

Deltek®

Clarity 2023: Government Contracting Industry Study

Trends and Benchmarks in the US and Canada

14th Annual Comprehensive Report



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INTRO

Over the past three years, the COVID-19 pandemic presented grave economic challenges, but opportunities also arose for government contractors in the form of new government initiatives, legislation and increased funding.

49% report increased government sales revenue in 2022

Today, new challenging economic conditions continue to unfold – from international conflict to supply chain struggles to an inflationary environment. Through these challenges, the government contracting industry has developed tools and strategies to drive their business forward and can look back at an overall positive 2022 while looking to 2023 and beyond with optimism.

This year's Clarity Survey returns to key questions tracked for over a decade, along with topical concerns for today's unique state of the industry. Diving into data and insights from a wide variety of companies by size, location, and specialty, as well as functional areas within each, the following high-level themes emerged:

- Similar to other markets, such as [architecture and engineering](#), government contractors' 2022 performance and outlook for 2023 and beyond remains positive. Public sector revenues are growing as new funding sources and budget allocations continue to come online, a trend that's expected to continue.
- That said, small businesses are more vulnerable to challenges in the industry and broader economy, particularly inflation. However, it's worth keeping in mind that their survey results are still positive, even if lagging behind their larger competitors.

- With the external environment more volatile and out of one's control, government contractors are looking inward to ensure the strength and efficiency of their businesses. Optimizing business processes is an area of emphasis across functions, at or near the top of initiatives from business development to finance and audits to manufacturing, as well as contract management.
- The labor market remains challenging, with headcounts shrinking slightly due to voluntary departures*. Wage inflation continues to put pressure on service providers' pricing strategies, making it harder to offer the best value on a contract, which would increase win rates while also protecting margins. Aside from compensation, human capital professionals also note remote work and inclusive culture as barriers to attracting top talent.
- Like last year, compliance and evolving requirements remain a challenge, with costs expected to (continue to) increase. Again, though, there's plenty of positivity in the industry, including high confidence around interpreting and tracking complex contract requirements.

62% expect increasing government sales revenue in 2023

**At the time of survey fielding, the labor market was influenced by voluntary departures more so than layoffs, which is now a current condition.*

ABOUT THE STUDY

For 14 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 latest iteration of the survey was fielded between January 9 and 27, 2023. Much of the Clarity Survey remains the same as previous waves in order to enable year-over-year comparisons and tracking of trends. However, the team worked closely with industry experts on updates to cover what's most topical in the industry.

All respondents were government contractors who work in a variety of industries. The Survey consisted of over 60 questions, divided into seven functional roles that respondents self-identified with based on their experience and qualifications.

In total, 714 respondents completed the Survey. 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 Survey reached respondents across over 11 industries, with the most representation from:

- Information technology (25%)
- Professional services (14%)
- Defense, weapons, aerospace, or manufacturing (13%)

Out of all respondents, 67% work with the federal government, 55% with state, local, K-12 or higher education (SLED), and 33% are active in both markets. This year's recruiting targeted companies located and working in Canada, so the percentage working with the Canadian government rose to 28%.

This report will also frequently highlight differences in results by company size. Companies were divided by revenue into the following categories:

21% Less than \$20 million

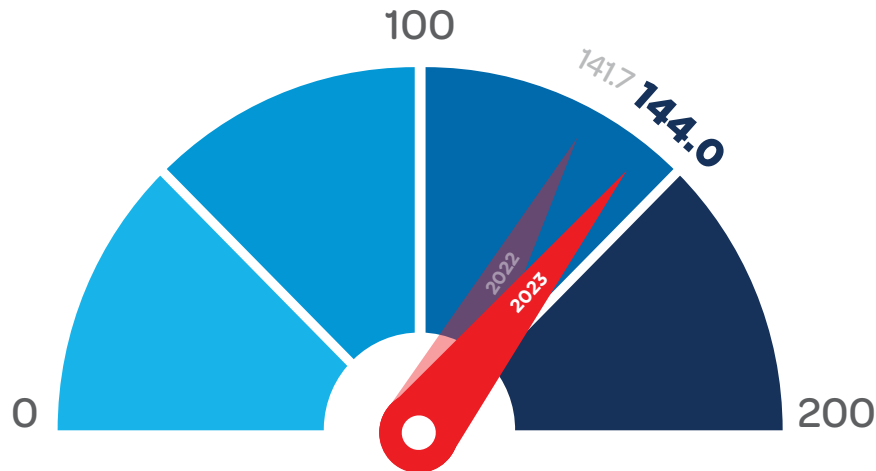
15% \$20 million to \$49.9 million

60% More than \$50 million

A large segment of respondents was based in the capital area, with 16% in DC, Maryland or Virginia. For other regions, 26% were located in the South, with 23% in the West, 18% in the Northeast, and 15% in the Midwest.



GOVERNMENT CONTRACTOR CONFIDENCE INDEX



According to the composite Government Contractor Confidence Index (GCCCI), the upward trend continues for 2023 as the economy leaves the pandemic behind and the industry sees reasons for optimism.

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 144.0, a 1.6% increase over last year (141.7), continuing the upward trend of recovering to, and even exceeding, pre-pandemic levels.

SECTION ONE

Market Conditions

Despite challenging economic conditions of the past several years, the government contracting industry anticipates a favorable environment this year.

Rising labor costs and inflation present increasing difficulties for government contractors, especially smaller companies. However, the industry has a variety of initiatives in play to strengthen their business, for instance investing in key areas like business development

and cybersecurity, expanding into new geographies and exploring new product lines. Having weathered difficult conditions and with an increase in government budgets, confidence is high that strong performance will continue.

