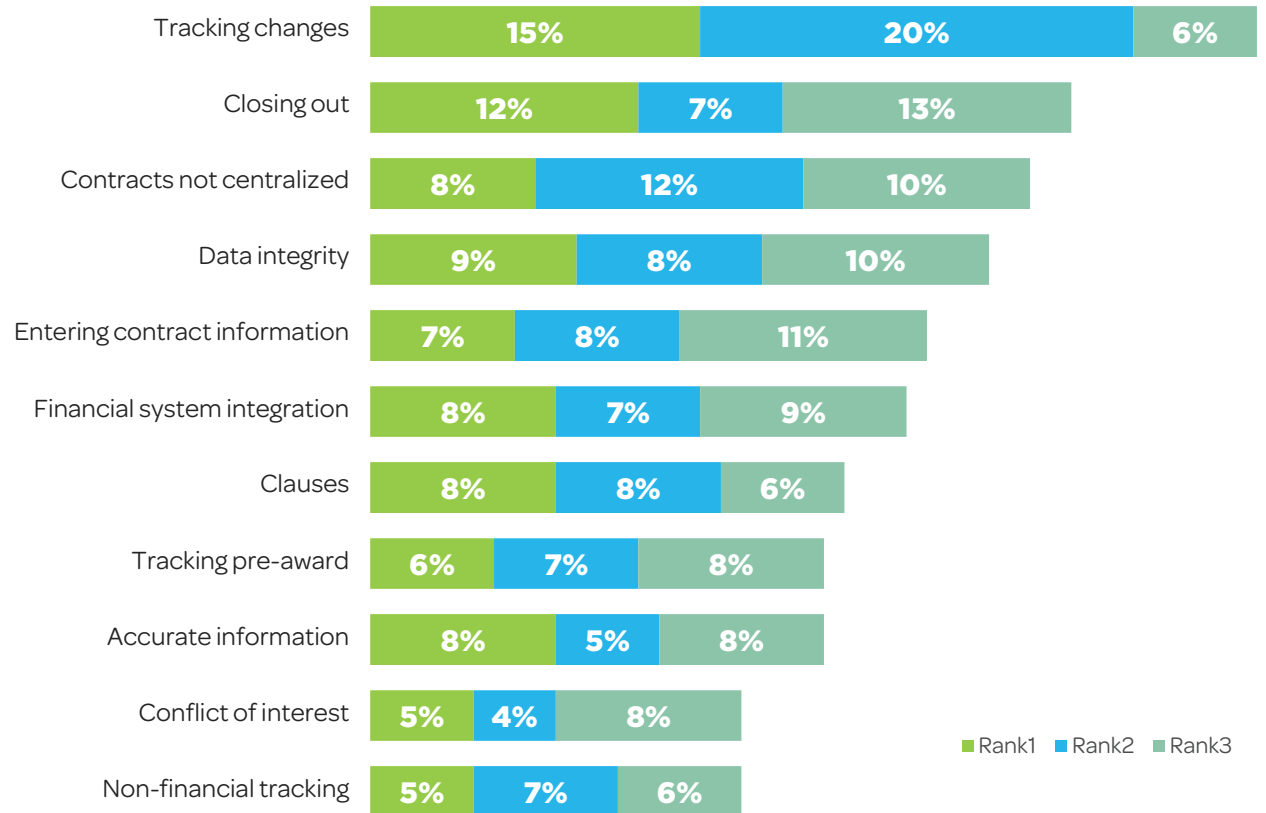
2 Lack of contract-centralization

3 Closing of contracts

With the competition heating up for government contracts, companies are realizing the need to invest in skilled people and the need to leverage more robust tools that bring together pre-award data, project financials, and supplier information. Tracking contract changes and amendments (41%) with generic software may require extensive

manual effort, leading to error. With contract teams feeling stretched already, another top challenge cited by participants was efficient contract close (32%), followed by a contract information not being centralized (30%) and challenges with data integrity (27%).

Top Contract Management Challenges Over Next 12 Months

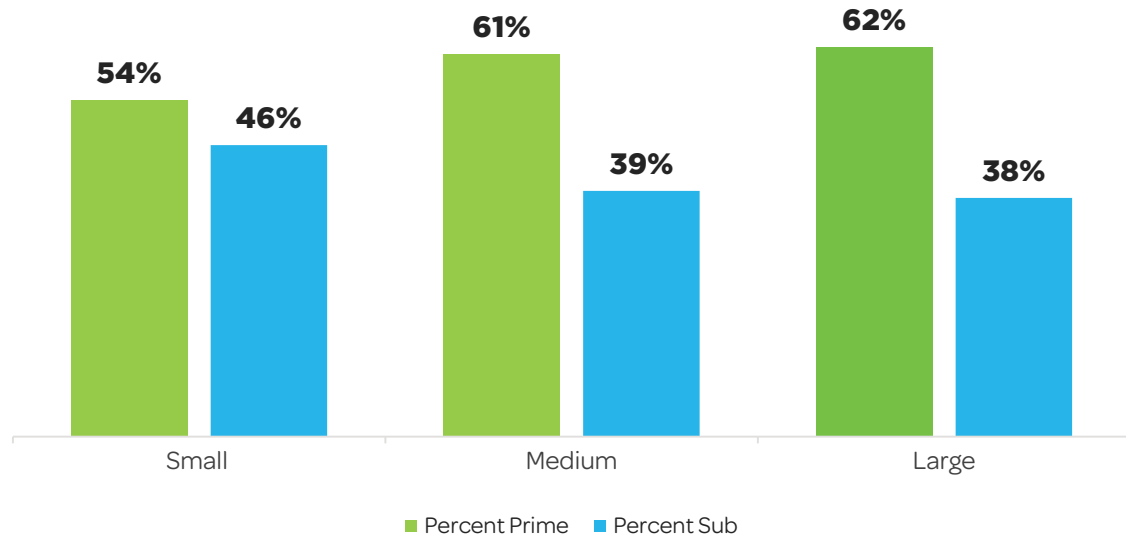


Large Companies Continue to Lead Prime Contract Awards

Among survey takers the ratio of existing prime vs existing subcontracts was consistent with previous years. On average, 60% of survey participants' contracts are prime, while 40% are subcontracts.

Although the largest companies continue to have a greater mix of prime contracts (62%), this was a 10% decrease over the previous year for large companies. Small companies report a 54% share of prime contracts, which is a 6% increase from the previous year.

