

Deltek

Clarity 2024: Government Contracting Industry Study

Trends and Benchmarks in the US and Canada
15th Annual Comprehensive Report



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INTRO

This year's Clarity survey follows trends from over a decade, tracking key metrics and indicators while taking a pulse of the latest topics and developments in the industry.



The results for this year come from a diverse range of government contractors, spanning various sizes and sectors in the United States and Canada, and unveil overarching themes, including:

- Last year's performance was strong for government contractors, however some metrics fell just short of 2022's highs. Though results were marginally lower than expectations, outlook remains positive for 2024.
- One of the industry's main headwinds is the talent market, where competition continues to intensify. Labor costs are a top concern, and areas like finance, manufacturing, contracting, IT and human resources are feeling the pressure.
- While inflation has eased somewhat, the cost of goods is still a leading concern for government contractors, who often face slim margins and complex supply chains.
- Given talent and cost pressures, companies are leveraging technology to magnify the impact of the people they already have by automating functions that drive efficiencies for their business and allow staff to focus on higher-value activities. In particular, 2024 has seen artificial intelligence (AI) and its use cases impacting government policies and relevant programs as they evolve in the industry, as it has in other spheres.

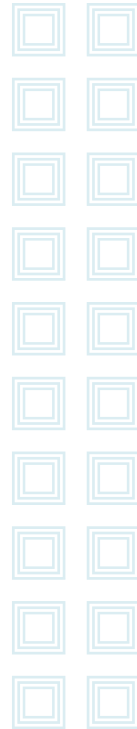
- Still, technology is limited by budgets and use cases, similar to what we saw last year. Survey results reiterate the importance of optimizing business processes, allowing companies to control what they can to become leaner and more efficient.
- While small businesses are subject to the same trends as their larger counterparts, the pressures can be especially impactful. Despite the government programs and policies meant to support them, many are not yet experiencing the benefits and are still lagging behind mid-size and large enterprises in metrics such as growth rates and contract wins.
- Similar to in other industries, like [Architecture and Engineering](#), firms remain positive going into 2024 as inflationary pressures eased and labor rolls stabilized in 2023.

54% report higher government revenue in 2023

62% expect higher government revenue in 2024

ABOUT THE STUDY

For 15 years, Deltek has conducted an annual survey of government contractors. Each year, the findings include an industry performance benchmark, impactful market conditions, challenges faced, and outlook for the coming year.



Methodology

The 2024 iteration of the survey fielded from January 2nd to 20th, 2024. The survey consisted of over 60 questions, divided into seven functional roles that respondents self-identified based on their experience and qualifications. This design remained mostly consistent with previous waves to enable year-over-year comparisons and identification of trend patterns. However, the team worked closely with industry experts on updates to cover topical issues this year, including artificial intelligence (AI).

In total, 649 government contractors completed the survey. Additionally, the team conducted 11 30-minute interviews with notable government contracting experts to add depth and enrichment to the insights in this report.

Respondents were sourced through a combination of:

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

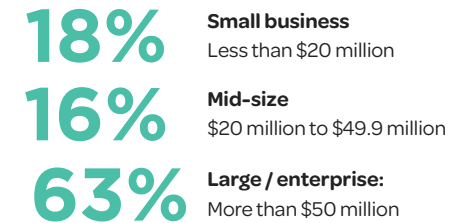
Sample Composition

The survey reached respondents across over 11 industries, with the most representation from:

- Information technology (18%)
- Professional services (18%)
- Defense, weapons, aerospace, or manufacturing (11%)
- Healthcare or medical (11%)

Out of all respondents, 62% work with the U.S. federal government, 56% with state, local, K-12 or higher education (SLED), 30% are active in both federal and SLED markets, and 22% work with the Canadian government.

This report will also frequently highlight differences in results by company size, particularly to enable a focus on the smallest companies in the industry. Companies were divided by revenue into the following categories:



11% of respondents reported that their company is based in the National Capital Region (DC, Maryland or Virginia). For other regions, 25% were located in the South, with 18% in the West, and 15% each in the Northeast and Midwest. The survey targeted just under 100 Canadian respondents, or 15% of the total sample.

GOVERNMENT CONTRACTOR CONFIDENCE INDEX (GCCCI)

According to the composite Government Contractor Confidence Index (GCCCI), sentiment is within a percentage point of the highest recent years, pre- or post-pandemic, reflecting respondents' optimism for their company's and industry's prospects.

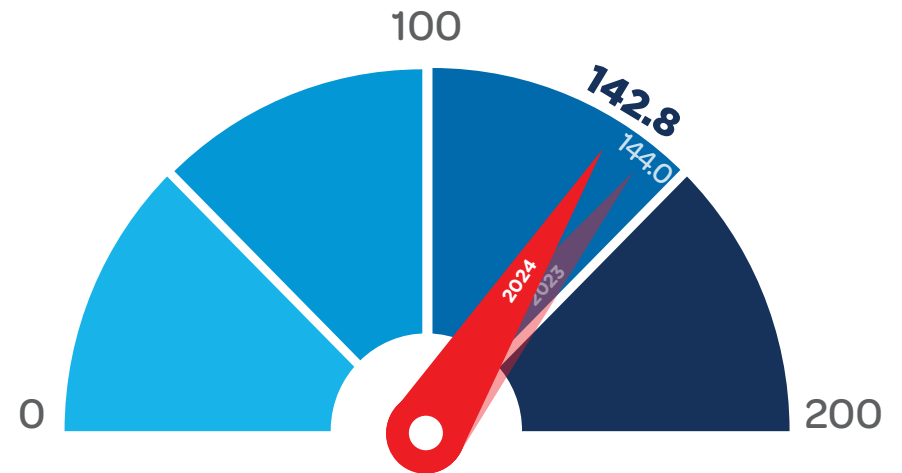
The Government Contractor Confidence Index (GCCCI) measures overall confidence that government contractors can grow their public sector sales over the next 12 months. It is measured on a scale of zero to 200, with zero indicating the lowest confidence level, 100 neutral, and 200 indicating the highest 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, the GCCCI calculates to 142.8, which represents a slight decrease of less than 1% from last year (144.0).

This decrease is not surprising given the uncertainty around budget allocations, the upcoming election and more. Despite those concerns, this metric is still near its high over the last 10 years.

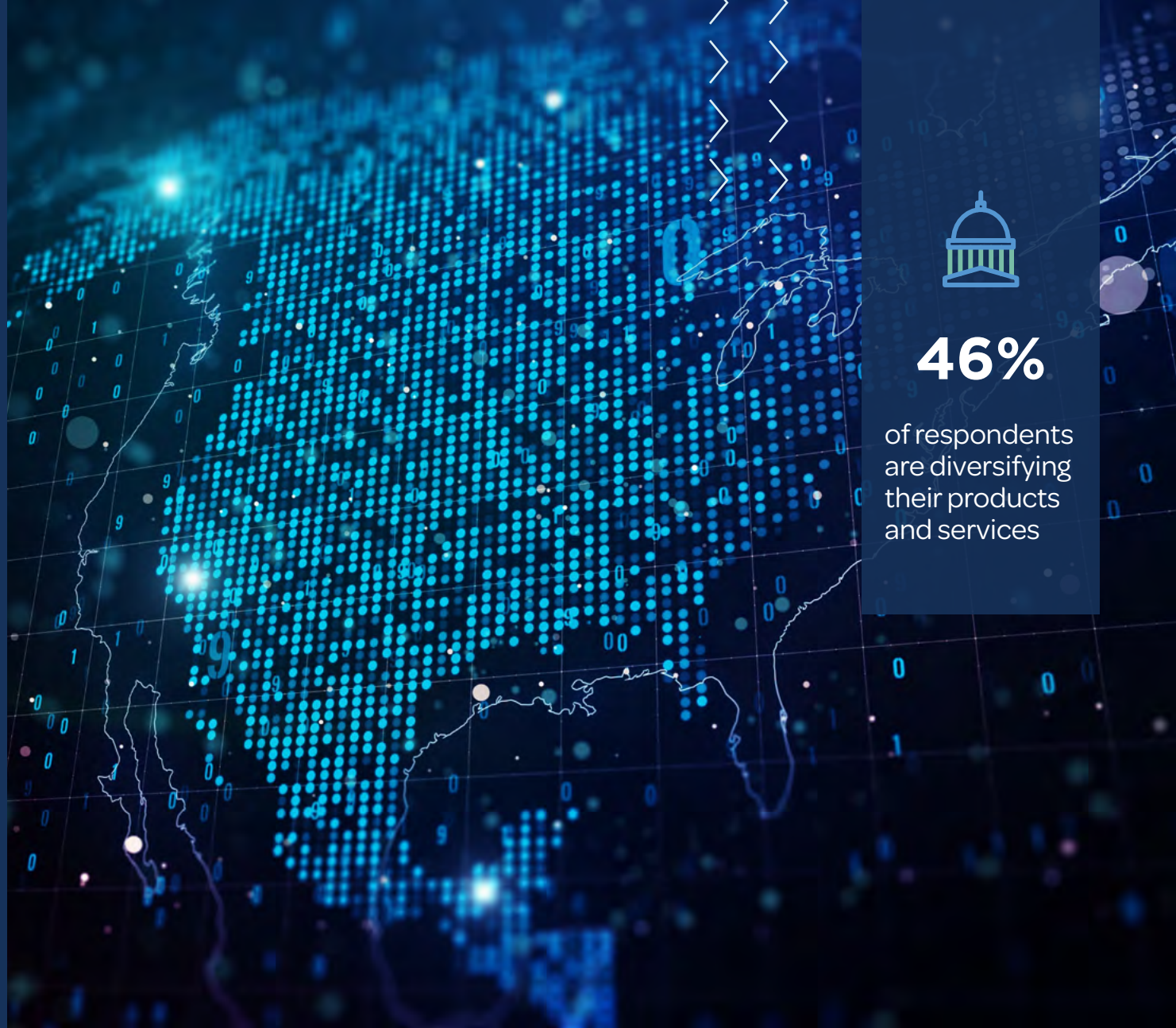




MARKET CONDITIONS

Last year's growth and new business development, pricing and revenue diversification strategies are driving positive sentiment for government contractors in 2024.

Despite increasing labor costs and persistent inflation, respondents have reported positive growth and even more optimistic projections for the future. They are showing confidence in diversification strategies and investments in AI to help overcome the challenges of the industry.



46%

of respondents are diversifying their products and services

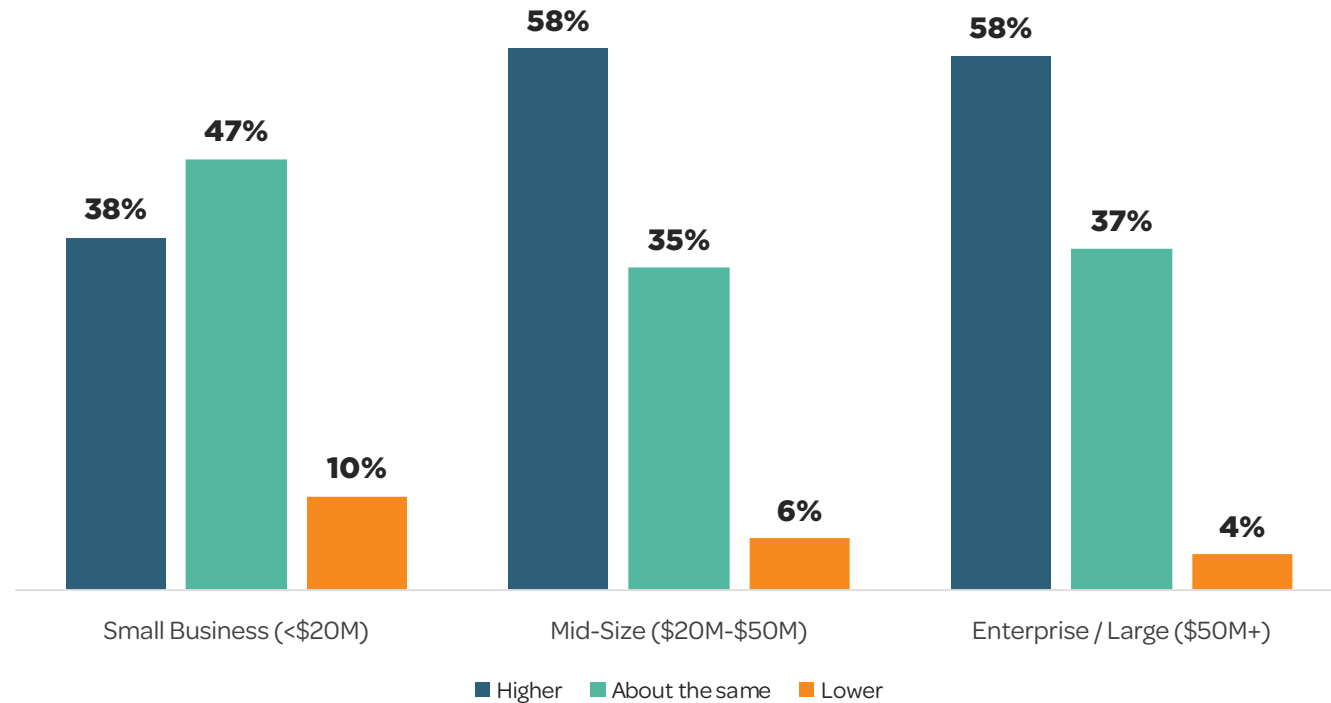
Growth in 2023

Looking back on 2023, the majority of respondents (54%) report a growth in sales revenue from the government market, up from 49% last year. To put that growth in context, though, 62% of last year's respondents expected growth in 2023, so while the numbers are still positive, they fell a bit short of expectations.

Growth in government revenue was not equally shared either. In particular, small businesses lagged, with just 38% reporting growth - though most of the remainder reported stability rather than decline. With increasing international instability and expanding national defense priorities, defense contractors saw more prevalent growth.

Most respondents (58%) also reported that their number of contracts grew as well, although they overwhelmingly considered the number to have increased "somewhat" rather than "significantly," and again, small businesses lagged (38%). Tracking with the growing use of preferred contracts among federal agencies, respondents' IDIQ/GWAC contracts also saw more growth than decline, though lower than overall revenue.

Change in Sales Revenue from Government Market



“Using a market intelligence solution like GovWin from Deltek helps contractors plan for their growth. Companies need to **continually invest in their infrastructure**, which is often an ignored aspect of growth.”

— JEFF SHEN, PRESIDENT, RED TEAM CONSULTING



Optimism for 2024

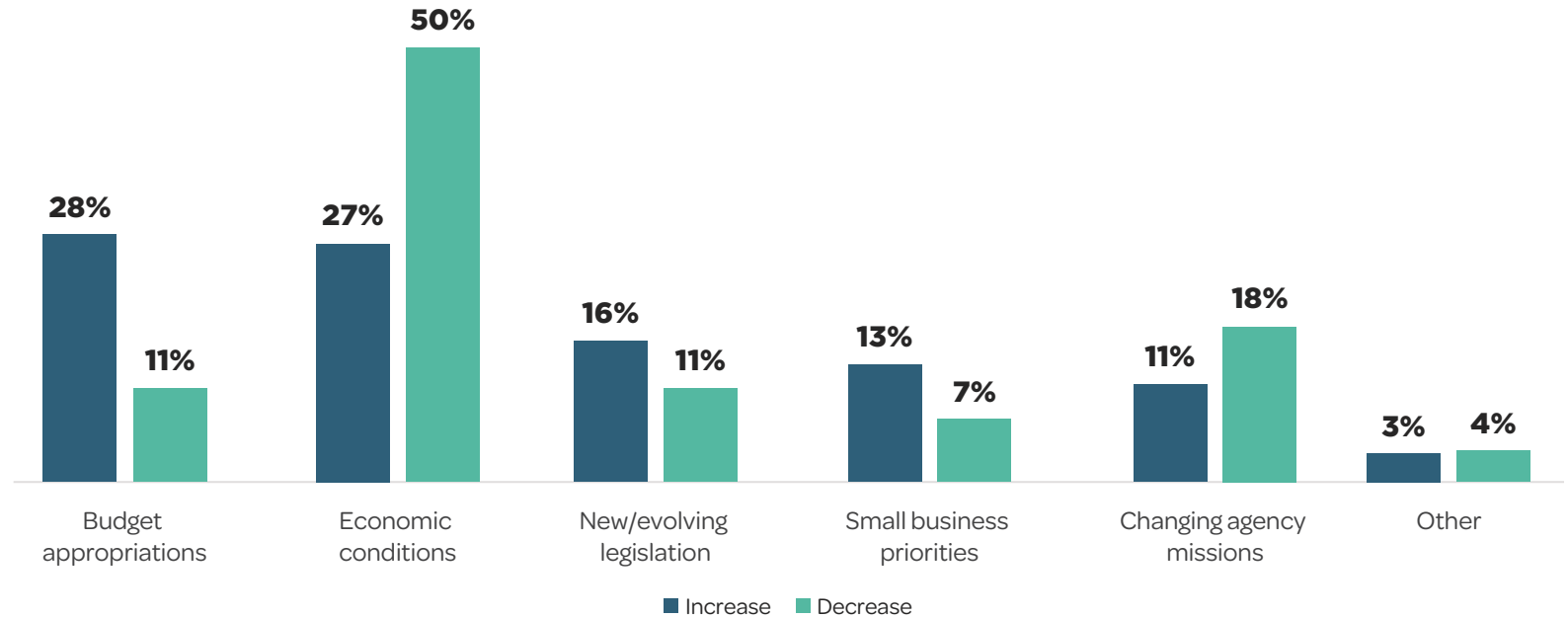
Despite falling a little short of expectations, the future outlook is once again strong, with 62% expecting revenue growth. Small businesses are naturally a bit more conservative, though just over half (51%) are hopeful for growth and only 8% fear decline.