62% expect their company's government sales revenue to increase this year

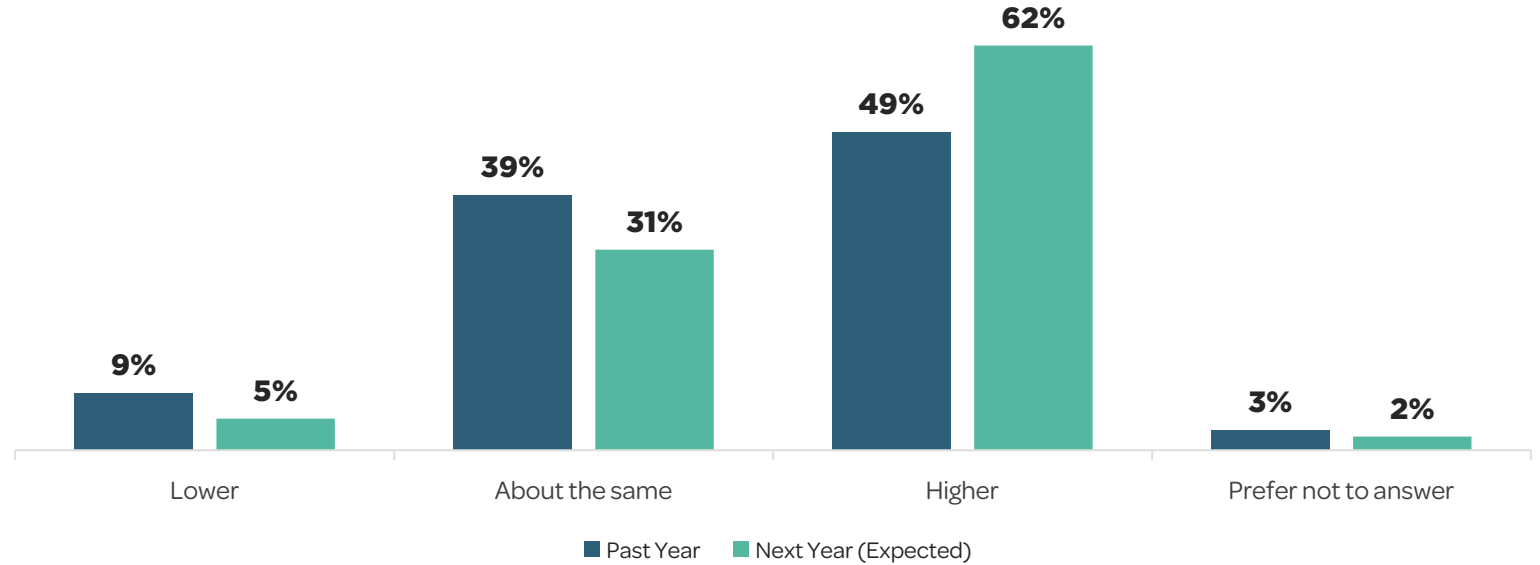


Strong Signs of Growth and Optimism

Clarity Survey respondents report a variety of positive performance and outlook metrics. Nearly half (49%) report an increase in government revenue in 2022, with an even larger number (62%) expecting an increase in 2023. And while smaller companies were less likely to report growth last year (37%), they have the same positive outlook as their larger competitors. Specifically with Indefinite Delivery, Indefinite Quantity (IDIQ) contracts, a slightly lower total percentage of contractors, 44%, specifically report an increase in IDIQ contract revenue (primarily larger companies).

More than half of respondents (57%) report the number of their overall federal contracts increasing, especially larger businesses. With more respondents indicating the number of contracts won is increasing than the total value of those contracts, it could be a sign that there are more, smaller contracts in play. Small businesses still face challenges in winning major contract vehicles, but once they do, those wins expand their potential at the task order level and ability to compete against larger firms. Broadening small business contract opportunities is one of the top priorities of the current administration.

Sales Revenue from Public Sector Markets



“Both federal and SLED funds are sitting in government budgets right now. At some point, there will be deadlines to spend those monies. For example, many construction projects were held off during COVID with crews not being able to get out and get things done. Now, **the backlog is really opening up.**”

– TAMMY RIMES, THE EXECUTIVE DIRECTOR, NATIONAL COOPERATIVE PROCUREMENT PARTNERS

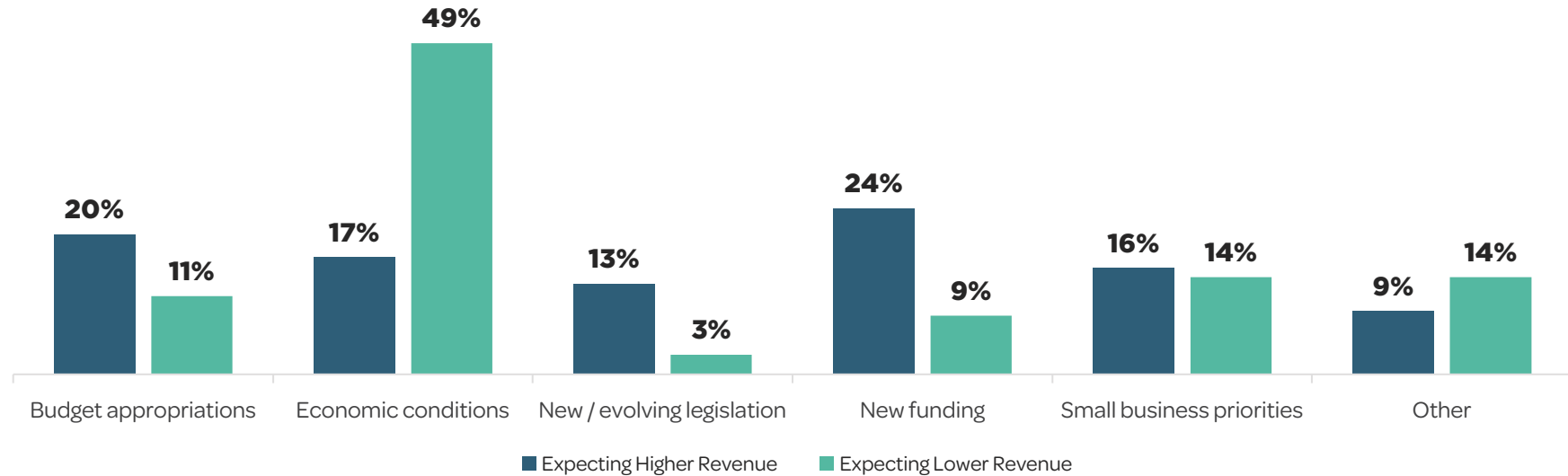
Economic Conditions Mixed, but Government Funding Drives Optimism