Prime vs Sub Ratio by Company Size



FROM YOUR PEERS

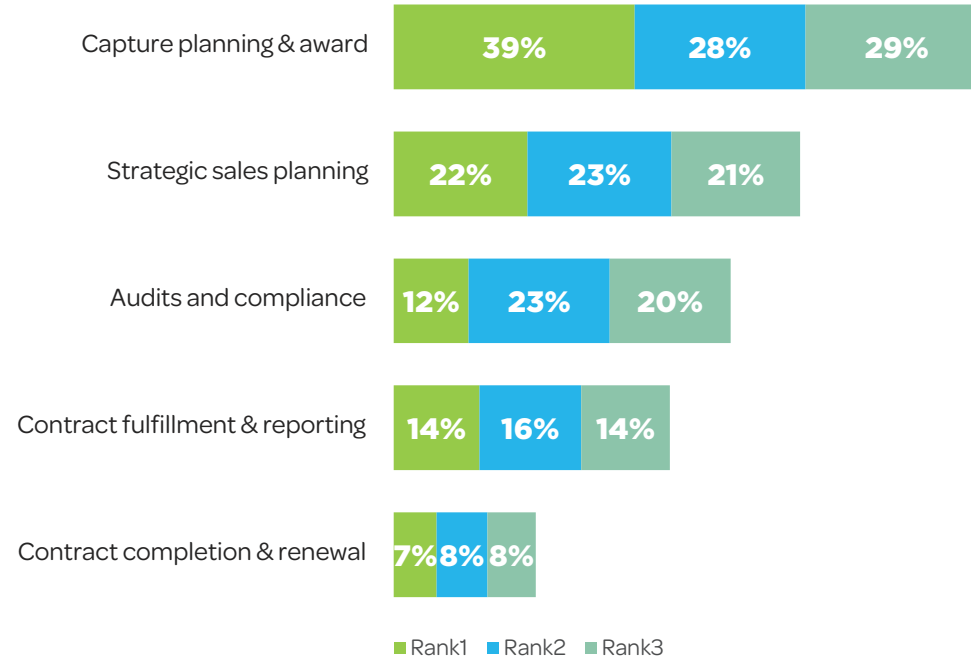
“It’s very hard to precisely specify everything in that contract when it relates to software and services. So I would say that making sure that expectations are formalized in the contract versus assumed expectations [is a top contract management challenge].”

Capture Planning & Award is the Most Challenging Government Contracting Lifecycle Stage

New to this year's report, participants were asked to rank by order of difficulty the contracting lifecycle phases presenting the greatest difficulty to their business. Each stage comes with its own set of unique challenges, requiring a combination of skilled resources and integrated technology solutions to overcome those challenges.

More than a third of respondents ranked capture planning & award as the most challenging. Small-size companies (38%) were more likely to struggle with this stage than their counterparts from larger organizations (28%). Nearly just as challenging was strategic sales planning (21%), followed by audits and compliance (19%), with respondents from mid-size (23%) and large-size (20%) exhibiting a greater tendency to mention this stage than their counterparts from small-size companies (12%).

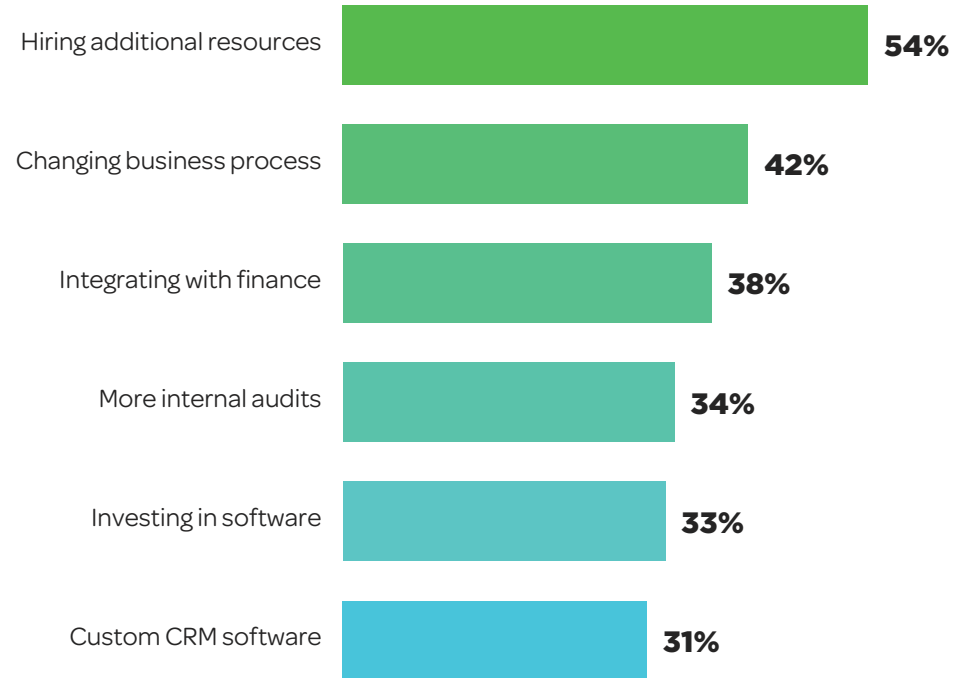
Government Contracting Lifecycle Challenging Stages



Recruiting Talent and Integrating Technology within Contract Management and Finance are Key Priorities

As companies manage contract fulfillment and allocation of resources, investing in talent has emerged as a high priority initiative. Specifically, over half of respondents (54%) indicated that their company was hiring to help address contract management challenges. Adapting business processes (42%) was also among the most commonly mentioned initiatives in addition to integrating contract management software with finance systems (38%). Interestingly, only about a third of respondents indicated that their firm was investing in software (33%) (including custom CRM software, 31%). This may be an indication that respondents perceive bringing onboard talent as a more pressing need to help mitigate constraints related to contract fulfillment, which in turn, may continue to divert investing attention from contract management tools.