Despite the volatility of the budget process, respondents cite budget appropriations as the top reason for this optimism. This is a likely reflection of continued contract spending growth even during periods of budget austerity. A similar number of those expecting revenue growth also point to positive economic trends; however, for the small number of respondents expecting a decline, economic conditions was the overwhelming top choice.

Mark Amtower, founding partner of Amtower & Company, author of several books and host of *Amtower Off Center*, advises contractors to prepare for growth with market intelligence. “The more information you have on the contracts you’re going after and the agencies you want to work with, the better off you’re going to be, especially within a U.S. Federal continuing budget resolution environment.”



Top Reasons for Change in Government Sales



“ We tell companies to **plan for aggressive growth**, regardless of their certification status – from 8(a), Women-Owned, HUBZone and service-disabled veteran-owned to plain vanilla small business, midsize or large – because there’s no time like the present.”

– GLORIA LARKIN, TARGETGOV

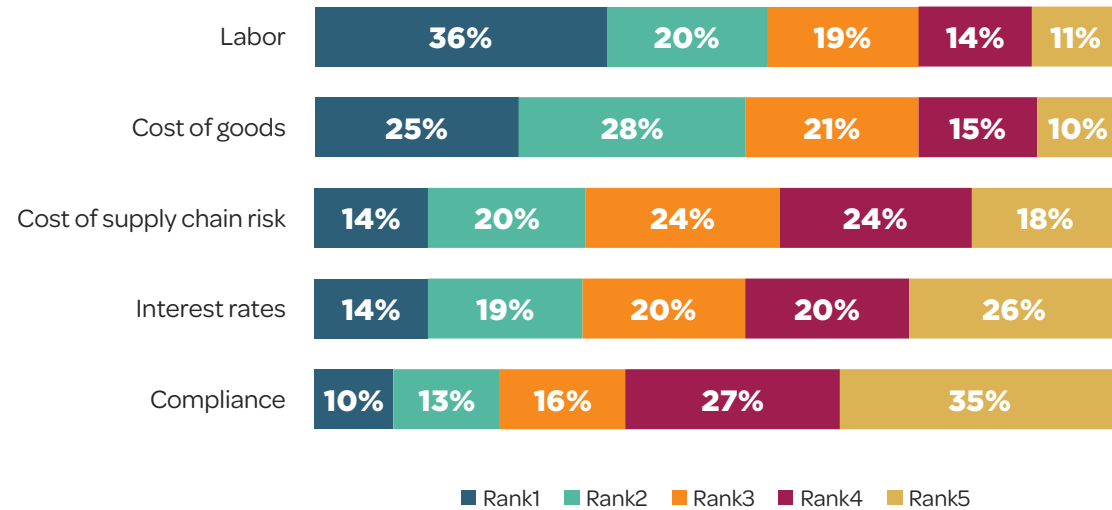
Inflation Impacting Labor and Goods

The main headwind respondents see to achieving these goals is inflation, which has eased but still remains a factor in 2024. Over a third of respondents (36%) ranked labor costs as the top cost impacting their business, followed by cost of goods at 25%. Low unemployment rates and inflation continue to drive competition and costs for both talent and goods. These two related factors outpaced other impactful areas, including supply chains, interest rates and compliance.

Given these cost pressures, over half of respondents say their companies are looking to gain efficiencies from reengineering existing processes, showing that companies are still looking inward for ways to improve performance. Just under 50% are adjusting [pricing strategies](#) or focusing specifically on cutting operational costs. Notably, though, hiring freezes appear to be very uncommon, reiterating the importance of attracting the right talent despite rising costs.



Costs Impacting Business The Most In 2024



“ I think **inflation is still having a bigger impact than expected** this year. They were looking at more potential growth than what they were able to sustain profitably on what they were paying for their people and services. The cost of doing business isn’t getting any less. It’s getting more.”

— TERESA MOON, DIRECTOR OF BUSINESS DEVELOPMENT, PARABILIS

Diversification a Top Strategic Priority

Given these market pressures, many government contractors have determined a similar evolution of their revenue strategies: diversification. Almost half of respondents (46%) say their company plans to offer a more diversified set of products and services, more than double any other strategy shift. Small businesses find themselves at a disadvantage here, though, with fewer able to pursue diversification, and more not planning any changes in strategy this coming year. As Mark Amtower notes, “If you’re diversifying what you offer, how are you going to maintain a level of excellence in what you’re providing? Larger companies can certainly do that. Smaller companies, mid-sized companies, I think, don’t need or shouldn’t try to do that until they have the bandwidth.”

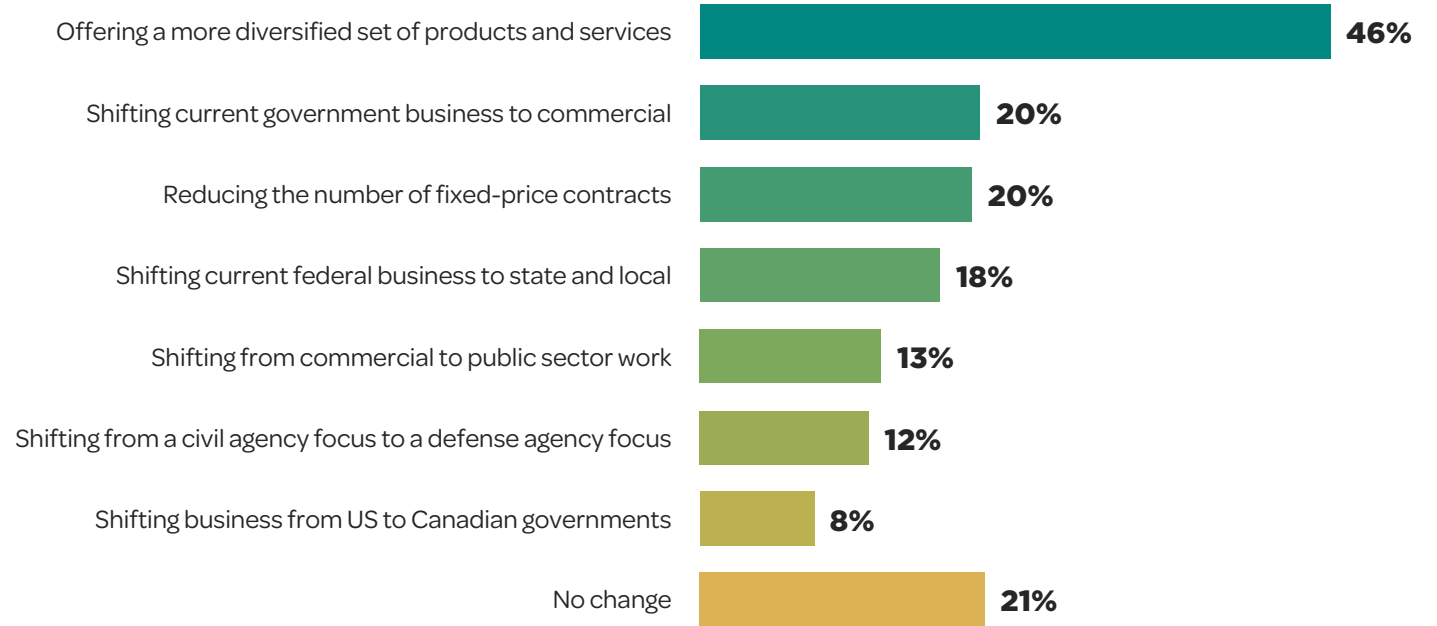
With new products and services a key part of growth strategies, government contractors will need to adjust other parts of their business as well. Respondents indicated that their top priority to prepare for growth was developing new capture strategies. They will also be relying on teaming partners and new talent to succeed with new offerings.



“Certainly, I’ve seen organizations **lean into new service areas** — especially IT professional service firms — as we think about the complete spectrum of emerging technology offerings, from cybersecurity to AI.”

— LEO ALVAREZ, PRINCIPAL AT BAKER TILLY

Revenue Strategy Shift



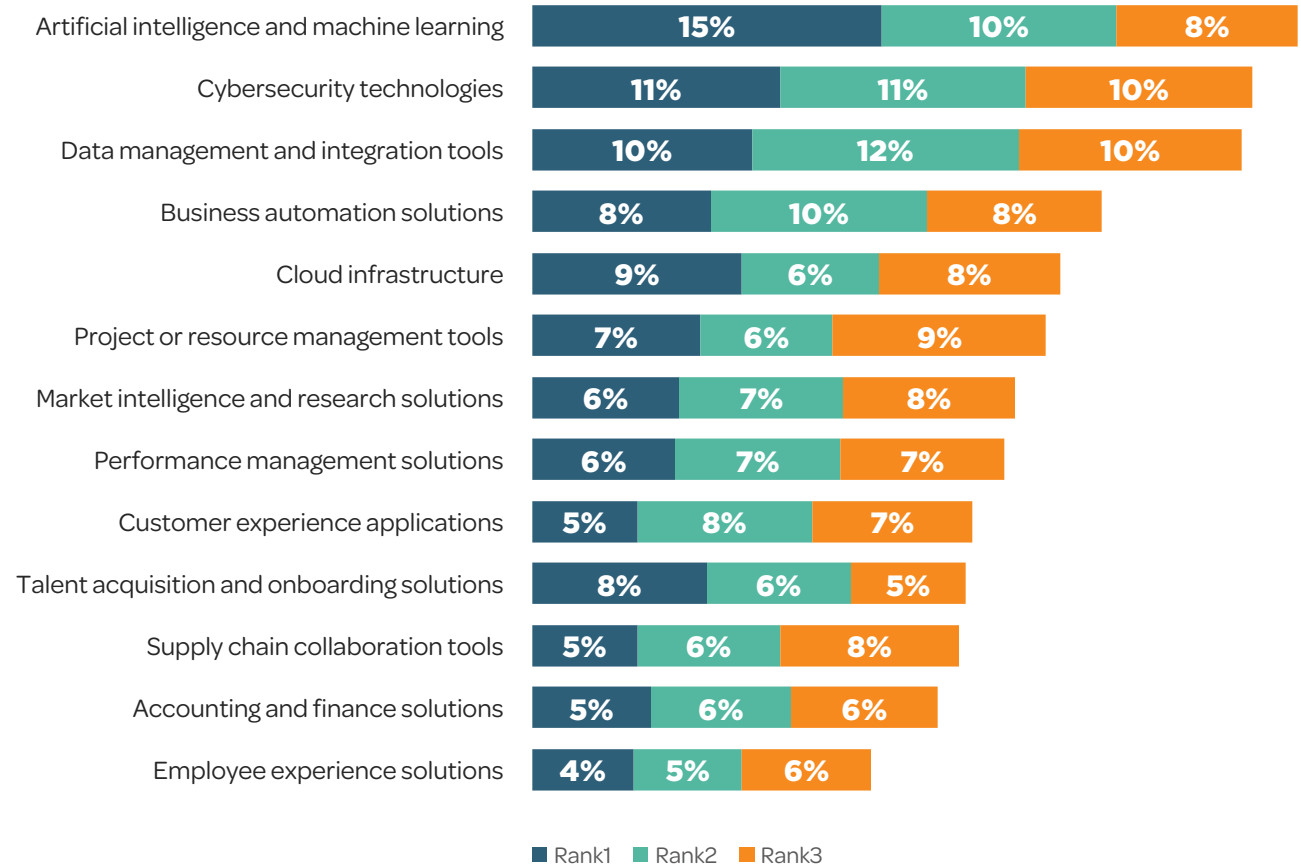
Rise of Artificial Intelligence

This year, artificial intelligence and machine learning have become the top technology prioritized for investment among survey respondents as they look to increase efficiency, reduce operational costs and save time.

Over a third of the sample (34%) ranked it in their top three, above perennial focus areas like cybersecurity, data management and integration, business automation and cloud infrastructure. This rise is likely fueled in part by new developments in AI, where companies have less existing capability built out than those more mature technologies.

Respondents say their companies are [using AI](#) for a variety of use cases. About 80% are currently using it to help optimize internal operations (35%) or planning to do so in the future (45%). This top use case shows companies leveraging new tools that can augment, automate, speed or simplify perennial process optimization goals. Close behind, though, was innovation in product development (34% currently using, 42% planning to use). Respondents also supplied a variety of “other” responses showing early investment to assist with both traditional AI use cases, such as predictive modeling/automation, and uses for generative AI, including programming/coding, developing marketing copy, proposal development, customer support and security plans.

Top 3 Technologies Prioritized for Investment



Expert Perspectives on AI

Despite the sudden focus on AI, experts caution against over-hyping it and implementing these latest technologies without a clear strategy. Gloria Larkin of TargetGov observes, “Artificial intelligence is being used across all elements of the procurement lifespan, everything from market research, into the actual requirements, into award through contract execution, all the way into contract completion and wrap up.”

The industry agrees, however, that AI is more than a trend and is here to stay—which is only further supported with the White House’s release of its AI governance policy. Therefore, determining how these new technologies can help optimize internal business processes, improve decision making and enhance contractors’ products, while maintaining transparency, will be essential. Finding qualified AI talent will also be critical and made more complicated by competition from the government for that same talent. Experts agree though that regardless of AI’s application, even the best generative AI tools still require human input and review.



“AI is coming at us very quickly, like cybersecurity did, and companies are ill-equipped to handle it. And they don’t understand it because it’s still new technology.”

— HEATHER PILOT, PRESIDENT OF PILOT HILL LTD



Small Business Challenges Remain

These market trends differ when it comes to small businesses, or those with under \$20 million in revenue, which tend to struggle more when compared to their larger, better-resourced competitors. Respondents from that sector indicate that they were less likely to grow last year and saw lower rates of growth overall. Correspondingly, fewer expect growth next year than among larger businesses, though still more than half are hopeful for growth in 2024.

Their particular difficulties in government contracting impose some limitations on their strategic options. They are slightly less likely to pursue diversification, and more likely not to plan strategy shifts. They are also less able to prioritize investment in AI. On the other hand, smaller manufacturers are focusing on automation, since they have more ground to make up versus competitors with more developed operations.

Automation could also be a reaction to tight labor markets, which concern small businesses the most. More than half ranked labor as the top cost impacting their business for 2024, with particular concern over their ability to attract the best talent in areas such as manufacturing and project management.

Jason Miller of Federal News Network/WTOP is seeing more small business attention in the federal government and recommends more focus spent on subcontracting and those requirements.

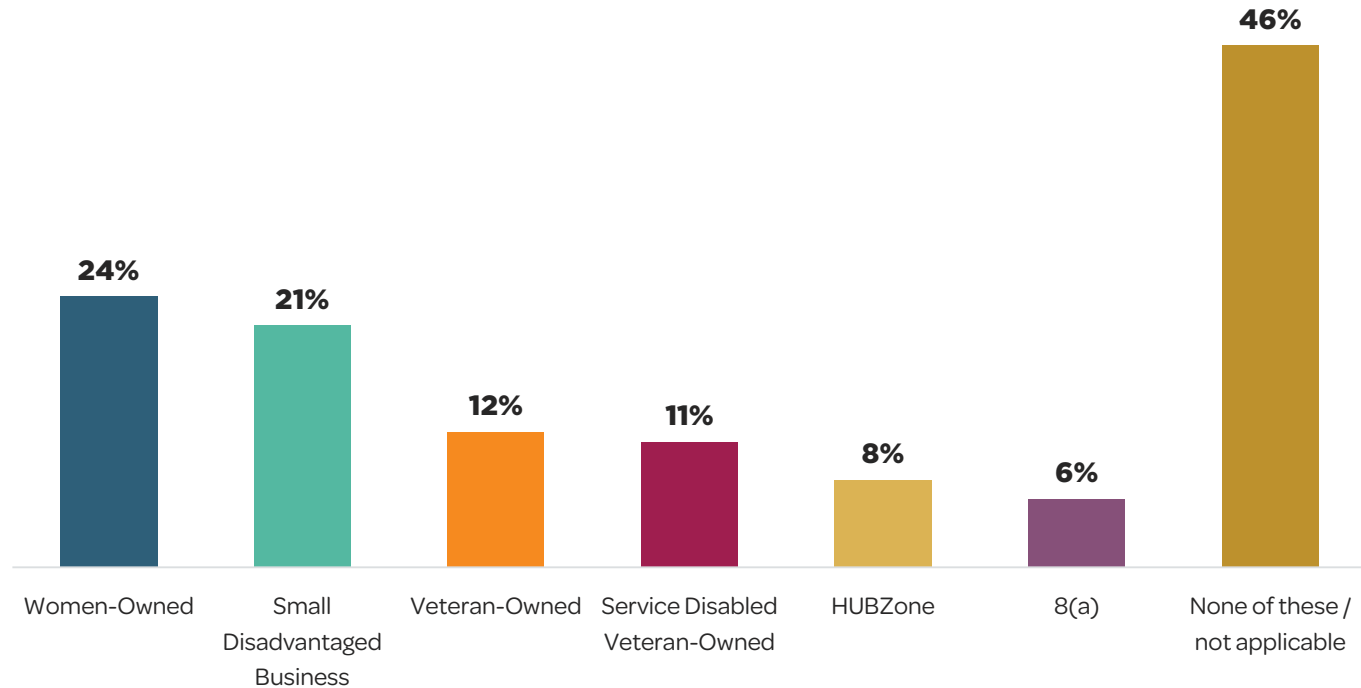


Small Business Support Comes Up Short

Despite efforts by government agencies to support small businesses in the market, Clarity survey results again show the impact of such programs and policies is tempered by other market conditions – such as competition and compliance costs – but continues to evolve. However, many small businesses are not positioning themselves to benefit from the administration’s small business agenda. Nearly half of small businesses (46%) say they are not taking advantage of small or disadvantaged business programs that are at the center of small business policies. And only 23% of small businesses attribute their growth expectations to small business priorities in government contracting.