When asked about the reasons government contractors expect an increase in government revenue this year, **almost a quarter of those respondents (24%) pointed to new funding sources**, such as the Infrastructure and Investment Jobs Act, with growth in budget appropriations second (20%). Companies doing business in Canada were also more likely to point to new or evolving legislation.

Some respondents also mentioned improving economic conditions (17%) as a reason for their optimism. The economic impact of COVID was lower than anticipated, and as providers to public sector organizations with consistent spending, contractors fared somewhat better than their fully commercial counterparts. Some contractors are now experiencing increased demand due to COVID-driven, pent-up demand now coming to fruition.

However, economic conditions were much more salient for the smaller group that expected a decrease in government revenues which were overwhelmingly cited as the main headwind (49%). Clearly, economic trends can continue to present challenges and create uncertainty in the contracting industry; however, they also present some silver linings. Overall responses indicate confidence in their ability to adjust to market conditions.

Reasons for Public Sector Revenue Source Change



Top Growth Strategies & Tech Investments

As government contractors look to continue growing in a competitive industry, three priorities stand out:

1. Strategic teaming initiatives
2. New capture strategies
3. Business development investment

As spending on IDIQs and focus on small business opportunities increases, the importance of finding competent, innovative and effective teaming partners grows. The federal government is also working to recruit new companies into its industrial base, driving up competition and the need for more sophisticated capture strategies. However, respondents indicate gaps in the business development resources required to compete and plan for future investments.

Cybersecurity tops the list of technology investments, showing that many companies are taking a defensive stance to avoid breaches or other issues. Beyond cybersecurity, companies are prioritizing a variety of digital strategies to support the growth of their business and bottom line, such as expanding contracts to other states and exploring new product offerings to minimize supply chain issues. With talent acquisition and onboarding being a priority, it's no surprise that **technology investments are also being used to win the competition for talent**. Similar numbers of respondents selected business automation, project management tools, cloud applications, and even newer technologies such as [artificial intelligence and machine learning](#).

Top Growth Priorities



Concerns Over Cost of Labor and Goods Rising

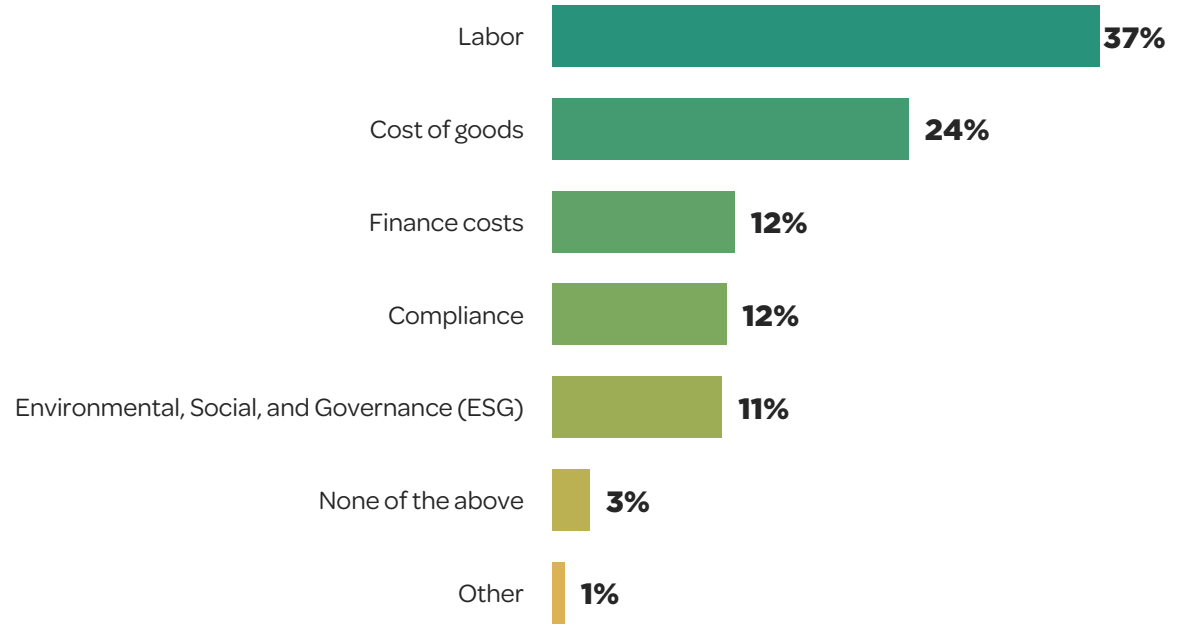
Previous Clarity Survey findings highlighted the difficulties government contractors face in competing for qualified talent. With the labor market continuing to favor job-seekers, labor costs are seen as the most significant driver impacting companies' business, selected by 37% of respondents. Smaller companies seem to be most concerned, with 43% of companies under \$50 million in revenue citing labor costs, in comparison to 34% of larger businesses.