Initiatives to Address Challenges in Managing Contracts

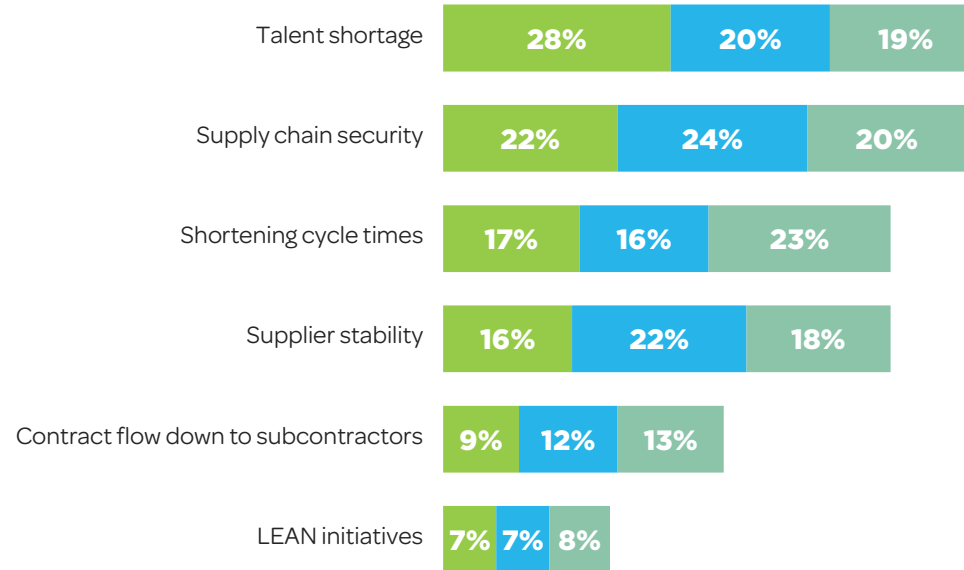


Supply Chain Difficulties Remain

Procurement leaders are bracing themselves for greater uncertainty ahead. With global supply chains unstable and inflation rising, simplification to vendor and subcontractor management processes may offer stretched teams some relief.

When it comes to procurement, two thirds of respondents ranked talent shortages and supply chain security in their top three challenges at 67% and 66%, respectively. Notably, respondents from mid-size companies were more likely to mention supply chain security than their counterparts from large-revenue companies.

Procurement Challenges Over Next 12 Months



HIGH PERFORMERS: CONTRACT MANAGEMENT & PROCUREMENT

Top performers in procurement report having a far shorter procure-to-pay cycle time (6.72 days) compared to the overall population (33.81 days) - defined as the number of days from when an organization issues a purchase order until the payment is made to the supplier. For high performers within contract management teams, integrating their current contract management software with finance (52.9%) and conducting more internal audits (52.9%) stood out as the biggest area of likely investment in 2022, signaling a desire to have a broader, more cross-functional set of KPIs to leverage.

6.72 Days

High Performer procure-to-pay cycle time

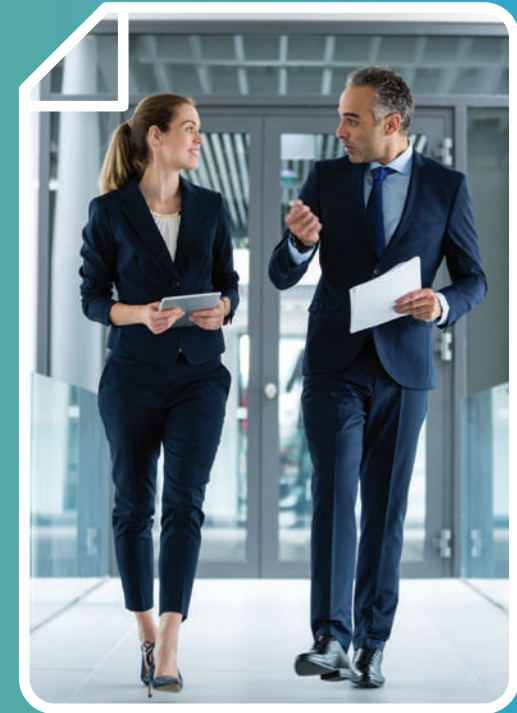
Contract Management & Procurement Wrap Up



Shortage of talent is the most salient challenge in supply chain that companies will continue to face

As expected in 2020, businesses are focusing on addressing profound shortages in labor by investing in headcount, training, and recruitment. Similarly, investing in integrating contract

management software with finance systems is expected to improve the ability to accurately scope and track project progress, which in turn will save time and keep costs down.



Resources to aid in Contract Management & Procurement

Below are free resources to help your organization address these government contract management challenges in the year ahead:

- **Webinar:** [Streamlining Procurement and Vendor Management for Government Contractors](#)
- **Blog:** [3 Ways to Simplify the Source to Pay Cycle with Costpoint](#)
- **Blog:** [Introducing Costpoint 8.1 - Accelerate Your Digital Transformation](#)



Human Capital Management

The global pandemic has unveiled numerous opportunities for talent recruitment as well as unexpected roadblocks.

Intense competition for top talent is not domain specific. Organizations of all sizes and teams across different departments are combating disruptions in the job market. This has created a human capital paradox. That is, work-from-home options and a greater emphasis on diversity and inclusiveness have opened

more recruitment opportunities during a global pandemic. Yet, candidates now have greater flexibility in and availability of attractive job options at their fingertips that they did not have pre-pandemic. In turn, this is making it harder for organizations to attract and retain top talent.

53%

of respondents cited attracting qualified talent as one of the most salient Human Capital challenges in 2021



TOP HUMAN CAPITAL MANAGEMENT CHALLENGES

1 Attracting better qualified talent

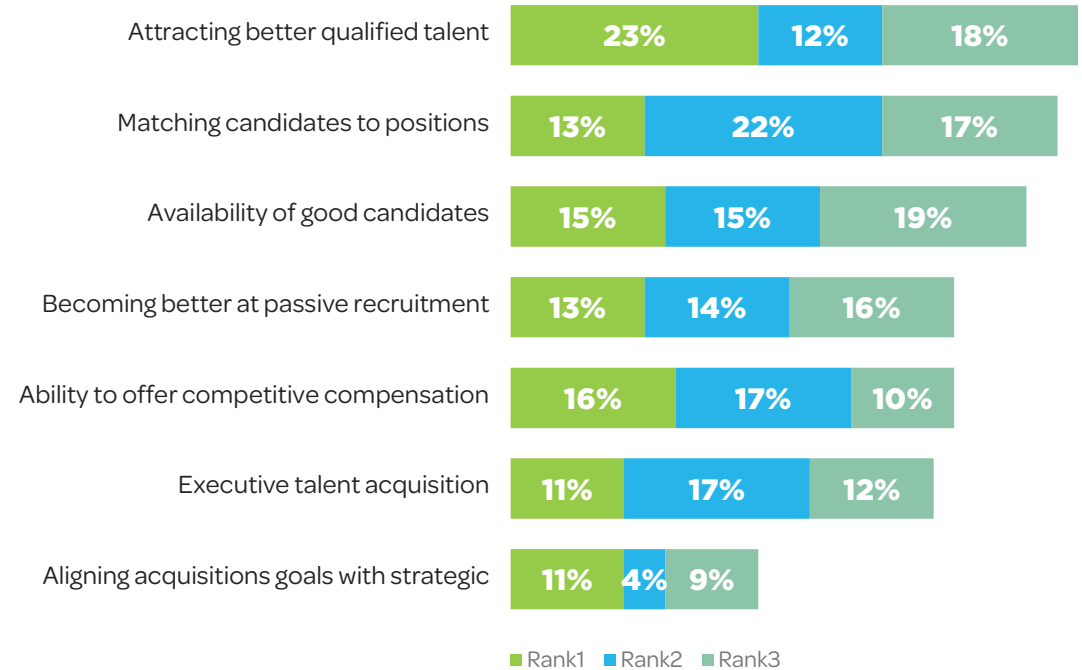
2 Matching candidates to positions

3 Availability of good candidates

Accordingly, when it comes to the most pronounced challenges in human capital, attracting qualified talent was at the top of the rankings, with 23% of respondents rating it their number one challenge, and more than half (53%) placing it in the top three. Similarly, the availability of good candidates was also a commonly mentioned challenge, with nearly half of respondents (49%) placing it in the top three. The smallest companies struggled in this regard the

most, with 31% of respondents in these companies ranking it first. The ability to offer competitive compensation was also among the top rankings, indicating an ability and willingness to meet market demands. However, not so much for smaller companies, with nearly a quarter of those ranking it first (23%, as compared to 12% of large-size companies).