Looking at 8(a) specifically, just 6% of small businesses say they are a part of the program, which has robust performance requirements. Respondents fell across the program’s participation timeline, with about a quarter just starting (23%) and almost done (23%), and half somewhere in the middle. Potentially, the costs of compliance with program requirements and the competitive environment present a barrier to taking full advantage of a small business-centric program like this.

Current Utilization of Small or Disadvantaged Business Programs



“ There’s probably an awareness factor of just knowing that they’re available. I think small businesses have a focus on what they know and spend their time focused on that. I think that probably the **biggest barrier to entry is just simply not knowing** that they’re out there.”

– MATT BROWN, CEO WITH SHOREPOINT

Small Business Expert Perspectives

Gloria Larkin is optimistic that small business opportunities will continue to increase. “I’m seeing dramatic impacts on this, so much so that certain agencies are making very specific efforts to create opportunities that weren’t there before. That never would have happened if the motivation wasn’t there from the President’s agenda.” For 8(a) specifically, she recommends to “have a strategy in place to work with other firms that are either socioeconomically certified like 8(a)s, or if they want to grow into the mid-size or large business status, to have an aggressive strategy and growth in place so that they can reach their goals.”

Matt Brown noted with more contracts rolling under GWACS, the barrier to meeting the higher bar of requirements makes it harder for small businesses to qualify, which will be an ongoing trend.





CLARITY WRAP UP

MARKET CONDITIONS

Despite challenges in the broader economy, government contracting industry and small business specifically, optimism remains high.

Last year saw growth for most Clarity survey respondents, and although those numbers were slightly below expectations from last year, it has not tempered a similar outlook for 2024. Government contractors are focusing on areas of agility that allow them to shift gears in response to changing market dynamics, such as diversifying their products and services and investing in new technology like AI, hopeful that such strategies will overcome persistent inflation, a competitive talent market and limited small business support.



BUSINESS DEVELOPMENT

Business development teams are prepared to face increasing competition and other challenges for 2024 armed with new tools and strategies.

As competition intensifies and inflation impacts bottom lines, business development (BD) teams remain upbeat about their prospects for 2024. In particular, a focus on opportunity identification - assisted in many cases by AI tools - gives them confidence in targeting the highest-potential opportunities that will improve win rates and other performance measures.



74%

expect their win rates to increase in 2024



TOP BUSINESS DEVELOPMENT CHALLENGES

1 Increased competition

2 Lacking face-to-face opportunities with decision makers

3 Pricing effectively in an inflationary environment

While competition is an ever-present part of the government contracting industry, respondents feel growing pressure this year. Increased competition was the top-ranked business development challenge, with most of those selecting it ranking it first. Those numbers were consistent across business size and U.S. Federal vs SLED, and even higher for companies working with the Canadian government.

With competition intensifying, BD professionals are continuing to feel pressure to make the most of face-to-face opportunities, the second highest-ranked challenge, to both educate and learn from government buyers. Inflation is also putting pressure on their ability to price effectively to win business.

On the positive side, respondents indicate improvements in other challenges, such as limited BD resources, which have fallen off somewhat relative to those above. In fact, 56% of respondents expect business development investment to increase this year.



“There’s a lot of players in the space, so for sure there’s always lots of different entities that **you’re competing against on pretty much any opportunity.**”

– MATT BROWN, CEO WITH SHOREPOINT



Opportunities Are at a Premium

Industrious business development teams are pursuing a variety of initiatives to combat these challenges and continue to grow their business. Leading the list of most important initiatives is better opportunity identification, at 81%. Most respondents are leveraging teaming partners and networks, BD staff and active client relationships as the top sources for new leads, with larger companies also turning to market intelligence solutions like [GovWin IQ](#). BD is a time-consuming activity, with most respondents (64%) spending 1-3 hours per day on research-related tasks. As we'll see on the next page, a notable number of companies are turning to AI to simplify or augment BD tasks.

With inflation impacting their business, developing price-to-win strategies remains a top-priority initiative for 77% of respondents. Although improving sales processes is no longer the top-rated initiative, over three-quarters of respondents (76%) still rate it as an important initiative.

Importance Of Business Development Initiatives (T2B)



Expert Perspectives on Opportunity Identification

As Matt Brown noted, “while competition is fierce, early opportunity notification is critical to know the landscape, the competitors, talk to the agency, understand their priorities and goals, identify the right partners, everything that is needed to significantly impact opportunity-won.”

Mark Amtower agrees, adding that government contractors need to know the agency they are pursuing, their spending trends and their preferred vehicles if they want to be successful. “Information is always number one, relationships are number two.”

Heather Pilot has also found that doing research on the market is paramount. In the Canadian market, she advises defense contractors to seek early opportunity identification to give themselves the opportunity to develop a strategy and source the right strategic partner, not to mention the time required to prepare the proposal. She also highlights that the Canadian market should be viewed as a separate market, not an extension of the U.S. market, since it operates so differently.



“ This is a **relationship-based world**. And if the decision makers don’t know who you are before you write the response to your RFP, your probability of winning is very, very low. And then, what is the point? If you have a low probability of winning, wouldn’t it make sense to spend more time developing strong relationships, reducing the number of RFPs you respond to, and winning more?”

— **GLORIA LARKIN**, TARGETGOV



“ You have to be very specific and diligent on the types of opportunities you want to go after and be laser focused in your pursuit, versus taking more of a shotgun approach of going after everything.”

— **JEFF SHEN**, PRESIDENT, RED TEAM CONSULTING

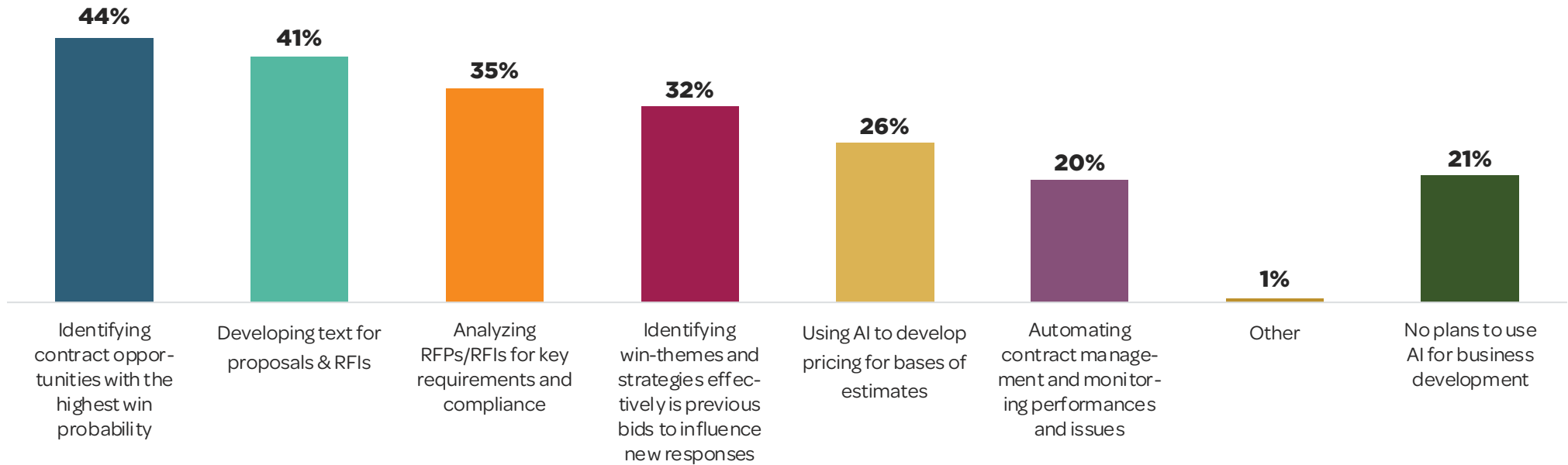
Rise of AI in BD

AI has emerged as a potentially valuable tool to support BD initiatives. Although it falls on the lower end of the list, leveraging automation and AI still earned important ratings from over half of BD respondents (55%). When asked how they planned to use AI for business development, respondents revealed a variety of uses, which were led by identifying opportunities with the highest win probability and developing text for proposals and RFIs.

Notably, 21% of respondents have no plans to use AI for business development for the next year. The percentage of small and mid-size businesses foregoing AI investments for BD was slightly higher, at 27% and 33%, respectively.

Although adoption is slow by necessity when dealing with federal agencies, Alan Balutis, President of APB Ltd and managing partner with the CIO Collective, sees potential in many areas. “They’re beginning to use AI for procurement. And I think it’s one thing to use AI to pull various clauses and provisions from previous RFPs and utilize them to structure a new RFP. That’s already underway in a number of departments and agencies. Now, when you begin to use AI to review and screen, you’d begin to use AI to down-select. You’d begin to use AI to evaluate past performance in a more meaningful way because I would argue the government doesn’t do a very good job in really evaluating past performance and making awards.”

Use of AI for Business Development



Optimism Around Win Rates Continues

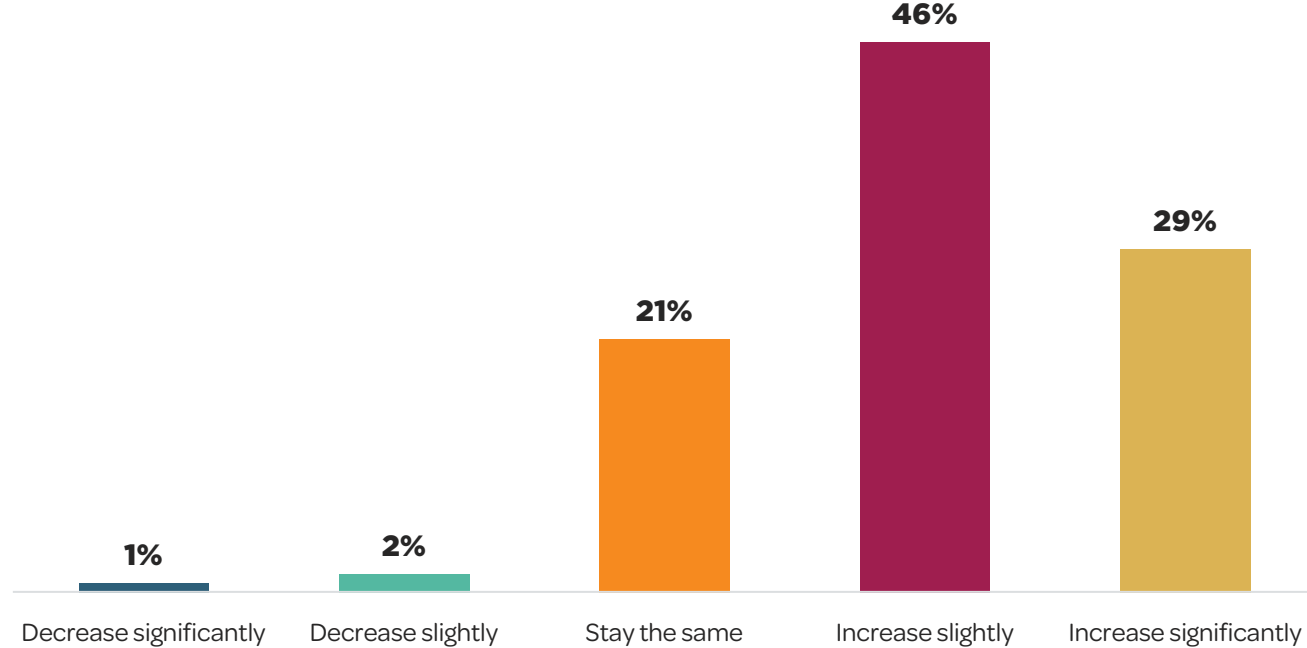
Armed with traditional and new tools and strategies, business development teams have entered 2024 with their customary optimism. Almost three-quarters of respondents (74%) expect their win rates to increase; very few (2%) predict a decline.

These numbers are in line with last year, when 76% of respondents predicted an increase. However, win rates have been remarkably stable over recent years, averaging 57% for recompetes and 44% for new bids last year as compared to 58% and 44% in 2022. It remains to be seen whether AI and other techniques will deliver more robust growth in 2024.

In support of increasing win rates, most respondents (55%) say they are targeting a 2-3x pipeline-to-win ratio. This is up from 39% in 2022, likely reflecting increasing confidence in identifying best-fit opportunities for their organization. Early identification and visibility into potential contracts are critical, as the majority (59%) say they find out about solicitations within a year of submitting proposals, on average. But firms need to consider that the more advance notice they have, the more time they will have to prepare for and increase the chance of winning. Win rate and early opportunity identification go hand-in-hand.



Expected Win Rates



“One of the key components of growth for any sized contractor is to make sure they are **continually building and refreshing their pipeline**. This includes qualifying opportunities and adding to the pipeline as opportunities are shifted to capture or removed altogether.”

— JEFF SHEN, PRESIDENT, RED TEAM CONSULTING

HIGH PERFORMERS: BUSINESS DEVELOPMENT



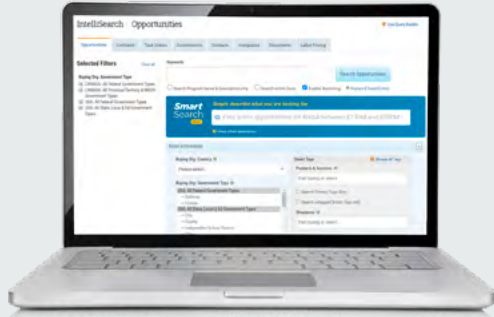
High performers in business development, defined as the top 10% of new bid win rates, are actually somewhat less likely to predict an increase in investment in their function, though a closer look at results indicates that this may be because they already enjoy a significant resource advantage.

They also don't indicate spending more time on research, since they have invested in more effective tools to enable their teams, such as market intelligence solutions (e.g., GovWin IQ). These companies are also more comfortable with lower target pipeline-to-win ratios, which could be influenced by the type of work they pursue, the size of their organizations or incumbency rate. Not only are they more likely to have plans to leverage AI for BD, they're more likely to consider more diverse AI use cases.

While high performers noted a mere 2x pipeline to win rate, if your business is not as sophisticated or just starting out, Red Team Consulting recommended in a [recent webinar](#) a 10x pipeline multiple along with a structured qualification and vetting process as a best practice.

57%

of high performers use market intelligence solutions to identify opportunities, vs just 40% of others



Supercharge Your GovCon BD

Top government contractors rely on GovWin IQ to streamline their BD process, providing one centralized place to find, evaluate and manage best-fit opportunities across U.S. and Canadian public sector markets.

[Try GovWin IQ for Free >>](#)



CLARITY WRAP UP

BUSINESS DEVELOPMENT

Competition continues to intensify in the government contracting space, but developing better BD strategies, improving identification of high-potential opportunities and investing in valuable tools such as AI, are enabling business development teams to continue to drive results.

Competition is not the only challenge facing government contractors; finding opportunities to engage with government stakeholders and pricing pressures caused by inflation are also top-of-mind issues. Business development teams are focusing on identifying the best potential opportunities, leveraging personal networks and assessing the potential for AI in their organizations. They believe they are up to the task, with an optimistic outlook in line with recent positive years.



Recommended Resources



101 Guide
[Selling to the Government as a Small Business](#)



Webinar
[Practical Uses of Gen AI for BD and Proposal Professionals](#)



Small Business Resource Center
[Compete Smarter When You Leverage Exclusive Resources for Small Business](#)



PROJECT & RISK MANAGEMENT

Market conditions present ever-changing challenges in project management and delivery.

As Project & Risk Management (PRM) respondents look back at 2023 and ahead to the rest of 2024, they illustrate the shifting nature of government contracting with the challenges they face, from supply chains to labor. With investments in people and processes, they look to maintain steady performance from years past.



76%

of projects are delivered on or under budget, and on or ahead of schedule

TOP PROJECT & RISK MANAGEMENT CHALLENGES

1 Accurate cost forecasting

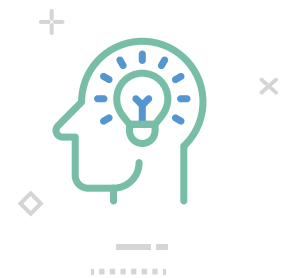
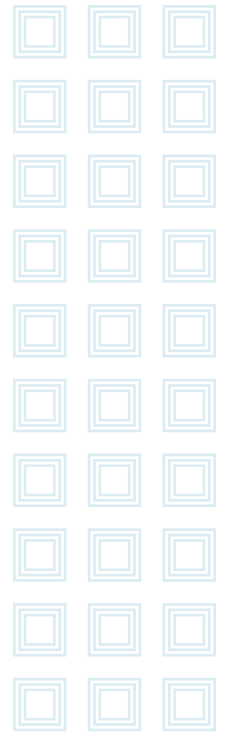
2 Poorly defined scope

3 Collaboration and communication

This year, respondents reported the same top three challenges as last year, with accurate cost forecasting surpassing poorly defined scope for the top spot at 28% ranked first. Given increasing cost pressures from inflation, competition and growing contract and compliance complexity, it's no surprise to see cost forecasting concerns rise to the top. Poorly defined project scope, a continuing challenge, may also significantly contribute to accurately forecasting costs as clear lines of sight to project completion are difficult. Collaboration and communication issues also challenge their organizations, a continuing trend from previous years.