Compounding that cost driver is inflation; nearly a quarter of respondents (24%) see cost of goods as the most impactful cost. Federal pressures to expand their domestic supply chain networks and increase supply chain risk management contribute to cost concerns.

While only 12% of respondents chose compliance as the cost most expected to impact their business, it still constitutes an ever-present challenge. In particular, respondents point to these initiatives impacting their business going forward:

- Supply chain and Buy American Act provisions
- Cybersecurity initiatives such as CMMC 2.0
- Small business contracting regulations
- Diversity and inclusion requirements
- Climate / sustainability initiatives

Costs Affecting Business Most in 2023



FROM YOUR PEERS

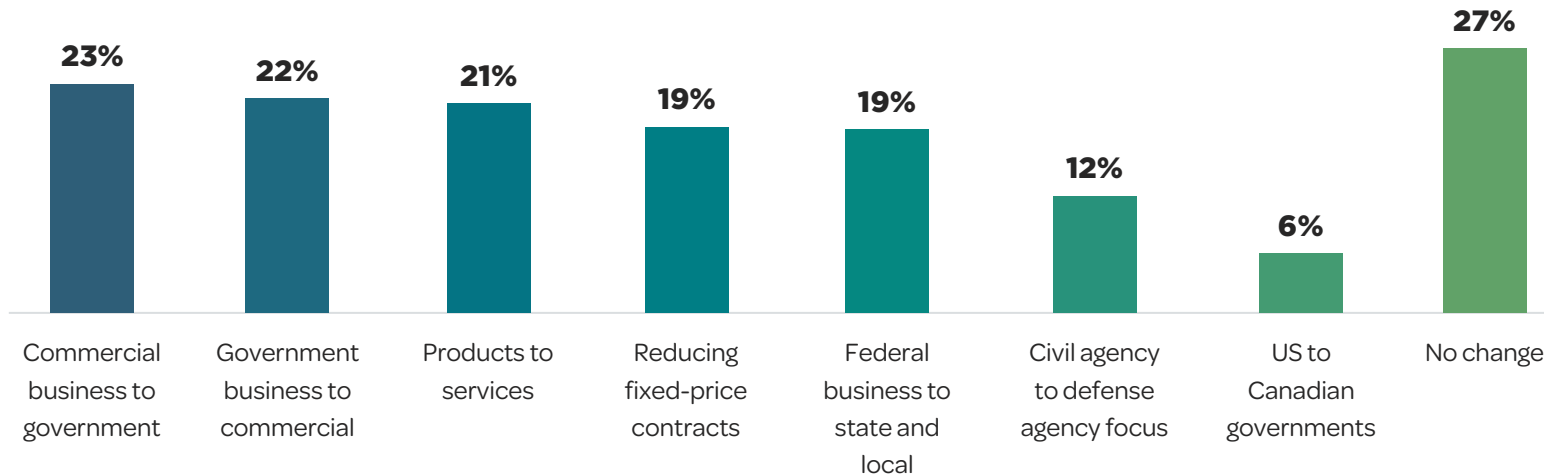
“To better compete, I’m having to shrink my margins. Basically, that’s the only thing in my control, because the labor rates are not changing much. The rates are what they are. And the labor rates have actually gone up substantially.”

Shifting Markets to Maximize Revenue Potential

With all the dynamics of government contracting in play, companies are anticipating a variety of shifts to their strategy. Nearly one-quarter of respondents anticipate shifting more commercial business to government as well as the inverse, shifting government to commercial (23% and 22%, respectively). Other changes are just behind, showing a variety of responses to the opportunities and threats in the industry. Regardless of the approach, most respondents indicate a consistent focus on reassessing their portfolio mix to maximize revenue potential. These strategy reviews also present opportunities to examine and change go-to-market approaches, such as adjacent agencies, changing product designs to appeal to a wider variety of customers and expanding the geographies served.

By company size, larger companies seem more willing or able to change strategic direction. About a quarter of total respondents foresee no change (27%), but 39% of companies with less than \$20 million in revenue indicate no plans for any of these shifts. **Companies doing business in Canada also showed a bit more of a clearer trend, with 31% shifting commercial to government** versus just 19% in the other direction.

Anticipated Revenue Strategy Shifts



Conditions Particularly Challenging for Small Businesses

Small businesses (under \$20 million in revenue) report a different experience in navigating the public sector, compared to their larger company counterparts. Despite the government's prioritization of small business opportunity creation, the elements involved in pursuing and winning those opportunities temper growth.

While **small businesses maintain the same positive outlook, they face a more challenging environment than their larger, better-resourced competitors.** Only 37% of self-identified small businesses reported growth in government contracts last year, as compared to 49% overall and 56% of the largest companies. They also report lower profit margins (8%, vs. 20% and 24%).

Other results show the reasons for their more modest performance. At a high level, they seem to struggle more with costs, especially in today's inflationary environment. They are more likely to cite concerns over labor costs, costs of compliance, and inflation overall. Small businesses do not have the resources of larger companies to absorb increased costs associated with doing business in the public sector.

A third of small business respondents (33%) point to small business regulations as having an impact for the coming year - ostensibly positive. However, the fact that this percentage is not higher indicates bottlenecks between small business policies intended to drive opportunity and implementation of said policies at the contracting level.

These companies are taking control of what they can to drive their business forward. They are more focused on strategic teaming to drive growth, particularly using teaming partners or networks to source new opportunities. They are also looking at improving communication and collaboration to streamline project management, investing in appropriate tools where needed.



“The government is **caught between a rock and a hard place when it comes to small businesses.**”

They understand the importance of small businesses, while at the same time, they also understand small business concerns about price and talent gap, etc. This dichotomy puts pressure on the government in terms of making decisions about how to go with small businesses and what to do to support them.”