Top Challenges In Acquiring New Talent In Next 12 Months



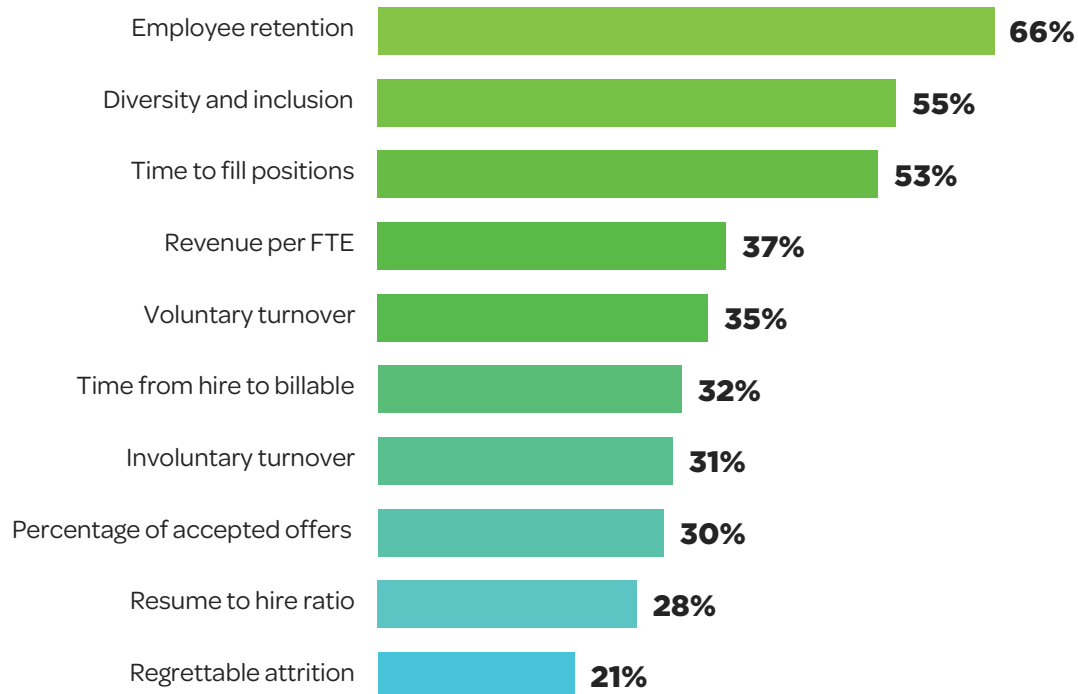
Employee Referral Rises as Top Hiring Initiative

To grow their companies or backfill for departures, human capital departments are getting creative but simultaneously are placing more emphasis on making smart economic decisions. Companies are clearly willing to invest in finding and acquiring top talent, but are still being selective about how they deploy funds to do so. Consequently, human capital specialists indicated that increasing incentives among

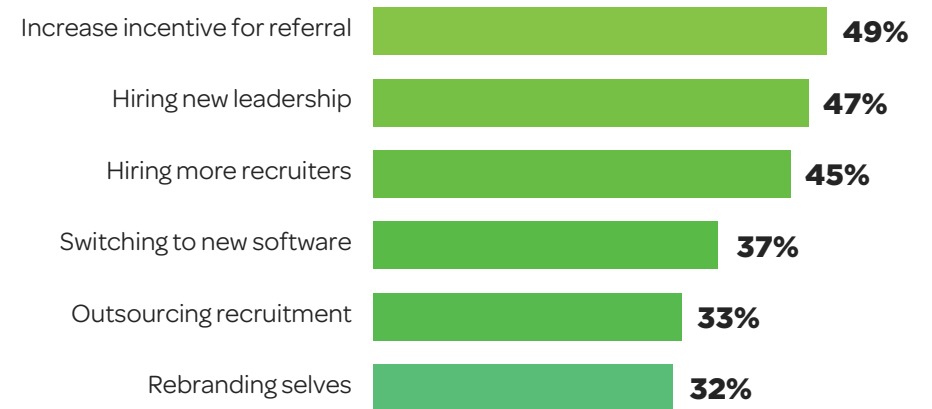
existing employees for referrals (49%), hiring new leadership (47%), and recruiters (45%) were among the talent acquisition initiatives that their organizations most relied on. Fewer are outsourcing recruitment (33%), which is a more costly approach mainly adopted by the largest companies (50% of billion-plus revenue companies).

Another factor highlighting the importance of talent to companies is the prioritization of employee retention (66%) and diversity and inclusion (55%) over other commonly cited KPIs such as revenue per FTE (37%) and voluntary turnover (35%).