In response, nearly half (48%) of government contractors are investing in PM training, while 43% are developing PM best practices. These initiatives indicate internal efforts to improve the efficiency of existing staff and processes to combat these top challenges.

Given growing costs, tight budgets and resource constraints, government contractors are also tracking costs more diligently. Over a third of respondents (34%, up from 21% last year) noted actual vs. planned costs as their top project management KPI. Interestingly, developing KPIs is not a top strategy, perhaps because they believe the right metrics are in place.

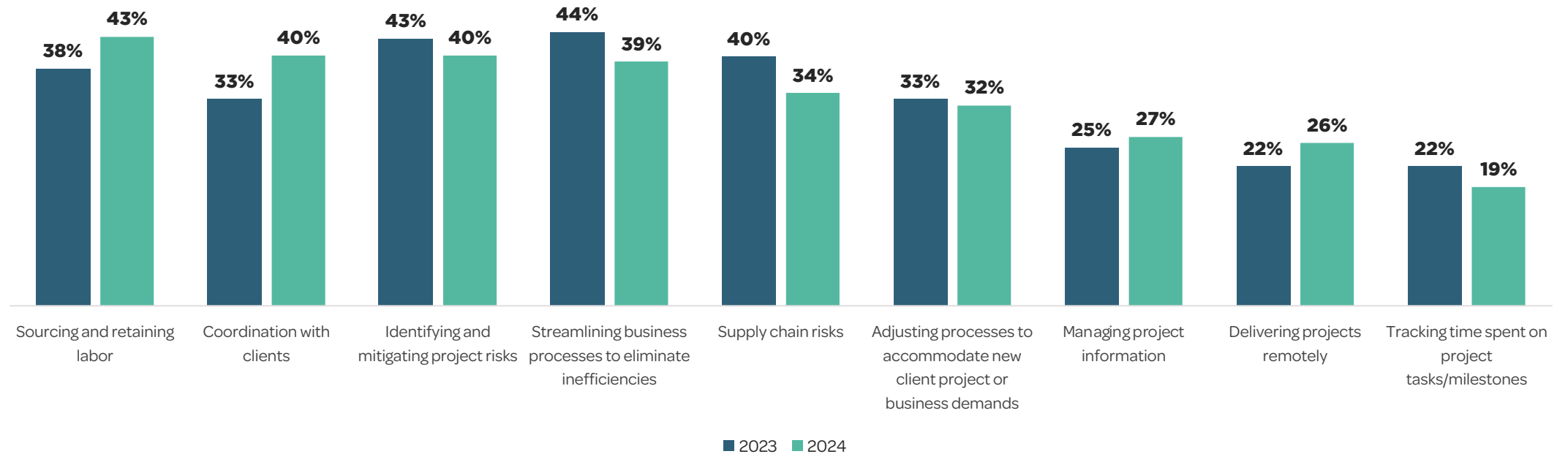


Shifts in Project Delivery Challenges

Thinking specifically about project delivery, survey results showed some shifts between 2023 and 2024. Looking back at last year, most respondents reported that streamlining business processes was a top challenge, but they foresee less difficulty there in 2024. Perceptions of supply chain risks have also improved since last year; roughly one-third of respondents (34%) note supply chain risk as their top concern compared to 40% last year. Although the supply chain landscape is improving, contractors in industries such as engineering, defense and IT continue to experience challenges.

While difficulties with business processes and supply chains are easing, labor has risen from 38% to 43%, the top concern for 2024, especially among small businesses. As government contractors invest in their PM staff, they want to make sure they can retain those specialists and scale their efforts for growth.

Top 3 Challenges With Project Delivery In 2023 vs 2024



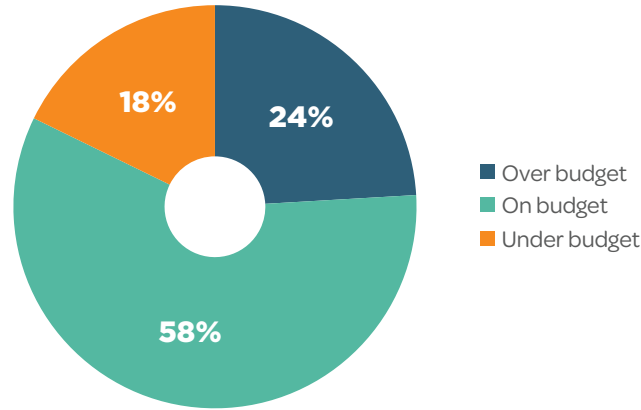
Performance Remains Stable

Despite the myriad of concerns for project management and delivery, government contractors are maintaining their performance standards. Most projects (58%) stay on budget, though those that run over are more common than those that come in under budget. These numbers are all within a percentage point of the same figures from last year's Clarity survey.

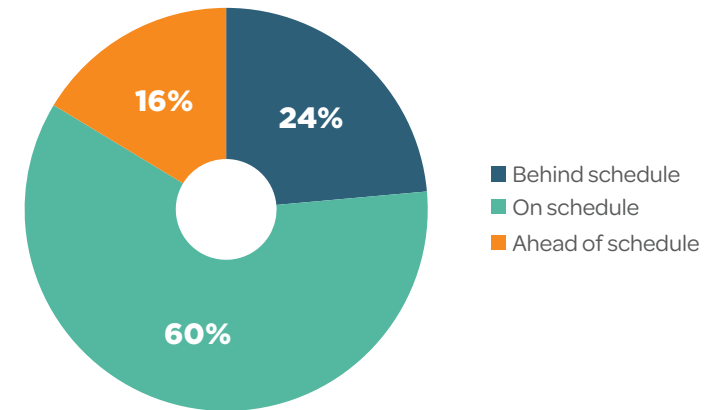
Similarly, respondents report most projects staying on schedule (60%), though again with more behind schedule than ahead. For both 2023 and this year, about one-quarter of respondents reported schedule delays as the norm, while the percentage of respondents noting being generally ahead of schedule decreased from 20% in 2023 to 16% this year.

Larger companies appear to struggle more staying on budget and schedule, likely due to more complex projects.

Project Budget Performance



Project Schedule Performance

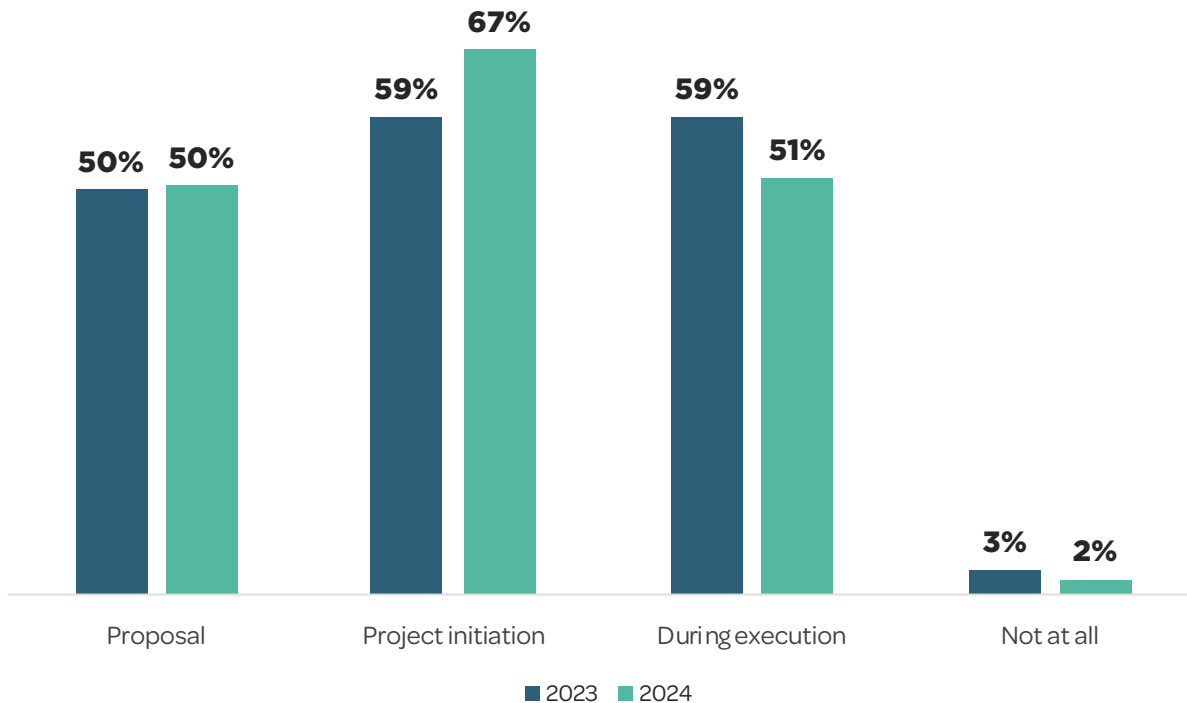


Risk Management Growing and Moving Earlier

Companies report using risk management practices of some form on 71% of their projects, a modest increase from 67% last year. The top practices include monitoring and controlling risk as well as project level qualitative risk management, at 66% and 54% respectively, both representing slight growth since last year as well.

Risk analysis takes place at all stages of the project cycle, but comparing last year's results to this year, it appears government contractors are moving some risk analysis earlier, from execution to initiation, now the most frequent phase.

Schedule Risk Analysis Across Project Phases



HIGH PERFORMERS: PROJECT & RISK MANAGEMENT

Project & risk management high performers, those with the highest proportion of projects under budget at 35% or more, further differentiate themselves from others in a variety of ways, including their initiatives to address current challenges. They show an emphasis on tracking KPIs, project status and dashboards; they are also more likely to plan investments in workflow planning tools. While certainly not ignoring training for their current PMs, they are more likely to plan to recruit PM candidates with the qualifications they need.

They are also conducting risk analysis earlier and more often, with over three quarters in the proposal phase and nearly all at project initiation.



77%

of high performers schedule risk analysis at proposal, and 92% at project initiation



CLARITY WRAP UP

PROJECT & RISK MANAGEMENT

PRM staff face shifting challenges as they deliver on their contracts.

Looking ahead to 2024, project and risk managers mention a wide array of challenges shifting as economic and market conditions evolve. Having weathered supply chain difficulties, this year's Clarity respondents report they now face increasingly competitive labor markets. However, they have maintained performance standards set in recent years, and are looking to improve their internal talent, processes and tools to address the labor challenges they are facing.



Recommended Resources



Guide

[Cost Management Guide for Project Professionals](#)



Guide

[Creating, Critiquing and Risk Adjusting Your Schedule](#)



Webinar

[Resource Loading Your Schedule as a Best Practice](#)

FINANCE & FINANCIAL COMPLIANCE

Though some financial metrics have declined slightly since last year, they still represent historic highs.

Government contractors are enjoying strong growth and profitability, though their finance teams are subject to the same talent competition as other functions. Technology is seen as a potential solution, either by addressing hiring directly or through leveraging newer tools like AI to support cost controls. Those measures will be increasingly important as compliance costs grow, especially with the growing numbers of audits.



15%

median P/L margins, a decline from last year but higher than any other year on record



TOP FINANCE & FINANCIAL COMPLIANCE CHALLENGES

1 Reducing costs

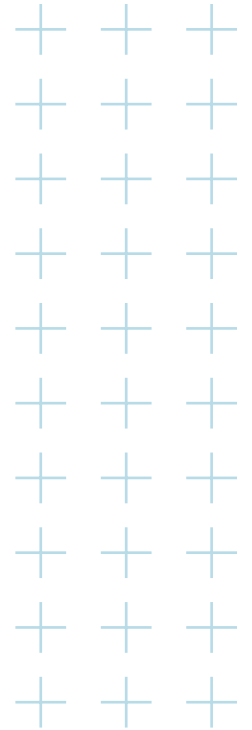
2 Increasing profitability

3 Attracting and retaining talent

Financial challenges showed little change from last year as those teams persistently focus on reducing costs and driving profitability, as seen in G&A rates declining. While profitability is the ultimate goal, reducing costs remains the top challenge once again this year – though it’s a challenge respondents likely have more options to control.

One notable change was the rise of attracting and retaining talent to third, overtaking cash flow as a priority for finance teams. As other Clarity survey results have shown, talent is increasingly a pain point for government contractors in finance as well as other functional areas.

Respondents said that their companies’ initiatives focus mainly on financial functions rather than talent, though. Half selected better profitability qualification of new opportunities as an initiative for 2024, the clear top selection. Talent is still a factor though – cost-cutting measures that would negatively impact talent, such as hiring freezes or compensation reductions, were the least selected.

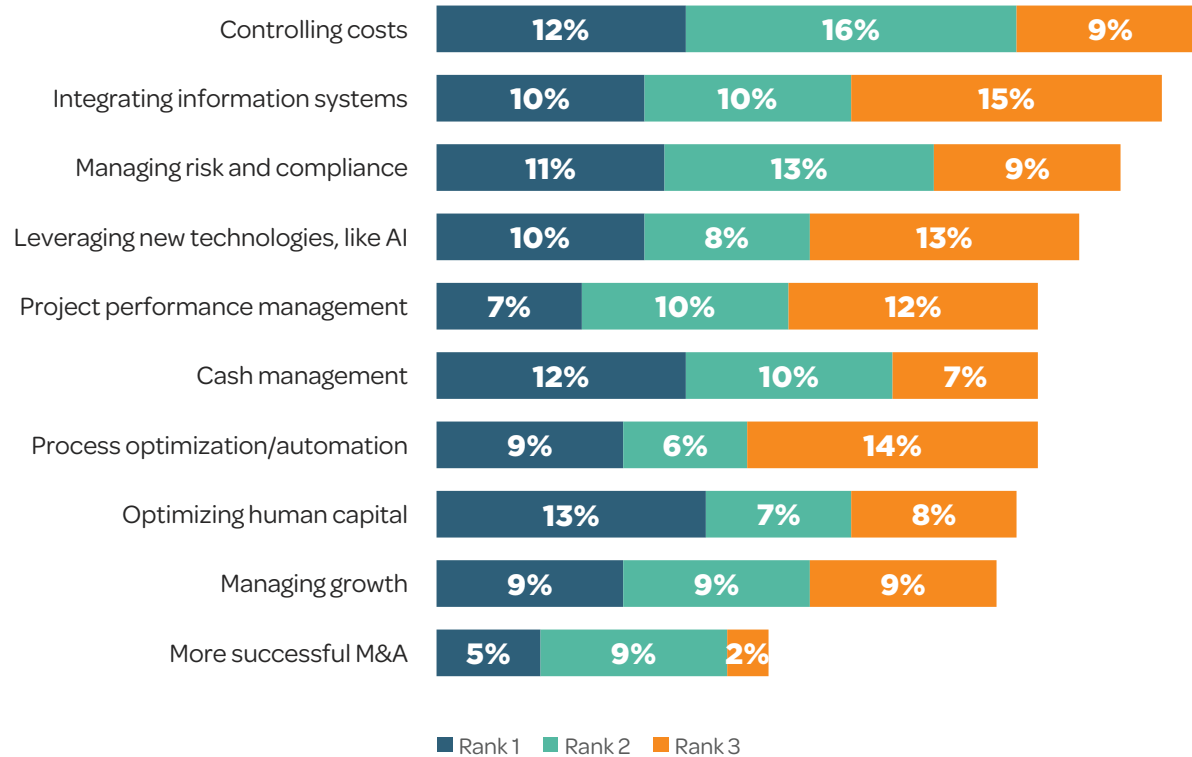


Supporting Cost and Talent Goals with Technology

Government contractors are leveraging technology in the interests of their bottom lines. When asked about their digital transformation initiatives, controlling costs was the top selection, ranked in the top 3 by 38% of respondents. Some companies, generally larger by revenue, plan on using technology to ease their talent difficulties. It's also notable that nearly a third of companies mentioned new technologies such as AI in their top 3.

Currently, though, finance technology still shows room for improvement. While most companies use ERP systems and accounting / bookkeeping software (58% each), nearly the same number (55%) are using spreadsheets, alone or in addition to other software. The use of spreadsheets confirms that manual processes are still dominating back-office tasks for many businesses.

Top 3 Digital Transformation Challenges



Industry Financial Metrics

Finance respondents reported the following key performance metrics:

10% Median Growth Rates

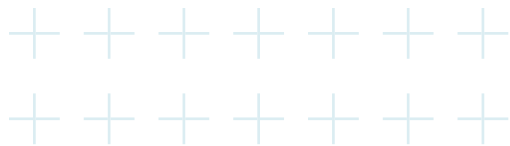
Median growth rates fell slightly to 10% from 12% last year, with smaller companies lagging larger competitors.

15% Median Profit Margins

Median profit margins also fell slightly to 15% from 17%, with large / enterprise companies generally on the higher end. Despite declines, both these numbers remain above levels from during and before the pandemic years.

Contractors are utilizing the primary levers to drive these profit margins – enhancing strategies to increase win rates to take advantage of increased government spending and reducing internal costs where possible.