— **JASON MILLER,**
EXECUTIVE EDITOR, FEDERAL NEWS NETWORK

Market Conditions Wrap Up

While the challenges in today's economic environment should not come as a surprise, the good news is government contractors, large and small, can point to positive performance measures and an optimistic outlook for coming years.

As economic trends fluctuate, government contractors can look to funding sources and budget allocations for business opportunities. They also try to control their own fate with initiatives such as strategic teaming or

investments in business development and technology. While those challenges are not equally felt across different types of companies, optimism extends to companies of all sizes, geographies and industries.



SECTION TWO

Business Development

Business development (BD) professionals in the Clarity Survey have their finger on the pulse of key trends in government contracting and the broader economy.

76% expect their company's win rate to increase

These include the waning pandemic, persistent inflation and a competitive environment. Despite top challenges, including lack of face-to-face opportunities with decision

makers, inflation and limited BD resources, they have a variety of tools available to address their key challenges that give them optimism for the coming year.



TOP BUSINESS DEVELOPMENT CHALLENGES

1 Lacking face-to-face opportunities with decision makers

2 Pricing effectively in an inflationary environment

3 Limited business development resources

Top business development challenges reflect the current trends in the state of the industry. Over a third of BD respondents (35%) ranked the lack of face-to-face opportunities with decision makers in their top three, and 12% ranked it first. Today's inflationary environment also moved pricing to second overall with 15% who ranking it first. Larger companies drive this trend; 20% ranked it first vs 6% for small companies.

The post-COVID pendulum swing to virtual events is swinging back to live events; however, lower costs and broader attendee reach continue to make virtual events attractive to government agencies. Contractors are making strategic decisions about must-attend events that will offer the best opportunities to engage with decision makers while limiting attendance costs that may have risen as their remote workforce expanded.

Other high-ranked challenges include persistent issues in government contracting, such as limited BD resources and increased competition.

Given the influx of supplemental public sector funding, the restrictive spending environment has fallen to the middle of the rankings of challenges for BD teams.

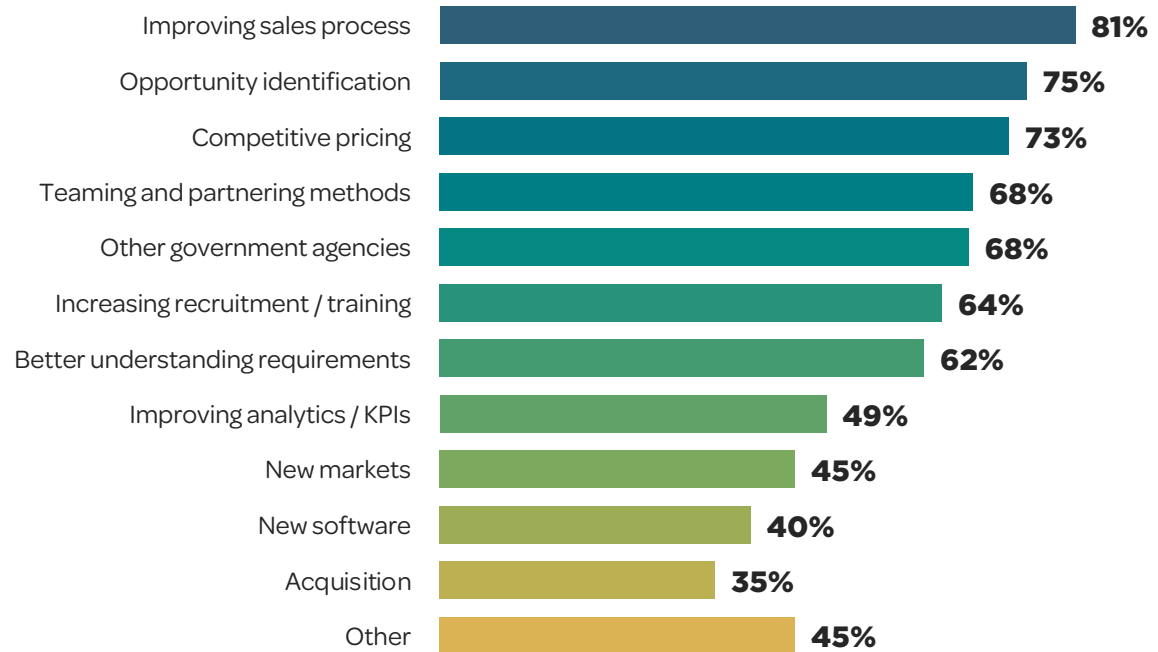


Optimizing Processes to Address Challenges

These challenges are not keeping companies from expecting BD investments to increase. A strong majority (61%) reported expecting increases with almost none (1%) predicting a decrease.

There are a variety of different strategies companies are taking with investment in their BD function. Specifically, **improving the sales process and effectiveness emerged as the most important BD initiative**, with 81% rating it a 4 or 5 out of 5. The Clarity Survey showed a similar focus on process optimization across other functional areas. In BD, though, this initiative mattered most to small companies, with 43% ranking it as highest importance, as compared to 31% of larger companies.

Importance of Business Development Initiatives (Top 2 Box)



“When BD staff and expertise is limited, the importance of **good data to understand the customer** environment and pain points is critical. That is the value of what Deltek provides.”