Top HCM KPIs



Top Hiring Initiatives

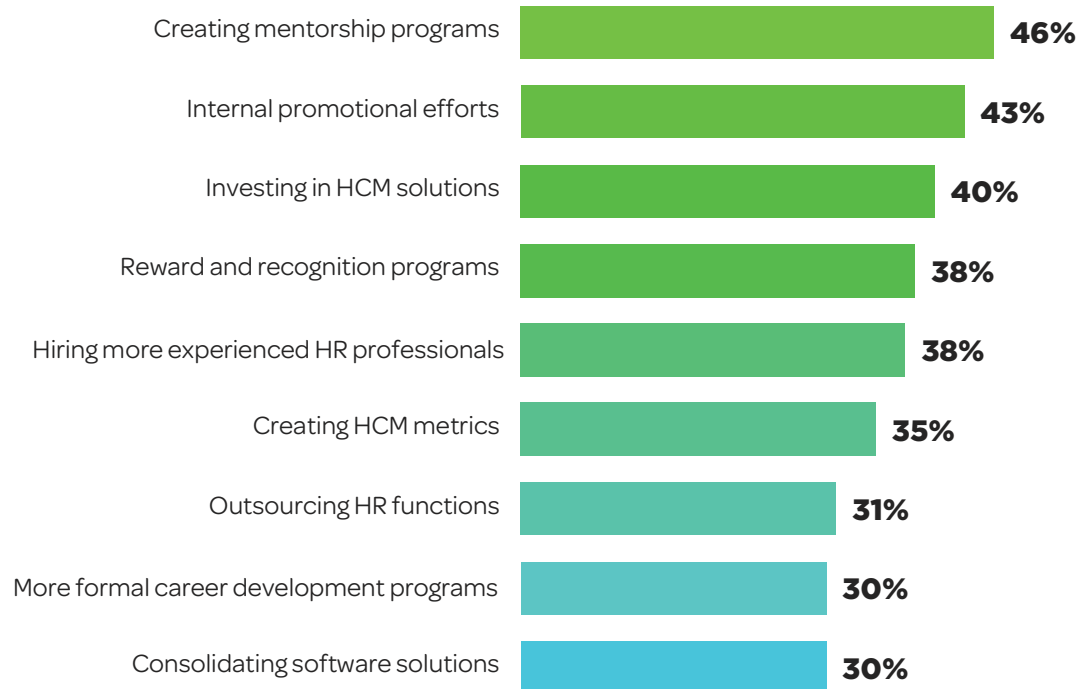


Training & Career Development

When it comes to addressing talent retention from within, companies favor initiatives consisting of creating mentorship programs (46%), investing more in promotional efforts (43%), and investing in HCM solutions (40%). Similarly, when looking at initiatives to create a modern, employee-focused culture post-pandemic to attract and retain top talent, focusing more on work/life balance and mental health issues became a top priority as did improving and increasing employee-manager communication.

With this in mind, an interesting finding emerged: even though diversity and inclusion emerged as the second most commonly tracked KPI (see chart on bottom left on previous page), in line with the Biden's Administration executive orders and regulations impacting the federal government and contractors, implementing diversity and inclusion initiatives ranked near the lowest (see chart on bottom right on next page) among the most commonly mentioned initiatives that organizations are relying on to transform themselves and make a difference in the marketplace. This may signal a need for greater education on how to implement a truly supportive and culturally-sensitive work environment.

Top Human Resources Management Initiatives



FROM YOUR PEERS

“The talent pool is very small...So there is an absolute demand for human capital, and how do you get them, and how do you bring them on, and how do you entice them, I think that’s the next challenge, especially post COVID.”

Job Seeker's Market

While current efforts to procure talent may bear fruit, it can still be a long, time-intensive process. Similar to years past, most human capital specialists report it taking 1-2 months to fill positions. However, one of the impacts of the current talent pool, as previously mentioned, is that candidates can be selective in their

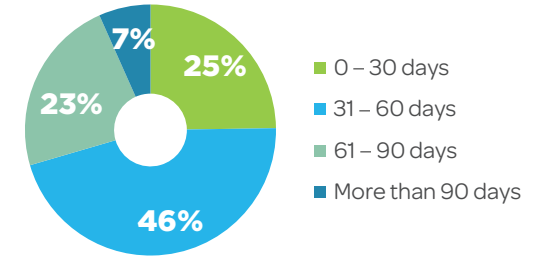
employment choice, looking for the right balance that means the most to them individually; this year, more companies are seeing it take 2-3 months or more, to fill roles. That said, time to fill is not the most important factor- it's imperative to focus on quality of hire.

Work Life Balance and Employee Well Being Receiving Attention

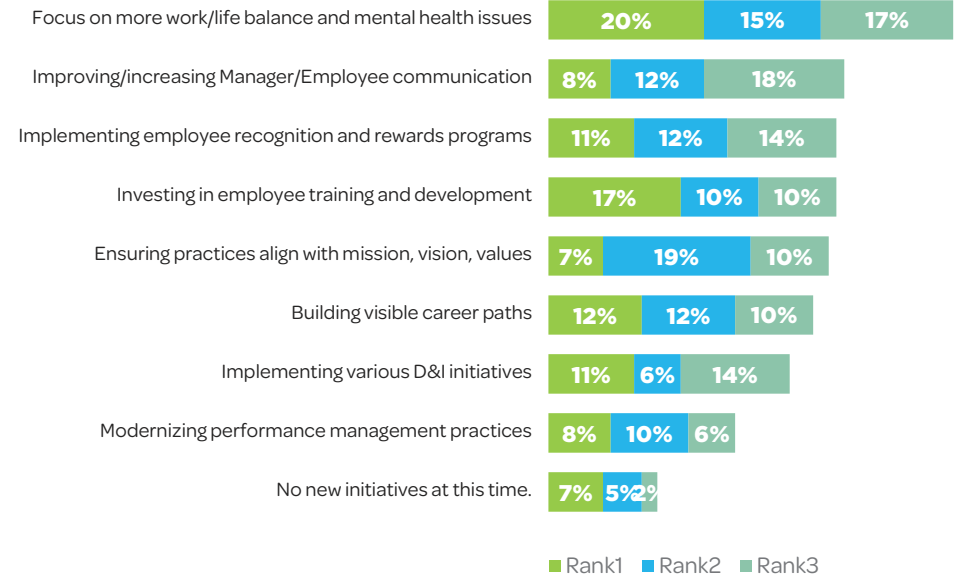
A new question in this year's Clarity report asks what initiatives human capital leaders are looking to implement to support a modern, employee-focused culture. A majority of respondents (52%) plan to give more attention to helping their employees enjoy a more clear separation between their work lives and their lives outside of work, while also giving support to employee mental health. Other popular priorities include improving manager/employee communications (38%) and formalizing employee recognition and rewards programs (37%). Investing in employee training and development was the top response for 17% of survey participants; independent studies have shown that training programs help employees gain new skills and get updates to existing skills, which positively impacts performance.

These results show that many contractors have taken a proactive approach to help employees actively avoid burnout, which unfortunately has become a common challenge expressed by many. Having engaged employees who feel supported by their supervisor and are connected positively to the broader workforce culture can help reduce turnover and has been shown to positively impact profits. In a highly competitive environment, an engaged workforce may become a differentiator to attract and retain the most skilled talent.

Average Time To Fill Position



Strategies for Creating More Employee Focused Culture





54.5%

High Performers favor increasing incentives for employee referral to address talent acquisition challenges

HIGH PERFORMERS: HUMAN CAPITAL MANAGEMENT

To address their acquisition challenges in 2022, the top performing human capital teams overwhelmingly identified taking measures to rebrand themselves (63.6%) and increasing incentive for referral (54.5%) as a go-forward strategy compared to all other contractors. Top performers also favor benefit satisfaction surveys (63.6%) as a tool to gauge employee sentiment and understand what improvements can be made to the work environment. When used properly, benefit satisfaction surveys can aid managers in identifying issues and allow for corrective actions to be implemented where necessary, bolstering employee morale.