Profit/Loss Margin and Growth Rates (Median)

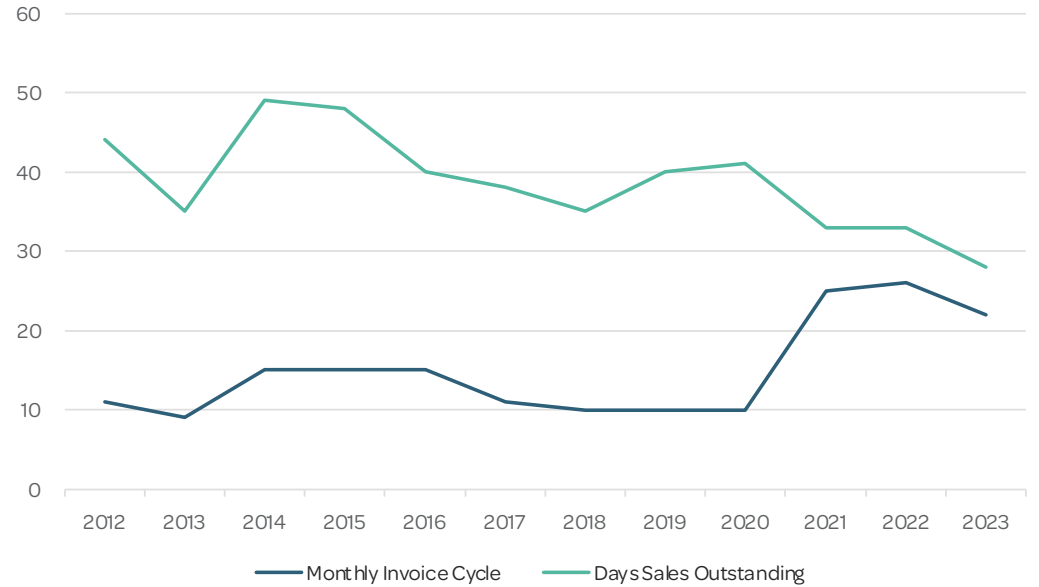


Fringe and Overhead Rates (Median)



Median **fringe rates** saw an increase to 20% from last year's low of 16%. **Overhead rates** were more static, with the median remaining at 20% as well.

Monthly Invoice Cycle and Days Sales Outstanding (Average)



Billing metrics declined slightly, with **average monthly invoice cycles** dropping to 22 and **average days sales outstanding (DSO)** to 28.



Increasing Numbers of Audits

This year's Clarity survey results show an increase in audits, overall and for key types. The total across categories increased to 33 on average from just 25 last year. Certain types of audits are driving the increase – for instance, cybersecurity audits grew almost 50% from 5 to over 7.

More than half of respondents say their companies spend more than 80 hours on government audits, or at least 2 weeks of labor. Fewer respondents find themselves on the extremes, under 40 hours or over 160. When dealing with audits, billing has become the top challenge, with consultant fees also rising. In response, companies are investing in training, another sign of the importance of talent and mitigating struggles there. Over a quarter of respondents are leveraging AI as well (28%).

Audits by Area



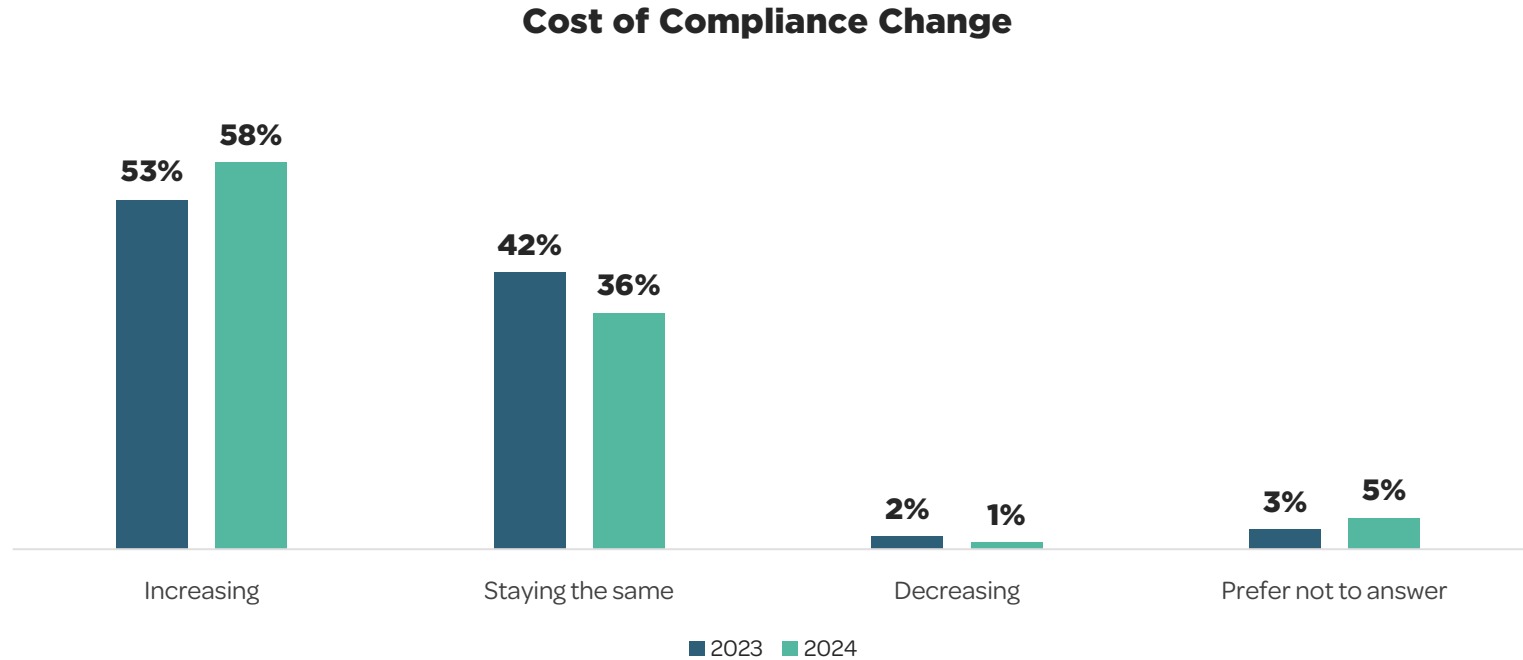
“More people see [consultants] as a need. They did it on their own and now they’re paying for it because they did something wrong or they made a mistake that resulted in an audit. So now they realize that **they needed to pay an expert** to do it for them.”

– TERESA MOON, DIRECTOR OF BUSINESS DEVELOPMENT, PARABILIS

Compliance Costs Growing

Compliance is an ever-present hurdle for working in government contracting, and this year's Clarity survey shows that the difficulties it entails are only growing. Most respondents (58%) expect the cost of compliance to increase this year, with only 1% predicting a decrease. This represents an increase from last year as well, when 53% indicated an expected increase, which is unsurprising given the increase in audits.

Leo Alvarez, Principal at Baker Tilly, advises contractors to maintain a compliance mindset. "The federal government is unique. It has its own challenges. Organizations are rightly focused on what they can do to technically serve the agency, but also making sure that time is invested and ensuring that you remain compliant and that you're keeping your house in order is money well spent."



“Government contracting is **a very unpredictable market** and trying to stay on top of the changing policies, regulations, and executive orders is extremely difficult. Further, it is even more challenging to understand how those updated executive orders or regulations apply to your business, as they often have a downstream effect in how you pursue federal business.”

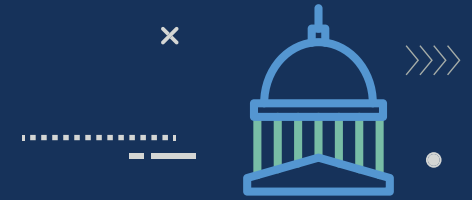
— **JEFF SHEN**, PRESIDENT, RED TEAM CONSULTING



HIGH PERFORMERS: FINANCE & FINANCIAL COMPLIANCE

High performers in finance, defined as those driving the highest profit/loss margins, were more likely to have ranked talent as their top challenge. However, by having the right metrics in place, they were able to recognize this issue and get ahead of the pack by leveraging technology to optimize human capital functions, which is their top digital transformation initiative.

They also are more likely to handle audits more systematically and efficiently. Almost half (45%) are addressing audit challenges with dedicated resources, the group's top strategy. This allows respondents to say their companies spend less time on audits, with 31% spending 40 hours or less.



45%

of high performers are assigning
dedicated resources to audits



ERP for Government Contractors

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CLARITY WRAP UP

FINANCE & FINANCIAL COMPLIANCE

Finance teams are turning to technology to support their teams' financial performance.

While some financial metrics like growth rates and P/L margin are softening this year, it's important to keep them in context. 2022 represented historic highs, so last year's results still outperform most years for which the Clarity survey has results. As they mind their companies' costs and profitability, finance professionals are also facing talent pressures impacting the government contracting industry as a whole. Fortunately, they have technology as a force multiplier for their teams, including new tools like AI that can help reduce costs and enable people resources to spend their time on more strategic tasks.



Recommended Resources



Guide

[A Guide to Government Contracting Compliance](#)



Research

[Nucleus Research: The Value of GovCon ERP Platforms](#)



Webinar

[Advanced Strategies for Compliance: Selected Cost Principles](#)

MANUFACTURING

The manufacturing sector is undergoing technological change, with automation and AI among the tools employed to address talent turnover while maintaining quality standards.

While the supply chain remains a high-risk factor for manufacturers, they are more preoccupied with replacing their most experienced workers, many of whom are aging out of the workforce. Though they have identified technology initiatives and other strategies to cope with these challenges, the follow-through to invest in building and scaling these systems is still an obstacle.



44%

of respondents plan to leverage automation to address their manufacturing challenges for 2024



TOP MANUFACTURING CHALLENGES

1 Attracting and retaining talent

Talent and quality control remain the top two challenges for 2024, though attracting and retaining talent stands out at the top for this year with 33% ranking it in their top 3. The trends driving the competitive market for talent are not new, including the difficulties of replacing experienced workers at or near retirement age. This challenge is especially pressing for small businesses, with over half (60%) selecting it as their number one challenge. There is little margin for error while making these workforce transitions, since maintaining high quality remains a top priority as well.

2 Quality control

Managing legacy systems was added as an option this year and finds itself third overall. This is no surprise given the difficulties of keeping these systems secure, high maintenance costs and loss of domain knowledge as employees most familiar with legacy systems continue to age out of the workforce. Siloed legacy systems also prohibit the incorporation of automation, a clear priority for survey takers.

3 Managing legacy systems



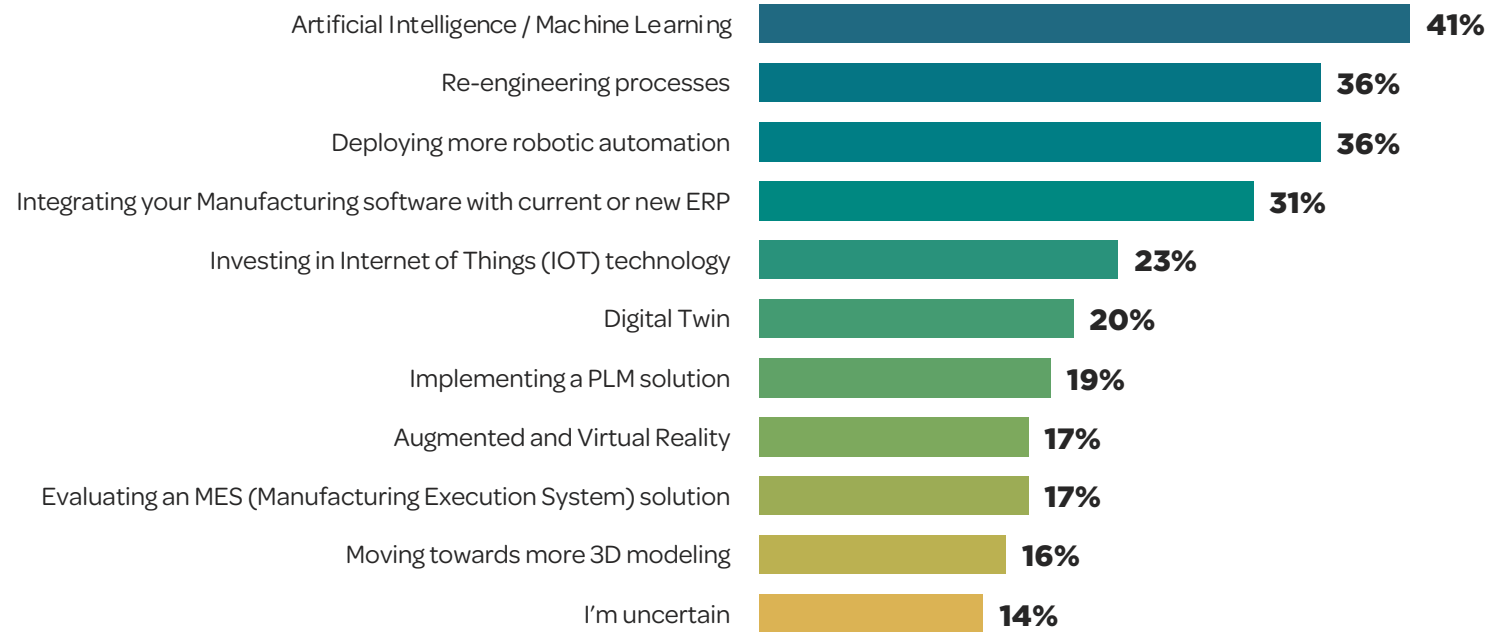
Automation & Technology Emerge as Key Solutions

Manufacturers are increasingly turning to automation to help ease challenges with talent, quality control and other areas. Nearly half of respondents (44%) selected it as a strategy for the upcoming year. That figure rose to 60% among small businesses, which have the largest gap to make up (only 14% automated vs. 49% overall).

Implementing automation is not a straightforward process, however. Small and mid-size businesses struggle the most with technology acceptance, which acts as a barrier to automation. The cost investment required is another significant factor in this struggle. In contrast, the biggest manufacturers say that scalability is their clear top challenge for continuing to build on their more mature automated processes.

Aside from automation, artificial intelligence and machine learning are also a technology focus in the manufacturing sector. AI/ML was the top digital transformation initiative at 41%, up from 29% last year. Notably, deploying more robotic automation rose to tie for second among digital transformation initiatives at 36%, alongside process reengineering, which is perpetually a focus area for optimizing manufacturing and other business functions.

Digital Transformation Initiatives in Manufacturing Operations

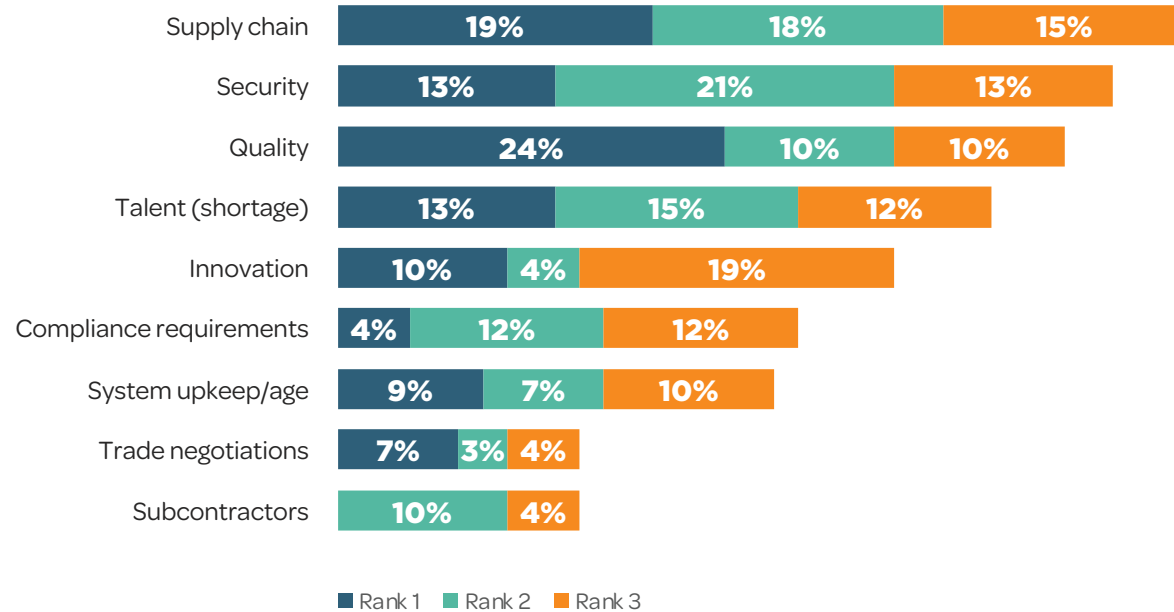


Supply Chain Remains a Top Risk

When asked what areas pose the greatest potential for risk, respondents gave an interesting variety of answers. Over half of respondents cited their supply chains (51% placing it within the top 3), the same top selection as last year. However, nearly a quarter of respondents ranked quality first overall. Security and talent were also prominent, with noteworthy numbers placing them first or in the top 3.



Top 3 Risk Areas in Manufacturing Operations



“The weakest point has always been in supply chain for cyber attackers.”

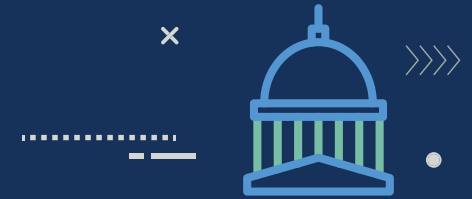
— **CHUCK BROOKS**, PRESIDENT, BROOKS CONSULTING INTERNATIONAL



HIGH PERFORMERS: MANUFACTURING

As with finance, manufacturing high performers are defined by the highest P/L margins. Almost all of this group (89%) say that their operations are automated, as compared to less than half of the rest of respondents (43%). Many high performers see this as an antidote to talent challenges; they chose attracting and retaining talent as a top challenge almost half as much as other respondents (22% vs. 35%) but were more likely to say they were leveraging automation to address their challenges (56% to 42%).

Their KPIs also differ from the overall manufacturing sample. Only 11% track capacity utilization, the top KPI overall, while more than half of high performers track inventory turns (56%).