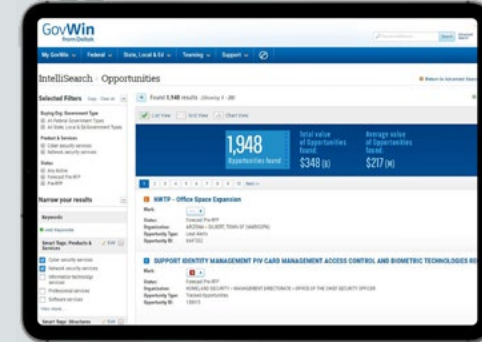
— TAMMY RIMES, THE EXECUTIVE DIRECTOR
NATIONAL COOPERATIVE PROCUREMENT PARTNERS

Optimizing Processes to Address Challenges (Cont.)

More or better opportunity identification was second most important overall (75%) for both large and small companies. Developing competitive pricing strategies was third overall (73%), which was also consistent across company sizes.

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

— MARK AMTOWER, GOVERNMENT CONTRACTING ADVISOR



Streamline Your BD Process

Top government contractors rely on GovWin IQ to streamline their BD process, providing one centralized place to find, evaluate and manage best-fit opportunities in the U.S. federal, SLED and Canadian public sectors.

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

Optimistic Win Rate Outlook Continues

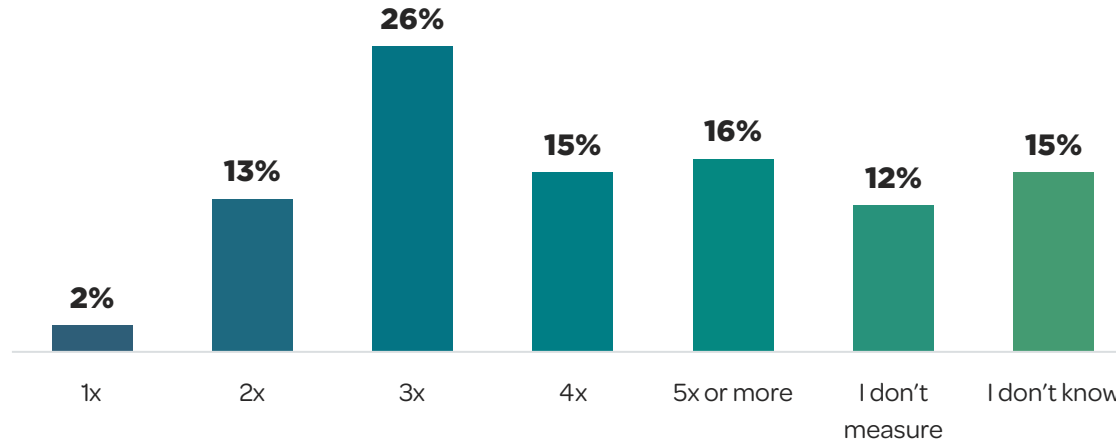
Business development teams in the Clarity Survey show confidence that, with these strategies, they are up to the task of driving their companies' business forward. A little over three quarters of respondents (76%) report expecting increasing win rates in 2023, with little difference between small and larger companies. Proposal win rates average about 50% total, with 58% win-rate for re-competes and 44% for new bids. For target pipeline-to-win ratios in 2022, most companies (57%) set at least a 3x ratio with almost a quarter of larger companies having 5x or more (20%).

In order to identify new pipeline opportunities, companies report using a variety of sources. The top two areas were staff-identified leads (71%) followed by industry conferences/events (70%). Teaming partners/networking was especially impactful for small businesses with 77%, and is tied for third overall with active client relationships (63%).

As Jason Miller, the Executive Editor of Federal News Network, noted,

“There’s a feeling that these things [responding to RFIs and asking questions] are tiresome and sometimes overwhelming. But I hear time and again, the government wants to hear back, the government wants to understand contractors’ position.”

Target Pipeline-to-Win Ratio for New Bids



FROM YOUR PEERS

“If you’re not doing **three times your sales pipeline**, you’re not going to hit your target. I think the magic number is three times.”



“Deltek provides good education on pretty much all of the issues that impact GovCon - from program management and compliance to small business issues. **GovWin IQ is a great solution** and helps contractors find opportunities that they’re qualified for.”

— **MARK AMTOWER**, GOVERNMENT CONTRACTING ADVISOR

HIGH PERFORMERS: BUSINESS DEVELOPMENT

Top performers in the business development function were defined as the top 10% win rates, or 75% or above. These leaders show a few interesting characteristics when compared to non-top performers. They are more open to diversifying their business - they are more than twice as likely to rate exploring new markets outside of government contracting as a most important initiative (39% to 16%). They also value more or better opportunity identification more highly (48% to 31%). That said, they actually selected fewer sources for new opportunities, potentially indicating that it can be more effective to focus on mastering fewer methods.



87%

Win-rate on new bids for top performers, higher than the 80% rate for re-competes

Business Development Wrap Up

Government contractors' business development teams have weathered pandemic shutdowns and related adverse economic conditions, and today face inflation and other macroeconomic challenges. However, confidence is high, not to mention excitement to get back in front of key decision makers.

Most BD respondents expect investment in their teams to increase this year, and they plan to reward that trust with increasing win rates, leveraging internal staff as well as a return to in-person

conferencing. Internally, as with other functional roles, reassessment of business processes is key to increasing their overall effectiveness.

Recommended Business Development Resources

To the right are additional free resources to help your government contracting organization optimize its business development function in the year ahead:



Guide

[How to Forge Teaming Agreements Virtually](#)



Guide

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



Guide

[Selecting the Right Public Sector Sales Solution](#)



SECTION THREE

Project & Risk Management

Regardless of economic conditions, project managers are responsible for delivering on budget and on schedule.

Survey results show the difficulties project and risk management professionals have understanding scope and making accurate timeline and cost forecasts.

Despite those best efforts, project changes can have a significant impact on the overall project. Still, those specialists are delivering the majority of projects successfully.