Human Capital Management Wrap Up

As is the case in other industries, identifying and bringing on board qualified talent will continue to be a pressing concern for companies of all sizes

The key take-away, in terms of human capital, is that it is very much a job seeker's market. In fact, the Bureau of Labor Statistics has reported that the number of businesses and professional services job openings is at record high, and that the number of high paying jobs continues to increase. As a result, companies are primarily

addressing the current dearth in the talent pool from the inside out. That is, creating mentorship programs, elevating promotional efforts, and investing in HCM solutions - anything to nurture employee retention and cultivate diversity and inclusion.



Resources to Aid in Upleveling your Human Capital Management:

Below are free resources to help your organization navigate these government contracting talent management challenges in the year ahead:

- **Webinar:** [Three Strategies to Attract and Retain Top Talent](#)
- **Webinar:** [Employee Recognition for the Modern Distributed Workforce](#)
- **Blog:** [How to Actively Engage your Workforce with Deltek Talent Management](#)

SECTION EIGHT

Information Technology

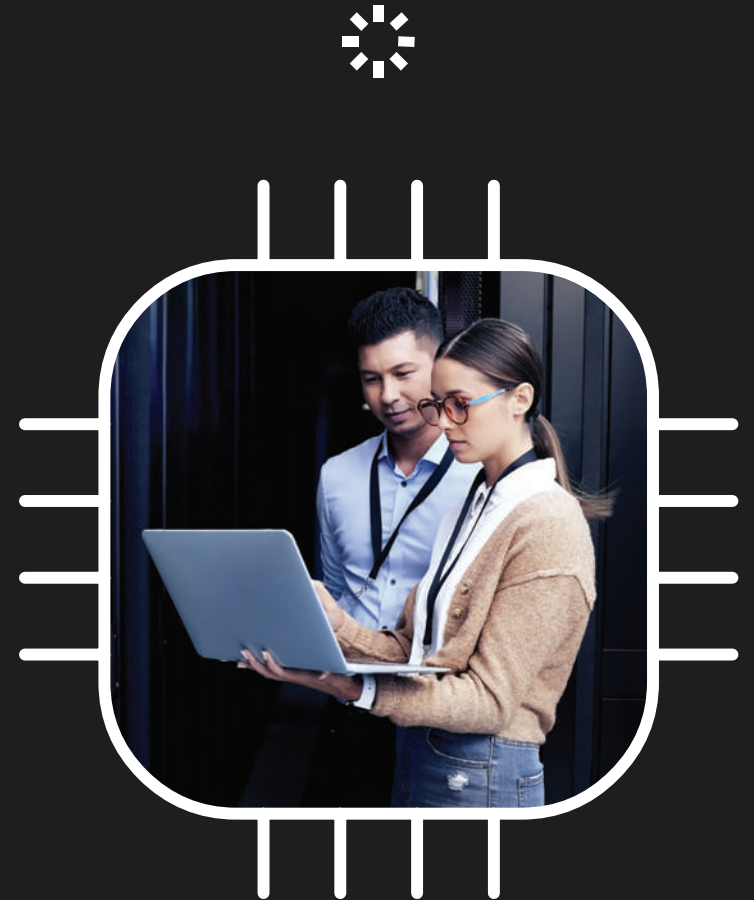
IT teams are stretched thin as they adapt to securing and supporting the “hybrid” workforce in the face of increasing cybersecurity threats and ever changing requirements.

Cybersecurity is no longer solely a concern for IT functions; ever-increasing threats have made it a concern across company leadership and cross-functional roles. Meanwhile, meeting newly mandated regulations has

created opportunities for some businesses to stand out but have also presented challenges that tie back to difficulties finding and hiring qualified candidates in the IT sector.

51%

of respondents perceived an increase in cyber security incidents last year



TOP INFORMATION TECHNOLOGY CHALLENGES

1 Finding top IT talent

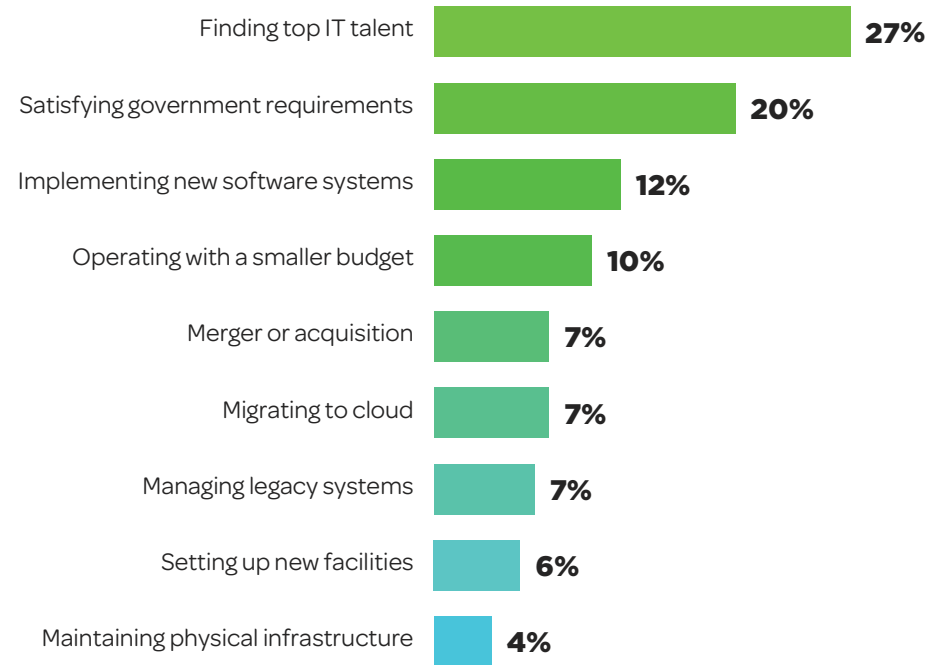
2 Implementing new software systems

3 Compliance requirements

In 2021, finding top IT talent was identified as the primary challenge IT operations face, followed by implementing software systems, and continuing to migrate enterprise applications and tools to the Cloud. In fact, over 90% of respondents called Cloud migration a critical initiative to

their business. This places it at higher importance over data science, big data, artificial intelligence, and machine learning - all of which were selected as top success factors in 2020.

Top IT Challenges Over Next 12 Months



FROM YOUR PEERS

“The benefits [of cloud migration] are greater resource efficiencies - a lot of our overhead of resources have been reduced. And other benefit is ease of accessibility.”