89%

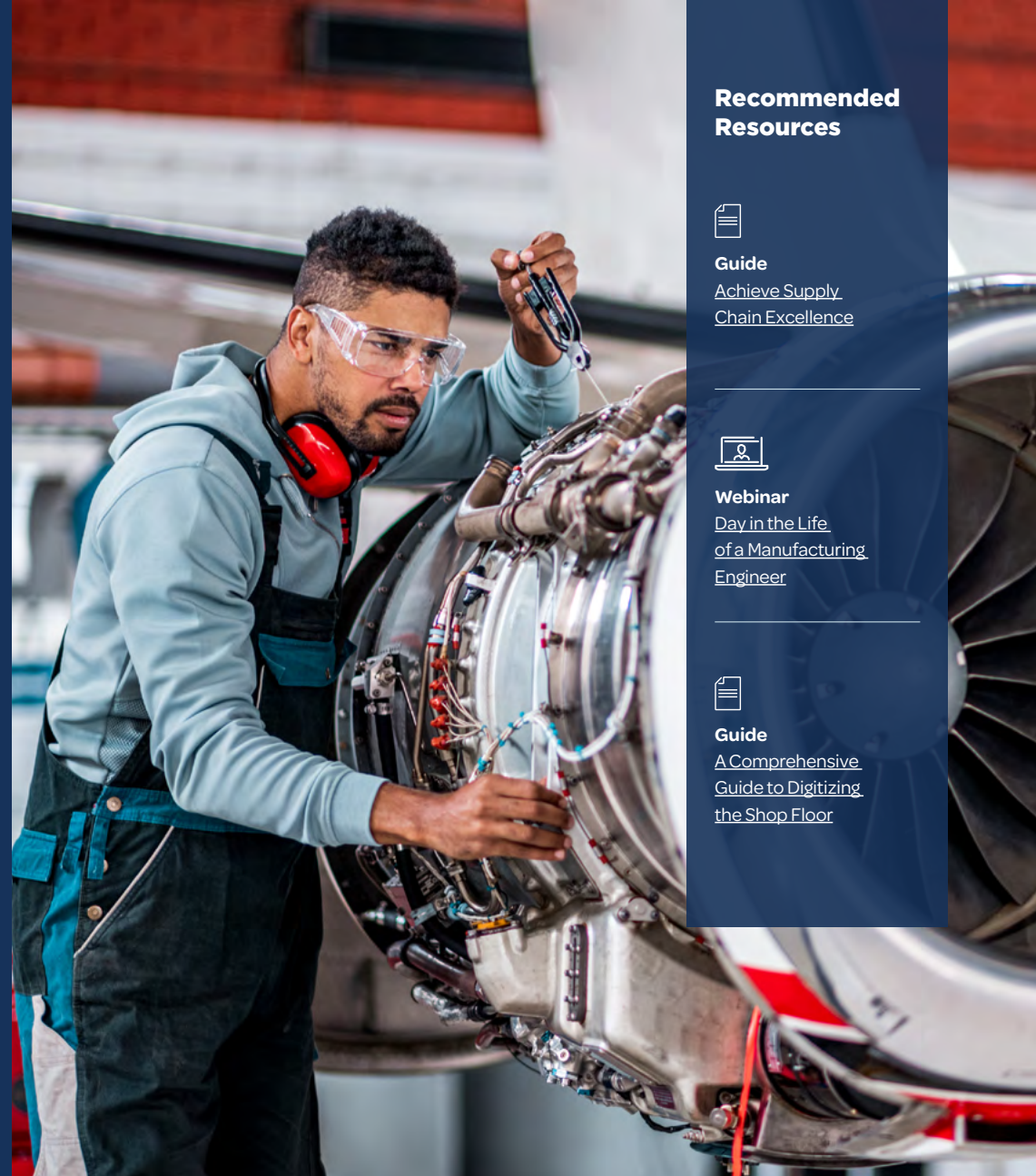
of high performers have automated
manufacturing operations

CLARITY WRAP UP

MANUFACTURING

Manufacturers are embracing technology as a powerful solution to tackle talent shortages and quality challenges.

The relentless turnover in the workforce has left manufacturers grappling to replace their most experienced workers. In response, automation, artificial intelligence and other technological strategies are coming to the forefront. However, it's essential to recognize that these innovations also bring forth their own set of unique challenges.



Recommended Resources



Guide

[Achieve Supply Chain Excellence](#)



Webinar

[Day in the Life of a Manufacturing Engineer](#)



Guide

[A Comprehensive Guide to Digitizing the Shop Floor](#)



CONTRACT MANAGEMENT & PROCUREMENT

Contract and procurement teams have seen relatively little change in challenges or the tools they use to address them.

Contract management teams face ongoing difficulties estimating and monitoring resources, budgets and schedules, while procurement professionals continue to navigate persistent inflation. There is a clear desire for better technology to improve their work, but many reported they are still using spreadsheets to manage contracts. The best-performing companies based on Contractor Performance Assessment Reporting System (CPARS) standings point to better software as a differentiator, showcasing the benefits of investment in technology. Still, despite these difficulties, contract management and procurement professionals' confidence remains high in their roles



60%

of respondents are confident interpreting and tracking complex contract requirements

TOP CONTRACT MANAGEMENT & PROCUREMENT CHALLENGES

1 Estimating resources and budget

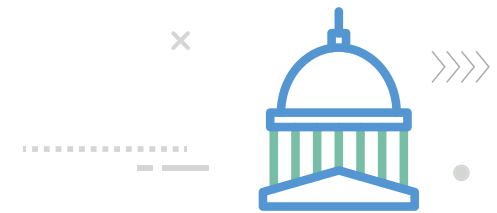
2 Monitoring time and expenses / ensuring project is on budget and profitable

3 Managing contract / proposal negotiations

Contract management professionals face similar challenges to last year, though the order has shifted. Estimating resources and budget has risen to the top, from just outside the top three last year. Monitoring time and expenses fell to second, while managing negotiations also joined the top three. The largest drop was for non-centralized contracts, though it was actually ranked first the most frequently, showing that it may be solved by some companies while still causing headaches for others.

With similar challenges, companies continue to utilize the same strategies to manage them, namely adapting business processes and hiring. Though these efforts have not solved the challenges, contracting teams still feel positive: confidence with complex contracts is high, rated either 4 or 5 out of 5 by 60% of respondents.

Leo Alvarez notes the importance of reexamining processes as challenges evolve. "I think organizations are going to have to reinterpret how they are able to work through their internal operations, utilizing advanced technologies that can automate the more mundane tasks throughout the day." He also points to generative AI as one tool, albeit one that will take time: "I think it's safe to say this is the next revolution in the coming years, certainly from a process standpoint."

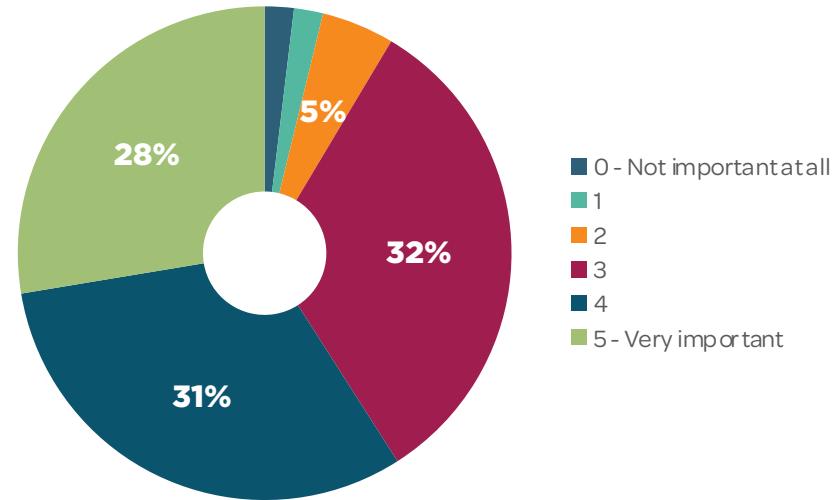


Technology Acknowledged as Important, but Investment Needed

Respondents in contract management roles note the importance of new technology and automation in their role, with 59% rating it a 4 or 5 out of 5, as compared to just 9% with a rating of 2 or below.

However, when asked about their current resources to manage contracts, only 58% reported using customized tools such as contracts management software. Whether alone or in tandem with specialized contract management software, over 60% of respondents still rely on spreadsheets to some degree. This indicates a gap between the ideal and real-world tools at their disposal.

Importance of Technology and Automation in Contract Management



Inflation Continuing to Impact Supply Chain

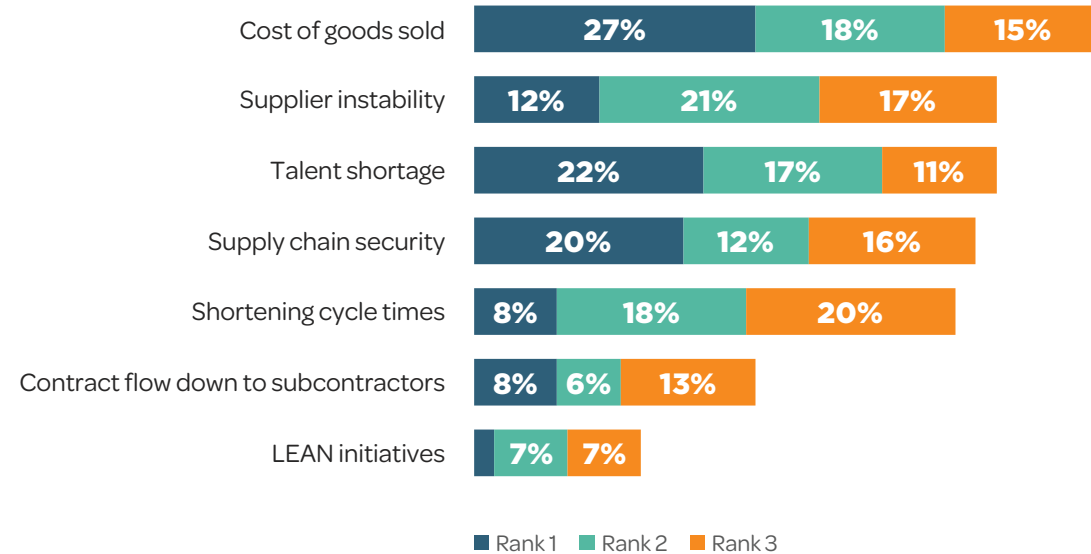
Though inflation has eased, it is still a major factor impacting government contractors. Procurement respondents selected cost of goods sold as the leading supply chain challenge, with over a quarter (27%) ranking it first.

Notably, talent shortages are also impacting procurement and supply chains the same as other functional areas. Talent shortages were the second most likely to be ranked as the top challenge.

To address rising supplier costs and supply chain instability, companies are still working on identifying new domestic vendors as their leading strategy to improve supply chain health (61%). The size of respondents' supplier networks has not risen appreciably, indicating that they are replacing rather than adding net new vendors.

This year, almost the same number of respondents (60%) say their companies are implementing new tools and processes - seen as a more realistic goal than investing in talent directly (35%).

Top 3 Supply Chain Challenges

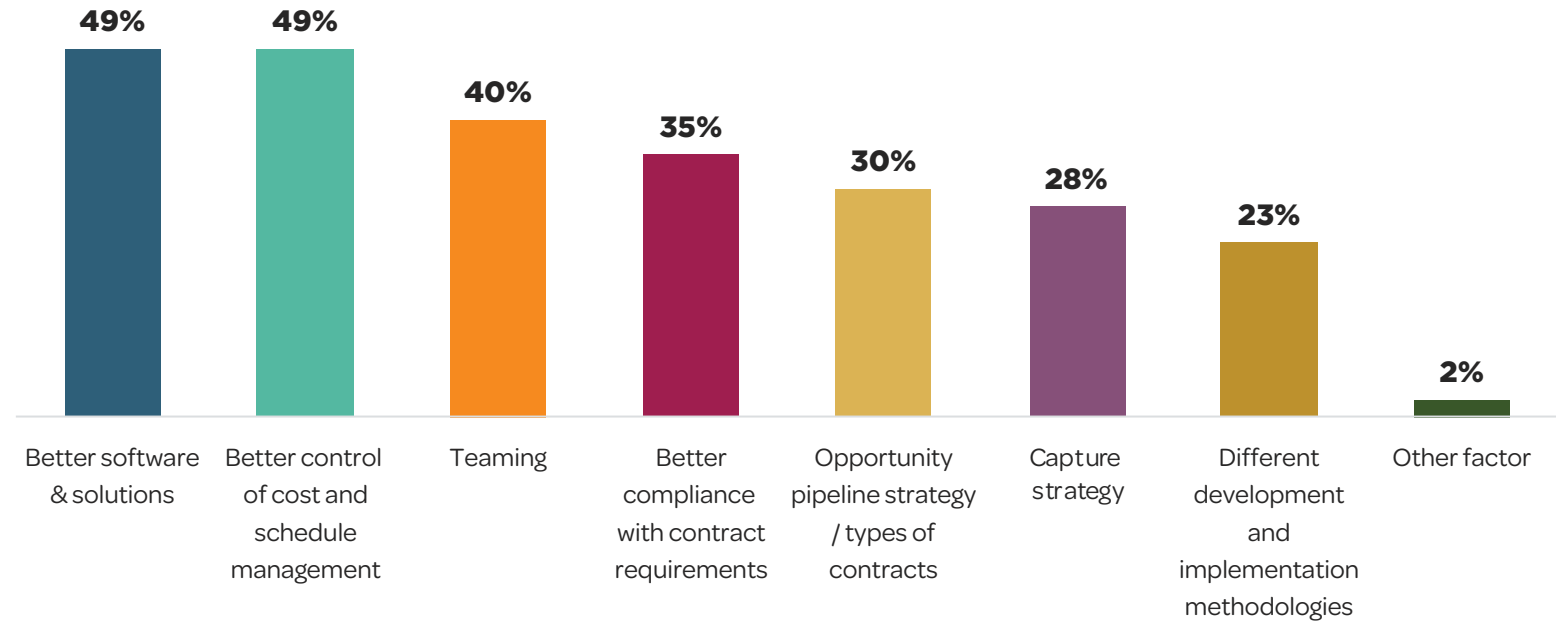


CPARS Technology and Strategies

This year, the Clarity survey added questions about CPARS standing. About half of respondents (51%) indicated that their standing was “satisfactory,” with most of the rest at “very good” (32%) or “exceptional” (9%). Of those leading companies, almost half attribute their success to software solutions and controls around cost and schedule management (49% each).

That leaves just 8% “marginal” or “unsatisfactory.” That small group is evenly divided on whether their standing affected their 2023 win rate. Those who did feel the pressure to improve their standing indicated a variety of tactics, led by 75% changing their opportunity pipeline strategy or the types of contracts they pursue.

Factors Contributing to Organization’s CPARS Standing in 2023



“For most businesses, they just receive a stamp of satisfactory and that doesn’t help you in future contracts. But for all of those businesses who are subcontractors, they will never have a CPARS rating, because CPARS ratings are only for primes. So, for those businesses who never receive CPARS, it’s mandatory that they **create their own internal quality assurance process.**”

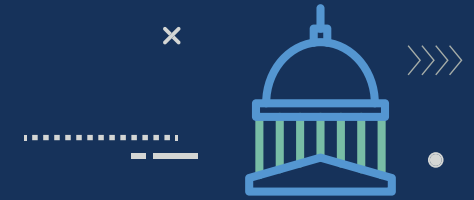
— GLORIA LARKIN, TARGETGOV

HIGH PERFORMERS: CONTRACT MANAGEMENT & PROCUREMENT

Contract management and procurement high performers, defined by the fastest PO cycle times at around a week or less, can likely trace their success to being ahead of the curve on talent and technology. To address their challenges, most (55%) are hiring additional resources as a primary strategy. They also recognize the importance of technology for contract management processes, with 83% rating technology and automation a 4 or 5 out of 5 (versus just 56% of other respondents). High performers are more likely to report better CPARS standing, which 71% attribute to better software and solutions.

“Contractors that fail to invest in their compliance posture risk a lapse in meeting contract obligations related to security, technical, or pricing compliance. That can be extremely disruptive for organizations focusing on keeping their federal agency clients happy with their work. As these things go, **investments today pay dividends tomorrow.**”

— LEO ALVAREZ, PRINCIPAL AT BAKERTILLY



55%

of high performers are hiring additional contracting resources

CLARITY WRAP UP

CONTRACT MANAGEMENT & PROCUREMENT

The demand for technology solutions in contract management is strong - as are the results to support investment.

As they grapple with resourcing, budgets and schedules, contract management and procurement teams have a strong desire for improved technology solutions. Those who have earned the highest CPARS standing attribute their performance in large part to software support. As another area facing talent difficulties, this function is a prime area for technology investment to maintain performance, efficiency and satisfaction.



Recommended Resources



Webinar

[Setting Your Business Up for Success in Executing Cost Plus Contracts](#)



Guide

[The Path to Procurement Efficiency](#)



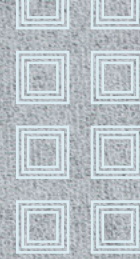
Webinar

[Best Practices for Successful Subcontracting](#)

HUMAN CAPITAL MANAGEMENT

Human capital managers are struggling with talent retention and acquisition, including for their own teams.

Headcounts remained mostly stable throughout 2023, though it took substantial efforts for HCM teams to replace departures in a very competitive talent market. Project management and IT were hit the hardest, though respondents reported their own limited human capital staff as a rising challenge as well. The difficulties are further compounded by pushback to DEI initiatives impacting metrics for underrepresented groups.