74% of projects stayed on or under budget and on or under schedule in 2022



TOP PROJECT & RISK MANAGEMENT CHALLENGES

1 Poorly defined scope

2 Accurate cost forecasting

3 Collaboration and communication

Project and risk management respondents' top struggles have to do with understanding scope and forecasting costs up front. Poorly defined scope (31%) is the most likely to be ranked in the top three, followed by accurate cost forecasting.

Once into project execution, collaboration and communication emerges as the third top challenge. It is primarily smaller businesses driving the trend, with 43% ranking it within the top three compared to 21% for the largest companies. Perhaps despite their size, larger companies have more resources to dedicate to relevant tools and technology.

In response, companies are turning to a variety of initiatives, from investing in better software tools (37%), developing new KPIs (36%), and improved recruiting (34%) to developing project management (PM) best practices (34%).

Larger companies are somewhat more likely to have selected most of these initiatives, particularly software tools, again revealing their resource advantage.



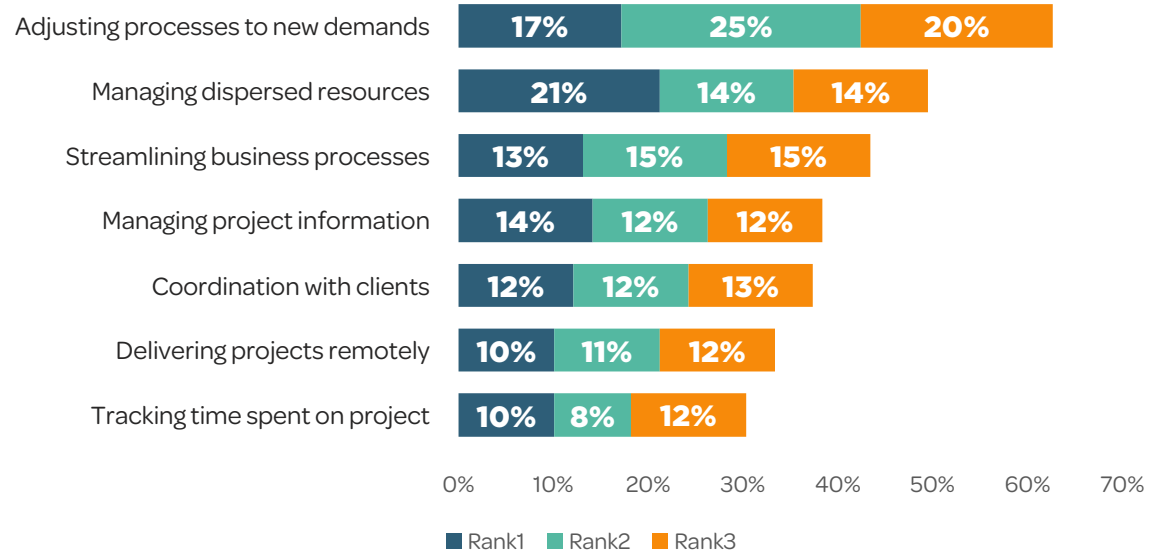
Shifts in Project Delivery Challenges

The challenges for delivering projects show some shifts from 2022 to 2023. Last year, the top two that emerged were managing project information, closely followed by delivering projects remotely. For 2023, the top two were replaced by adjusting processes to accommodate new client projects or business demands, followed by managing dispersed resources.

One reason for this shift is due to smaller companies reporting being most concerned with changes to their processes, with nearly a quarter (24%) ranking it first. While it remains a concern for larger companies, they were more likely to rank it second or third behind managing their greater but more dispersed resources.

Streamlining business processes to eliminate inefficiencies was ranked third for both years, showing a continued emphasis on this initiative as in other functional areas.

Top 3 Project Delivery Challenges



FROM YOUR PEERS

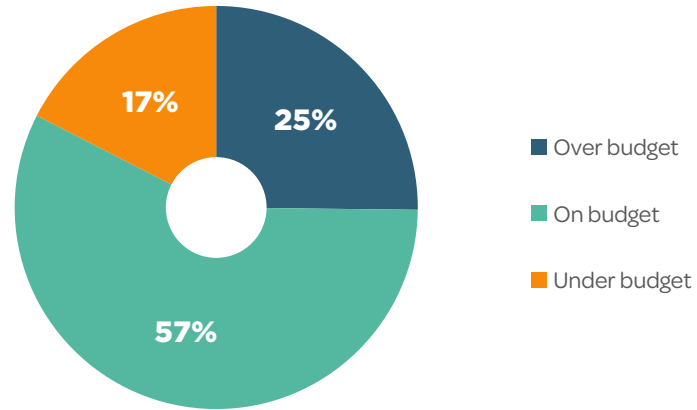
“Working remotely is a tremendous factor in our ability to **increase our revenue stream** in terms of additional resources that don’t necessarily have to be located here.”

Schedule and Budget Stability

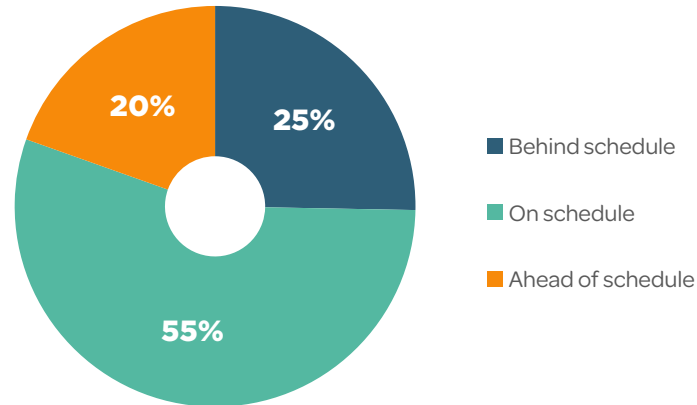
It's critical to government contracting to keep on track with timelines and budgets. **About half of companies track actual vs. planned costs as a top-three project management KPI**, from a list of 10 options.