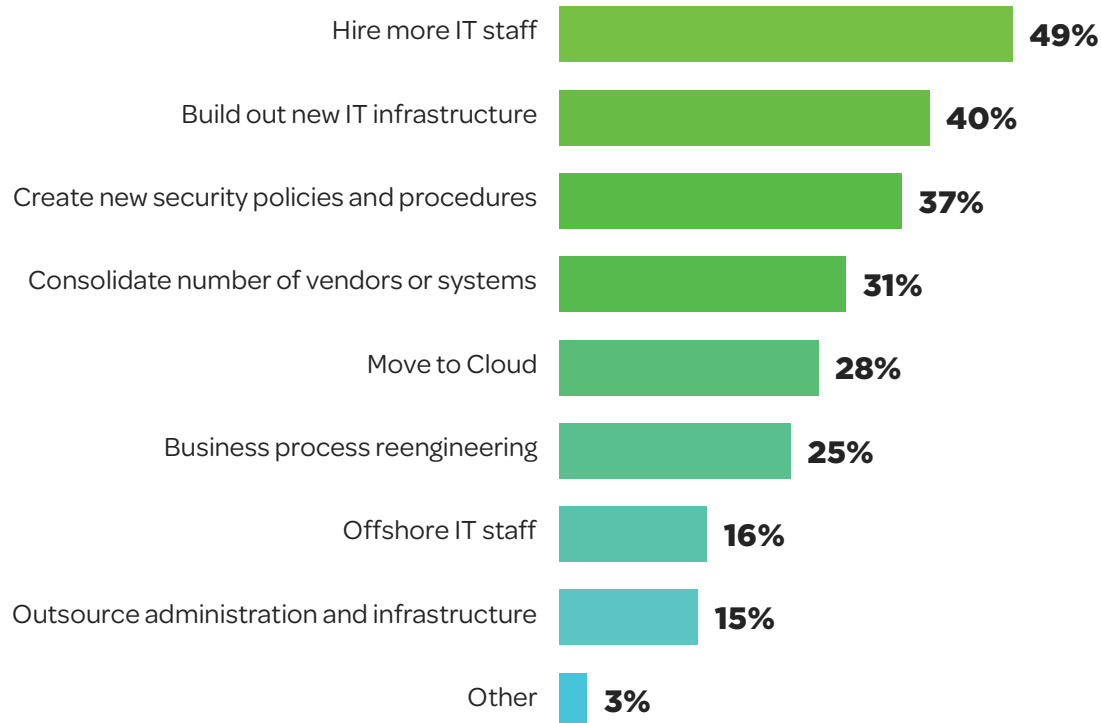
Talent Recruitment & Cybersecurity Are Top IT Priorities

Among the most important initiatives that companies are anticipating leaning into to address IT operations challenges are - hiring more IT staff (49%), building new IT infrastructure (40%), and creating new security policies and procedures (37%). These initiatives underscore the importance of cybersecurity.

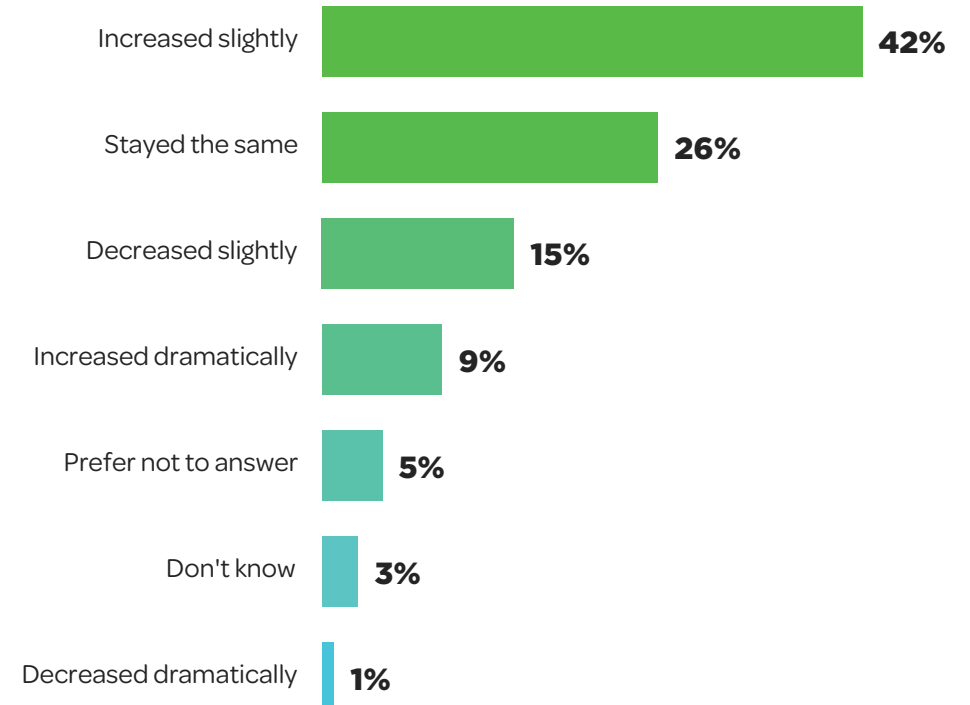
Compared to 2020, when the majority of businesses experienced the same or fewer cybersecurity incidents, in 2021 over half of respondents perceived an increase in those incidents. In terms of security challenges, 41% of respondents experienced security challenges that required action or remediation. For example, the most commonly mentioned were data

breaches (59%), ransomware and phishing (50%), and viruses (48%). IT contractors describe following the Department of Defense (DoD) internal standards, which largely consist of the ability to develop and deploy cyber-resilient systems. These systems are designed to combat incoming cyber attacks and to rapidly self-automate to address newly emerging threats.

Initiatives to Address IT Operations Challenges



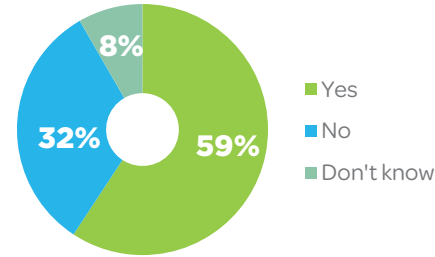
Number of Cybersecurity Incidents



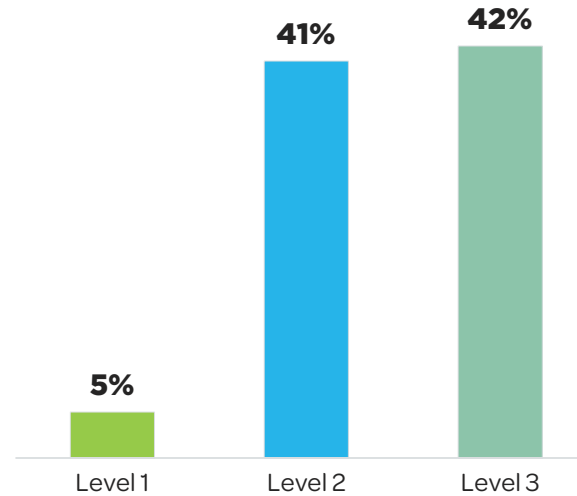
Majority Reported Plans to Achieve Cyber Maturity Model Certification (CMMC) Level 2 or 3