Overall retention rates in 2023 dropped to

73%



TOP HUMAN CAPITAL MANAGEMENT CHALLENGES

1 Retaining top talent

2 Limited human capital staff

3 Facilitating flexibility and work/life balance

The top overall HCM challenge of retaining top talent remains almost unchanged this year with 41% citing it in their top 3. It also feeds into the second overall challenge of not having enough HCM staff, at 36%. These staffing difficulties have pushed facilitating flexibility and work/life balance down to the third at 31%; while a decline from last year, the demand for these worker-friendly conditions remains important.

This year's leading strategy to address these challenges is investing in HCM solutions, cited by almost half (44%, up from 37% last year) of respondents, driven in part by the need to enable short-staffed HCM teams. Other initiatives increased in priority as well, including creating HCM metrics and investing more in internal promotion programs. These surpassed initiatives like career development and implementing hybrid work arrangements, which likely declined due to initiatives being more built out from recent years.



“ So many decision makers have been retiring over the last few years. Over **43% of baby boomers have retired** as of last December, so there's fewer decision makers involved in the acquisition process, hence the growth of artificial intelligence and data scraping tools.”

— GLORIA LARKIN, TARGETGOV

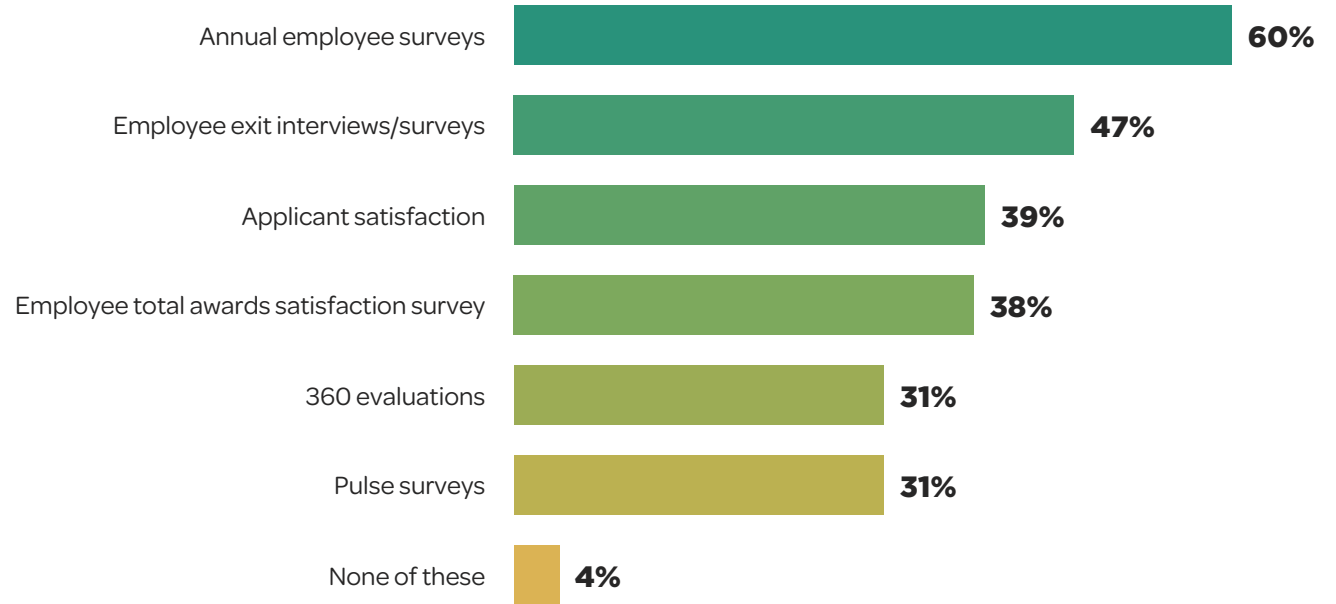
Struggles with Retention

The overall retention rate for government contracting in 2024 is 73%; while just a 2% decrease compared to last year, it continues the trend from the 7% decrease reported from 2022 to 2023. As the survey showed in other areas, the negative decline in overall retention rates can be attributed to talented employees being in such high demand, combined with the overall shortage of workers in government contracting, allowing them to pick and choose where they go and easily move on if they find better opportunities. These experienced employees are especially critical in government contracting, which multiple experts described as a relationship-driven industry.

It is worth noting that only 50% of respondents reported tracking employee retention/tenure in their KPIs. Survey results did show an increase in annual employee surveys (52% to 60%) as one way of keeping track of employee satisfaction, although other common methods like 360 evaluations and pulse surveys are only used by a third of companies.



Employee Engagement Surveys



“The big thing here would be **retaining your personnel who are key to the customer.** That’s a huge issue right now, as is the competition for great personnel, good people with relationships in the agency and people with the skills needed by the agency.”

— **MARK AMTOWER**, FOUNDING PARTNER OF AMTOWER & COMPANY AND HOST OF AMTOWER OFF CENTER

Competing for Top Talent

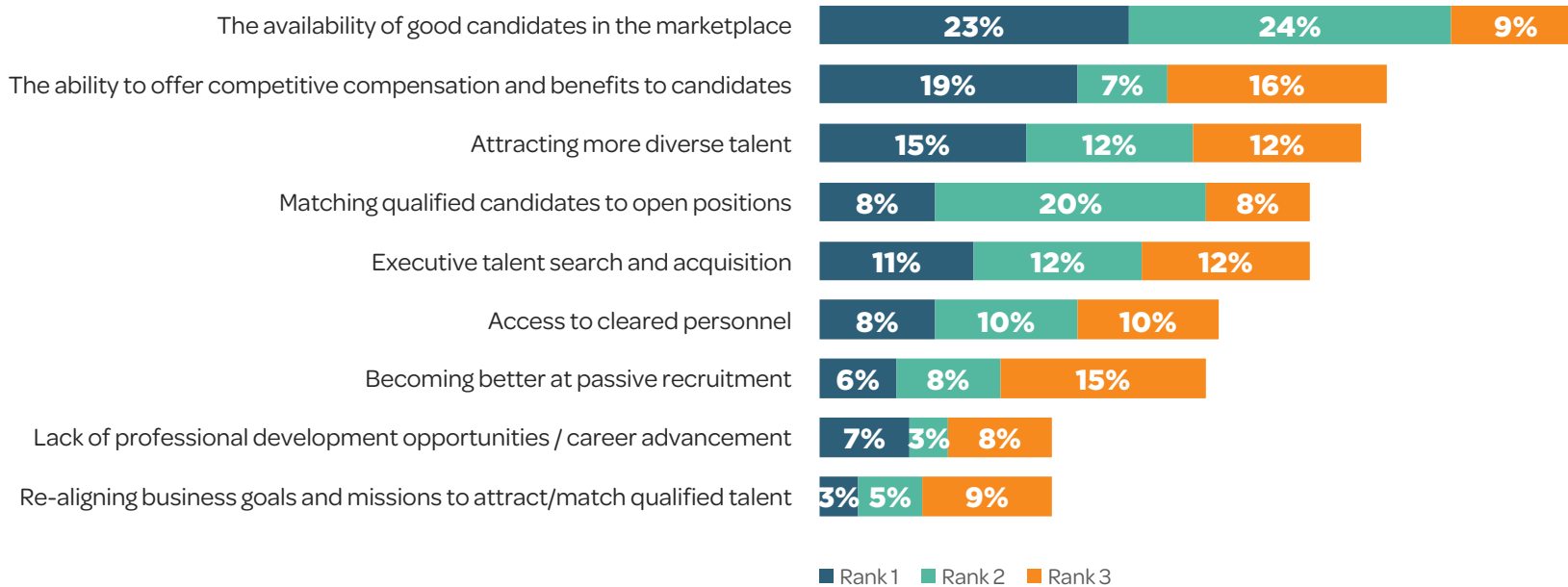
Despite the difficulty retaining top talent, headcounts remained roughly stable over the course of 2023 as new hires marginally outpaced voluntary and involuntary terminations. Acquisition is never an easy task, though; the availability of good candidates rose to the top of the talent acquisition challenges this year, with over half (56%) reporting it in their top three.

As a response, almost half of respondents (46%) are re-evaluating compensation and benefits offerings to combat the candidate shortage and entice new talented applicants. Compensation is ever more prominent as the main reason candidates decline job offers, with over a third of respondents ranking it their top reason (34%, up from 21% last year).

That said, the acquisition picture is not completely bleak. Just over three quarters of respondents (76%) say that at least half of their initial job offers are accepted. Almost a third (32%) say they fill positions on average within a month, and over three quarters (76%) within two months. And despite upward pressure on compensation and benefits offerings, the majority consider their current compensation strategies sustainable.

Jason Miller also notes that he is seeing “a lot of vendors doing more with recruiting and trying to get college students interested in coming to work for them, which is a good thing.”

Top 3 Talent Acquisition Challenges





“ Because of the changing workforce – more people teleworking, many people retiring – the new folks coming into the government are looking for **ways to be more innovative.**”

– **TAMMY RIMES**, EXECUTIVE DIRECTOR OF NATIONAL COOPERATIVE PROCUREMENT PARTNERS (NCPP)



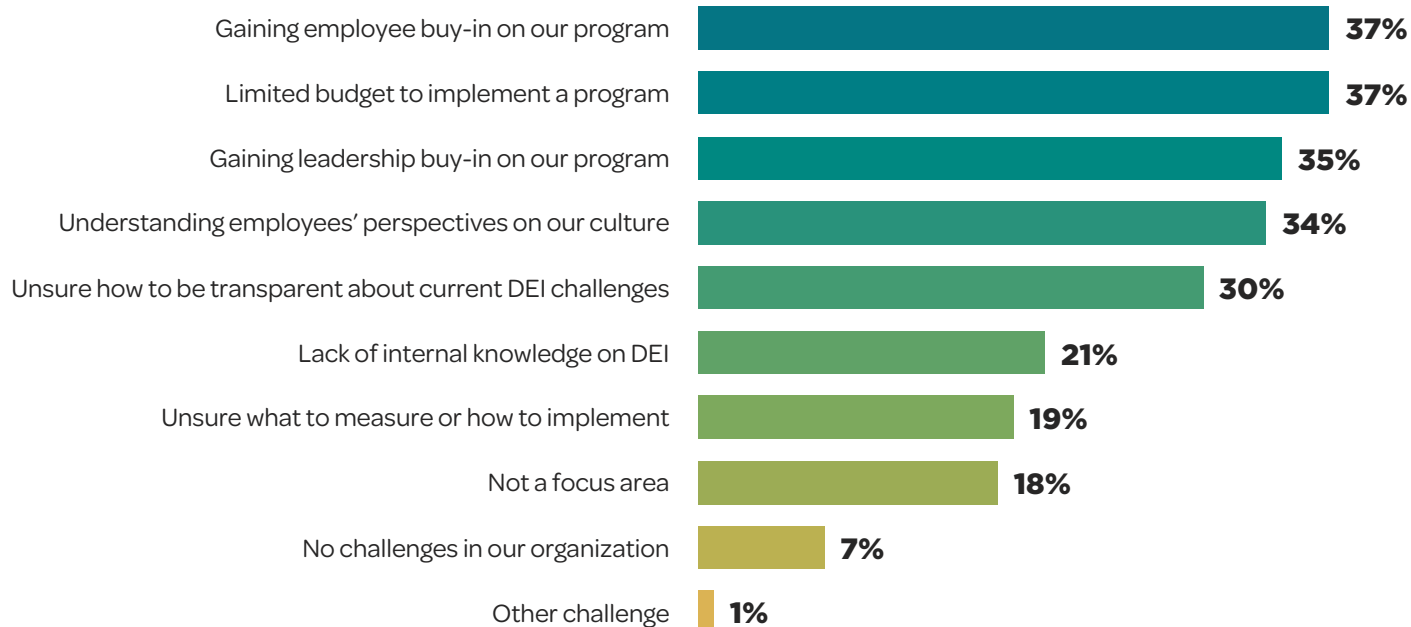
Barriers to Further DEI Progress

Both employees and employers appear to be placing less value/importance on diversity, equity and inclusion (DEI) programs and are less willing to invest in them at their expense. Gaining employee buy-in and limited budget to implement DEI programs are the top overall challenges at 37% each, followed by gaining leadership buy-in (35%). Changing political landscapes, as well as normal pushback after steps toward progress have been made, may be causing some hesitancy and pushback throughout organizations.

Unfortunately, these headwinds for DEI programs may be contributing to staffing challenges. As retention rates slip, those for underrepresented groups lag further, averaging 58% last year as compared to 73% overall. And when it comes to acquisition, 40% of respondents ranked attracting diverse talent a top challenge.

On the plus side, several key DEI metrics are trending upward, led by diversity in leadership (40% to 49%), as well as retention (41% to 46%) and hiring (40% to 46%). Hopefully, identifying the issues in these metrics is a step toward addressing companies' shortcomings.

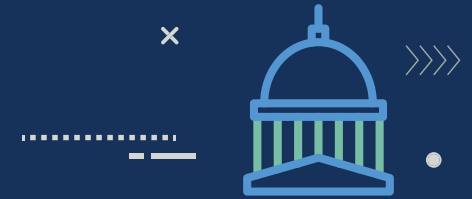
Top Challenges in Building a DEI Program



HIGH PERFORMERS: HUMAN CAPITAL MANAGEMENT

HCM high performers, or those with the highest, nearly-perfect retention rates, stand out as being more concerned with staffing needs and work-life balance as top overall challenges. To address these challenges, high performers cite investing more in HCM software.

Interestingly, high performers are also more likely to report struggling to attract diverse talent, though that may indicate that they are just more conscious of the issue. Currently, they are concerned with a lack of internal DEI knowledge and leadership buy-in, but still plan to proceed with further DEI programs and recruitment.



40%

of high performers are planning to invest
in DEI programs, vs. just 18% of others

CLARITY WRAP UP

HUMAN CAPITAL MANAGEMENT

Despite talent and DEI challenges, there are some positive takeaways for human capital teams.

Despite struggles retaining and acquiring talent in competitive markets, HCM teams are maintaining and even growing headcounts, especially with many competitors forced to undergo layoffs. Even as their own teams feel short-staffed, technology can be leveraged to continue to monitor and execute strategies.



Recommended Resources



Guide

[Unlock GovCon Success with Human Capital Management](#)



Webinar

[Enhance Your Resource Planning](#)



Blog

[Harness Success with an HCM Built for GovCons](#)

INFORMATION TECHNOLOGY & SECURITY

IT teams are hyper-focused on maintaining cybersecurity, but they are also staying up to date with new trends, including AI.

Cybersecurity is the top concern among IT professionals in this year's Clarity survey, likely due to changing requirements in the government contracting space, like CMMC for DoD suppliers. However, respondents are also balancing responsibilities such as security monitoring, training and process optimization with emerging technology like AI.

Aside from higher interest in cybersecurity and AI, IT teams are also focused on the same pressures as other organizational roles, including competition for talent and the need to find efficiencies in business processes.



62%

are increasing monitoring to combat security threats



TOP INFORMATION TECHNOLOGY OPERATIONS CHALLENGES

1 Cybersecurity compliance requirements

2 Finding and retaining IT talent

3 Implementing new software systems

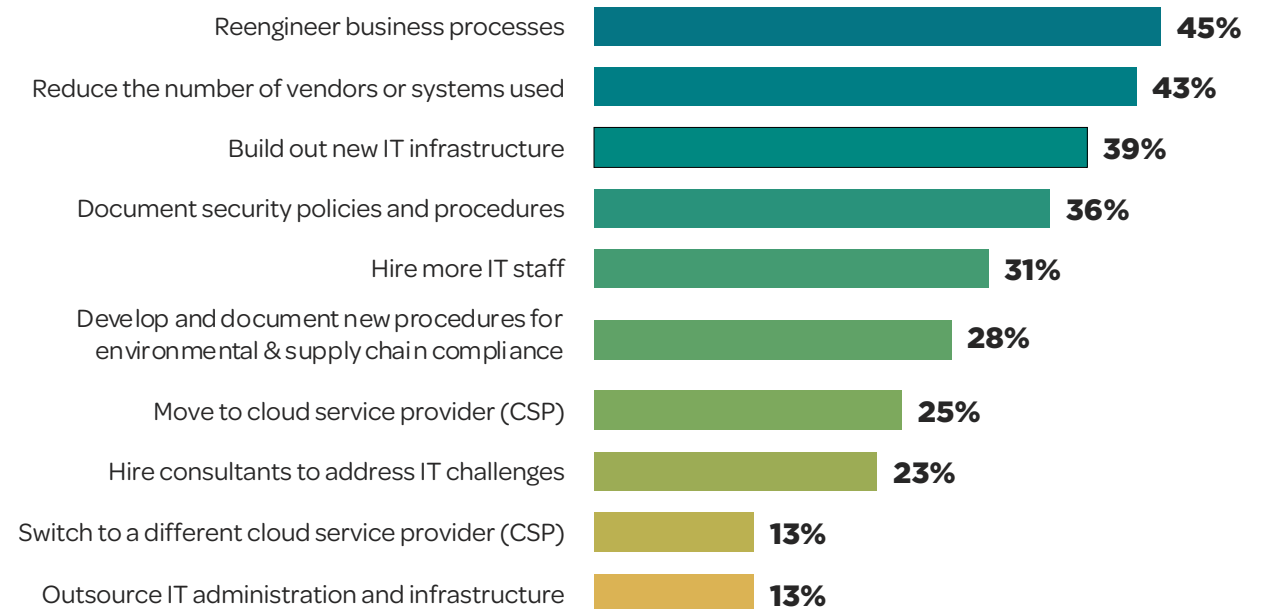
Cybersecurity compliance remains the top IT operations challenge in 2024, with nearly half of respondents (49%) citing it as a top issue. Finding and retaining IT talent has risen to a close second, with 46% rating it as a top IT operations challenge. This year, a new challenge emerged in the top three (implementing new software systems), while operating with smaller budgets has become less of an issue for IT professionals. This change in focus demonstrates a shift toward investing in people and technology.

With compliance, talent and new system challenges in mind, the top IT focus area is streamlining processes and vendors.

45% of respondents plan to reengineer business processes (55% are high performers), and 43% plan to reduce the number of vendors or systems used to address these IT operations challenges. Interestingly, despite talent difficulties, hiring more staff has fallen off as a top strategy, decreasing from 37% to 31%.

Cybersecurity remains the most important technology trend in 2024, with nearly all respondents (95%) providing Top 2 Box scores. Other trends including data science, big data, sustainable technology and AI were rated as important among at least 7 in 10 respondents.

Strategies to Address IT Challenges





“ I think **compliance is a very important area.** But it needs to be something that’s customized, it can’t be one-size-fits-all; it just won’t work that way since every company has different roles, different capabilities. And just checking off the list doesn’t necessarily make you prepared.”

— **GLORIA LARKIN**, TARGETGOV



Cybersecurity Top of Mind, but AI Growing

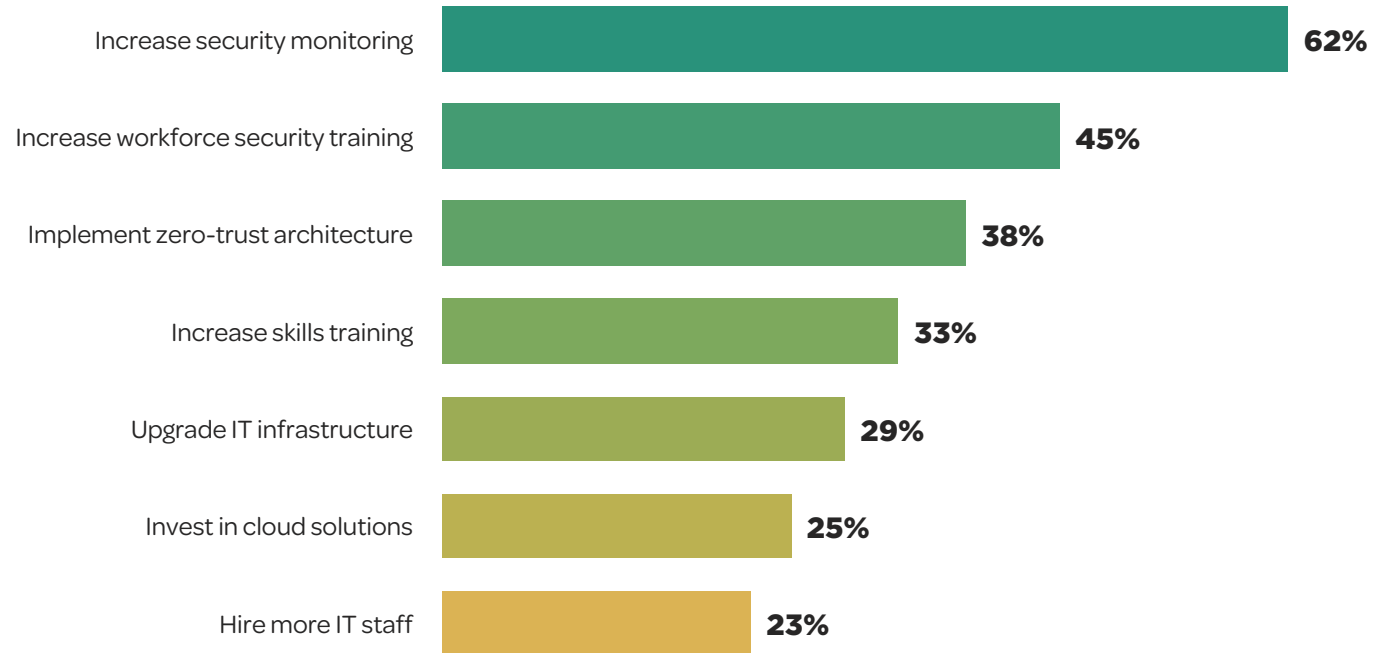
Cybersecurity as a core responsibility for IT teams also tops the list of most important trends (95% top 2 box) as well as most concerning topics (75%). IT teams face a variety of security threats, and they indicated the most concerning threat is phishing / social engineering, which was selected by over a quarter of respondents (26%, as compared to 18% last year). Other prominent threats include ransomware, zero-day attacks and insider threats.

The industry response to security challenges requires a multi-pronged strategy, and companies are increasing security monitoring (62%, up from 51%) and workforce training (45%, from 32%), and about half (45%) plan to increase workforce security training. Updating infrastructure has fallen off, though, now at 29%, from 49%.

Among other concerns, costs and talent shortages remain high with AI close behind. 69% of IT respondents considered AI an important trend.



Strategies for Addressing IT-Related Security Threats



“Artificial intelligence is a great tool and helps almost every industry, but it requires human oversight. It’s moving so quickly and if you are ignoring it, you are already at a disadvantage.”

– **CHUCK BROOKS**, PRESIDENT, BROOKS CONSULTING INTERNATIONAL

Cybersecurity Maturity Model Certification (CMMC)

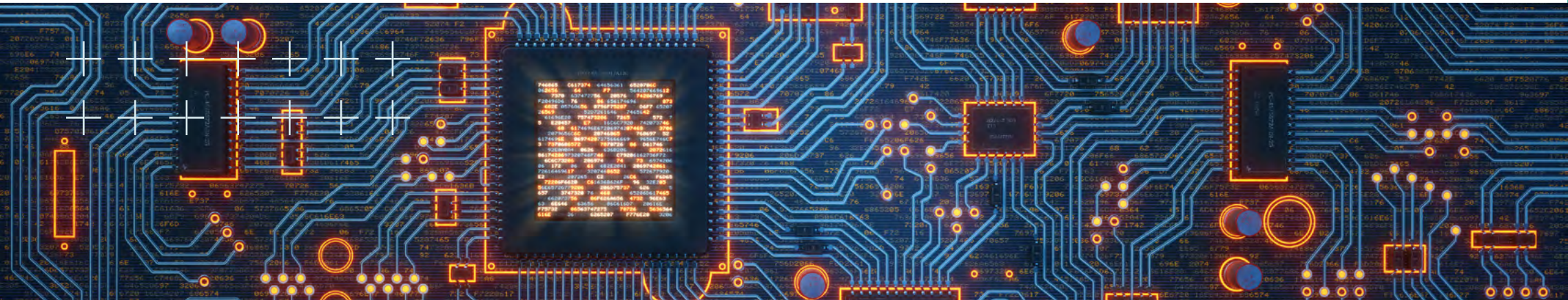
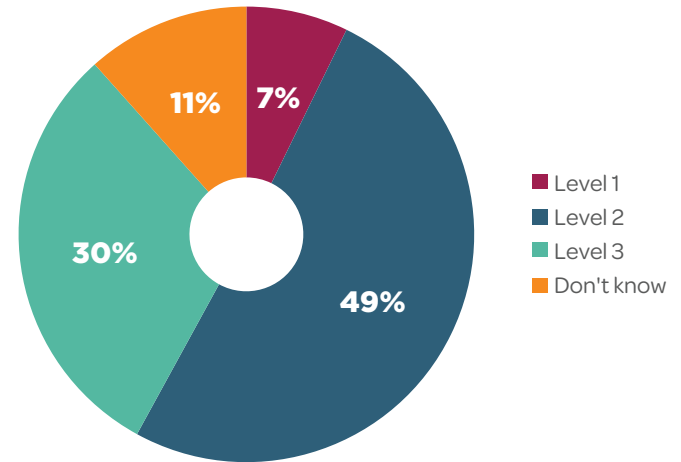
The Department of Defense (DoD) finally published the proposed CMMC rule in late December 2023 and it appears that the program will become a reality soon. The Clarity survey shows an improving grasp of the security requirements for defense contractors. In this year's survey, 70% of respondents expect CMMC requirements to apply to their company when it becomes official. Among these respondents, about half (49%) believe they will need to achieve a Level 2 certification. This is a significant change from last year, when 55% of respondents believed they needed to achieve Level 3, and much more in line with reality, as CMMC program officials anticipate Level 1 and Level 2 to be the most prevalent.

Among respondents answering "yes" to the CMMC requirement, they were mid-size to large companies,

High Performers (82%) and reported having at least 50% of their work subcontracted.

Although the cost of compliance raises a challenge for some, Leo Alvarez emphasizes the competitive advantage of meeting such requirements. "Once organizations embrace it as a core feature of supporting federal agencies, they will begin to understand that they are a part of a select group of organizations that, in many ways, are more resilient than less compliance-oriented counterparts. The focus on customer expectations from data security to technical performance and enterprise risk management – makes it easier for these organizations to compete for work in the federal marketplace. From that standpoint, it absolutely will be beneficial."

Anticipated Level of Cybersecurity Maturity Model Certification (CMMC)



HIGH PERFORMERS: INFORMATION TECHNOLOGY & SECURITY

IT high performers all indicated that almost all of their company's apps are in the cloud. While cybersecurity is on all IT professionals' minds, a higher percentage of high performers (91% vs 71%) indicate it as a pressing concern. The differences between top IT performers and their counterparts extend to other top trends as well, with big data (86% top 2 box vs 70%) and artificial intelligence (77% vs 66%) evaluated to be more important.

Additionally, IT high performers find operating with a smaller IT budget (due to cost increases and inflation) among their top IT challenges compared to their counterparts (41% vs 29%).



77%

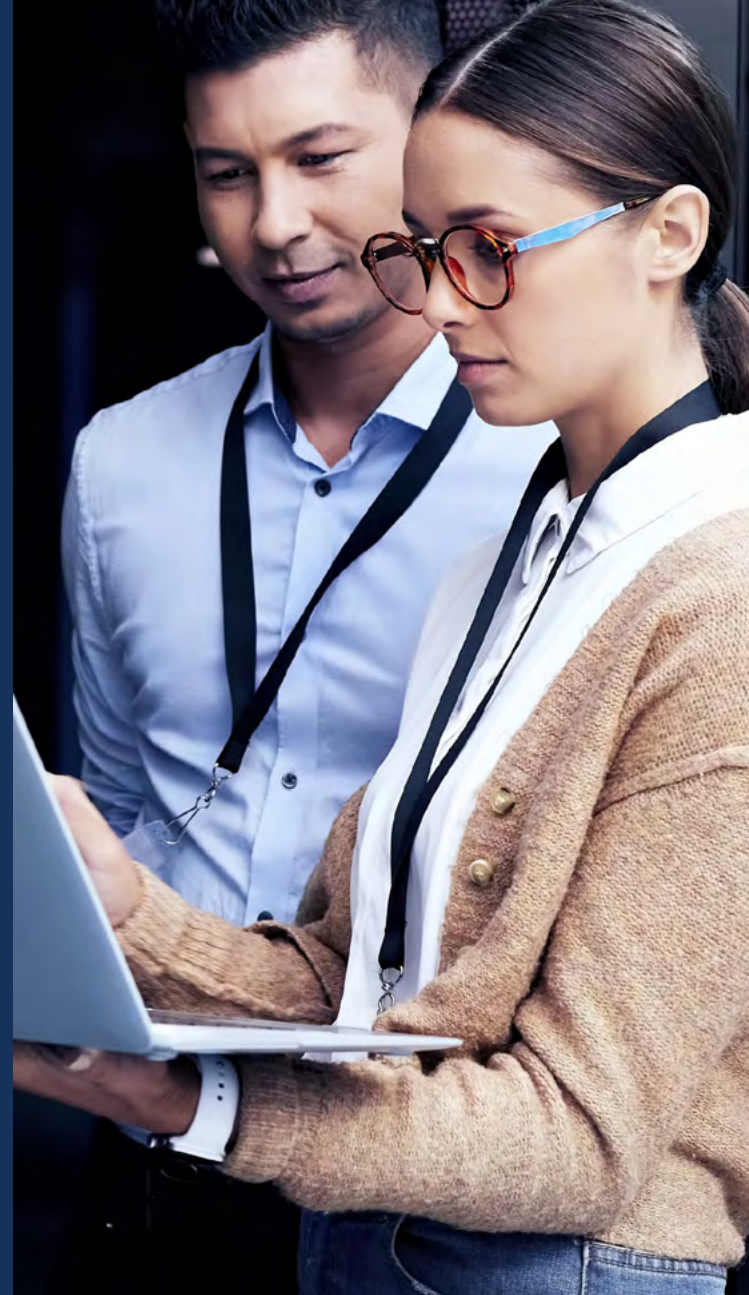
of high performers consider AI
an important technology trend

CLARITY WRAP UP

INFORMATION TECHNOLOGY & SECURITY

IT professionals are consistently working to implement strategies to address the main challenge of cybersecurity, as it remains a critical concern year over year.

Finding and retaining IT talent is even more of a challenge in 2024 with 46% indicating it is a top three challenge, compared to 38% in 2023. AI was added this year to the list of IT and security topics that are concerning, and it was the fourth concern at 41%. As AI continues to develop, it will be interesting to see whether this emerges in the top three in future studies.



Recommended Resources



Guide

[Demystifying Cybersecurity Compliance Requirements](#)



Webinar

[Learn About Cyber Resilience and the Value of the Cloud](#)



Guide

[A Comprehensive Guide to ITAR Compliance](#)



Understanding Government Contracting Compliance Requirements

Learn about regulations such as FAR, DFARS, DCAA and more in the comprehensive guide.

[Get the Guide >>](#)



CONCLUSION

2023 was another positive year for the government contracting industry, with historically high growth rates and profit margins, even if not quite as strong as 2022 performance or expectations a year ago. This comes despite continuing headwinds from a tight talent market, inflation and other challenges.



Key trends underlying positive performance in 2023 and other survey insights include:

- 1** The market for talent is increasingly competitive across many key functions, with many companies attempting to alleviate their difficulties with technology solutions.
- 2** Relatedly, exciting new tech like AI is starting to gain traction beyond traditional uses to more practical and operational use cases that can impact companies' bottom line.
- 3** Inflation has eased, but it is still a top concern for companies facing growing costs associated with their supply chains, talent and compliance.
- 4** Companies continue to reevaluate a variety of business processes to find efficiencies.
- 5** Through these trends and challenges, survey respondents report optimism for the future, expecting growth and success as they continue into 2024.

GOVERNMENT CONTRACTING SCORECARD

Use this [scorecard](#) to see how your responses stack up against the Clarity benchmark averages and the high performers to identify areas of strength and improvement.

	CLARITY BENCHMARK - ALL PARTICIPANTS	CLARITY HIGH PERFORMERS
FUNCTIONAL AREA KPIS		
BUSINESS DEVELOPMENT		
Bid & Proposal Costs	16%	18%
Win Rate % on Recompetes	57%	79%
Win Rate % on New Bids	44%	83%
Revenue Growth Forecast (2024)	17%	25%
Target Pipeline-to-Win Ratio	3x	2x
PROJECT & RISK MANAGEMENT		
Percentage of Projects Under Budget	18%	45%
Percentage of Projects Ahead of Schedule	16%	31%
Steps to Address Supply Chain Challenges	New domestic vendors	New domestic vendors /new tools/processes
FINANCIAL & FINANCIAL COMPLIANCE METRICS		
Average Monthly Invoice Cycle	22 days	17 days
Average Days Sales Outstanding	28 days	23 days
Profit/Loss Margin	18%	50%
Growth Rate (2023)	17%	20%
G&A Rate	18%	27%
Fringe Rate	21%	30%
Overhead Rate	24%	33%
Financial Audits Started	9	8

GOVERNMENT CONTRACTING SCORECARD

	CLARITY BENCHMARK - ALL PARTICIPANTS	CLARITY HIGH PERFORMERS
FUNCTIONAL AREA KPIS		
FINANCIAL & FINANCIAL COMPLIANCE METRICS (CONTINUED)		
Financial Audits Started	9	8
Cybersecurity Audits Started	10	7
Shop Floor Audits Preparation Time (measured in days)	12 days	7 days
MANUFACTURING		
Percent with Automated Manufacturing	49%	89%
CONTRACT MANAGEMENT & PROCUREMENT		
Top Contract Management Challenge	Data not centralized	Tracking pre-award costs
Top Supply Chain Challenge	Cost of goods	Cost of goods
Purchase Order Cycle Time	47 days	5 days
HUMAN CAPITAL MANAGEMENT		
Current Retention Rate	73%	99%
New Hire to Bill Time	31 days	33 days
Top Reasons Candidates Turn Down Offer	Compensation too low	Compensation too low / work-life balance concerns
Employee Development Initiatives	Mentoring	Formal learning programs
Top DEI Metrics	Leadership diversity	Prioritizing a variety of metrics
INFORMATION TECHNOLOGY / CYBER SECURITY		
Percentage of Business Applications in Cloud	More than half, less than 75%	Almost all
Most Concerning Security Threats	Phishing & social engineering	Unpatched systems

DELTEK FOR GOVERNMENT CONTRACTORS

Deltek offers solutions across the government contracting project lifecycle, from planning to completion, all while supporting your audit and compliance needs.

Deltek is a trusted partner to government 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.

Learn about Deltek's solutions tailored specifically to meet the needs of government contractors:

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- [Deltek GovWin IQ](#)
- [Deltek Project Portfolio Management](#)
- [Deltek TIP Technologies](#)
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