Driven by feedback across the industry, CMMC has since reworked into a hybrid certification model. This new version, referred to as CMMC 2.0, was announced on November 4, 2021. The changes are intended to reduce barriers to compliance for small and mid-sized companies while maintaining the goal of protecting the Defense Industrial Base from cyberattacks. The CMMC 2.0 as it currently stands focuses on the most critical requirements and streamlines the model from 5 to 3 compliance levels. With these changes, companies are taking steps to remain in compliance. The majority of companies (59%) acknowledge that requirements apply to their business, with most of that group (83%) making plans to achieve Level 2 or 3. To address CMMC requirements, about half of all IT respondents relied on self-report, and 41% on a 3PAO (Third Party Assessment Organization).

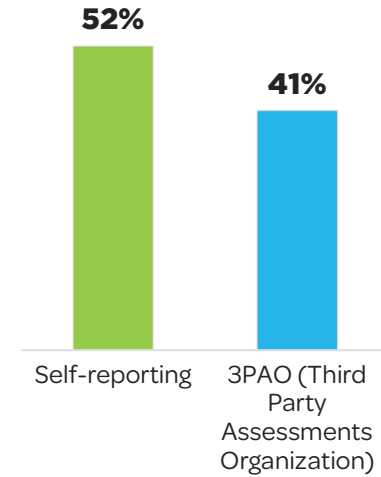
CMMC Requirement Assessment



CMMC Level



Plans to Address CMMC Compliance



HIGH PERFORMERS: IT/CYBERSECURITY

High performing IT teams were less likely to have encountered a security challenge that required remediation (63.6%), outperforming the overall population of contractors by 15.5%. While keeping pace with trends in cybersecurity and cloud registered as very important to more than seven out of 10 in the overall population (72.2%), tracking the latest technology developments in those areas was even more popular at high performing organizations, with greater than 90% identifying it as very important to their success. Looking ahead to 2022, the highest performers anticipate the biggest investments to take place in top talent acquisition (81.9%). Implementing new software systems also emerged as a key challenge that will need to be addressed in 2022 for nearly half of high performers (45.5%); both of these are crucial to maintaining compliance and sustaining excellence for a remote workforce.

63.6%

High Performers did not encounter a security challenge requiring remediation

Information Technology Wrap Up

Cybersecurity will continue to be a concern for cross-functional roles as will meeting compliance requirements

Cybersecurity will continue to be a high priority area across all organizations. Similarly, meeting CMMC requirements will remain a major area of focus so as to ensure that contractors keep abreast with the latest security trends and

updates. A critical initiative this year will be finding talent with the appropriate skills to help carve out new IT infrastructure and to ameliorate shifting security threats that are inherent in the digital world.

Resources to Support your IT Initiatives:

Below are free resources to help your organization navigate these government contracting cybersecurity and compliance challenges in the year ahead:

- **Guide:** [Understanding CMMC 2.0 Compliance](#)
- **Webinar:** [Deltek's Investment in Cybersecurity and Compliance](#)
- **Blog:** [Is Cybersecurity and Compliance a Priority for your GovCon Business](#)



CONCLUSION



2021 proved to be a better year than expected for many in the government contracting industry and optimism is rising for 2022 if companies can continue to overcome the challenges of the pandemic and new obstacles to business success.

Companies across the government contracting industry, working in different industries, and of different sizes, highlight similar challenges and initiatives for 2022:

- Economic conditions are allowing them to make investments to move their business forward post-pandemic, on both the people and technology fronts.
- Competition for top talent is intense across those important specialties. At the same time, the needs of employees are evolving as more and more are working remotely from home offices or bringing diverse backgrounds and perspectives to their organizations, presenting new challenges and opportunities for human capital teams.
- Profits are always a top priority; though companies profess their willingness to invest in key business functions, they are also keeping an eye on cutting costs, particularly around compliance.
- Having weathered the unprecedented disruptions of the COVID-19 pandemic, companies are adjusting their business operations to maintain readiness for future shocks like the war in Ukraine, the “Great Resignation,” supply chain difficulties, and more.

GOVERNMENT CONTRACTING BENCHMARKS

	CLARITY BENCHMARK - ALL PARTICIPANTS	CLARITY HIGH PERFORMERS
FUNCTIONAL AREA KPIS		
BUSINESS DEVELOPMENT		
Bid & Proposal Costs	14%	25%
Win Rate %	48%	83%
Revenue Growth Forecast	13%	15%
PROJECT & RISK MANAGEMENT		
% of Projects On or Under Budget	31%	53%
% of Projects On or Ahead of Schedule	29%	31%
FINANCE & FINANCIAL COMPLIANCE		
Average Monthly Invoice Cycle Time	25 days	20 days
Average Days Sales Outstanding	33 days	25 days
Profit/Loss Margin	18%	52%
Growth Rate (2021)	13%	12%
G&A Rate	20%	26%
Fringe Rate	28%	26%
Overhead Rate	25%	27%
Financial Audits Started	5	4
Cybersecurity Audits Started	4	4
Shop Floor Audits Preperation Time (measured in Days)	34 days	17 days

GOVERNMENT CONTRACTING BENCHMARKS

	CLARITY BENCHMARK - ALL PARTICIPANTS	CLARITY HIGH PERFORMERS
CONTRACT MANAGEMENT & PROCUREMENT		
Top Contract Management Challenge	Tracking contract changes	Contract data not centralized
Top Supply Chain Challenge	Talent shortage	Talent shortage
Purchase Order Cycle Time	34 days	7 days
HUMAN CAPITAL MANAGEMENT		
Current Retention Rate	82%	99%
New Hire to Bill Time	21 days	27 days
INFORMATION TECHNOLOGY / CYBERSECURITY		
Percentage of Business Applications in Cloud	57%	94%
Level of CMMC Planning to Achieve	Level 3	Level 3

DELTEK FOR GOVERNMENT CONTRACTORS

Deltek offers solutions across the Government Contracting Lifecycle, from planning to completion, all while supporting the audit and compliance needs of government contractors. Deltek is a trusted partner to contractors seeking to find, win and deliver in the public sector. Regardless of business size or level of experience the government contracting team has, Deltek works on behalf of customers to give them what they need to get ahead of the competition.

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