Despite experiencing a variety of challenges, over half of the projects were reported on schedule (55%) and on budget (57%). However, a quarter of projects went over budget or fell behind schedule (25% each). Interestingly, larger companies were more likely to be behind schedule or over budget despite their resourcing advantages. This may be due to larger companies typically managing more complex projects with a higher number of interdependencies and diverse supply chains. Or could also be that smaller companies just don't have the systems in place to really inform them on project budget and schedule health until they are complete.

Project Budget Performance



Project Schedule Performance

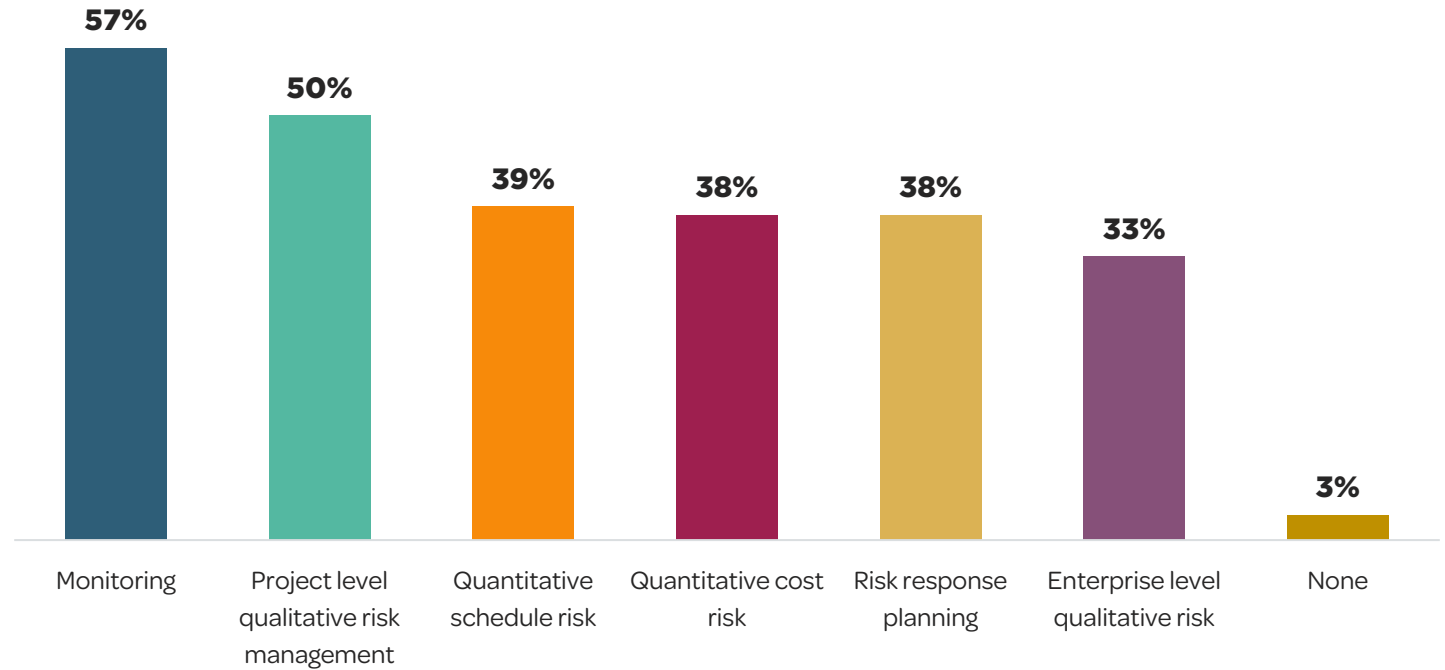


Risk Management Is Common, but Practices Vary

Companies report using risk management practices of some form on two thirds (67%) of their projects. This trend holds for both small and larger companies. However, how these practices are implemented varies across companies.

The top project phases for scheduled risk analysis were during project initiation and execution, both tied for first (59%), followed by the proposal phase (50%). Businesses are using a variety of practices to perform risk analysis, led by monitoring (57%) and project level qualitative risk management (50%).

Risk Practices Used



HIGH PERFORMERS: PROJECT & RISK MANAGEMENT

Project and risk management top performers were defined by projects under budget, with the top 10% measuring 35% or more. Unsurprisingly, they also report more projects ahead of schedule (30% vs. 18%) as well.

In terms of initiatives, these **top performers are more likely to be investing in implementing workflow tools** (46% to 29%). However, they are less likely to point to improved recruiting or hiring, which could be a sign of a more comfortable current staffing situation.

Top performers tend to perform risk analysis earlier in the project life cycle, with almost two thirds (64%) selecting the proposal phase versus 29% during execution (as compared to 48% and 64% of non-top performers, respectively).



30%

of top performers' projects finished ahead of schedule

Project & Risk Management Wrap Up

Project and risk management continues to be a difficult role in the government contracting industry.

Challenges begin at the start of the project process, where scope too often can be poorly defined. They must also work through project changes while keeping timelines on schedule and costs from overrunning. Thankfully, companies are making

investments in technology and re-engineering processes suited to today's hybrid workplace to combat some of these challenges.



Recommended Project & Risk Management Resources

To the right are additional free resources to help your government contracting organization optimize its project management function in the year ahead:



Whitepaper

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



Webinar

[Which Scheduling Tool is Right for Me?](#)



Whitepaper

[The True Cost of Project Delay](#)

SECTION FOUR

Finance & Financial Compliance

Responses from finance specialists show strong performance across government contractors.

Growth rates have increased, with continued optimism for 2023 and 2024. Still, challenges remain - notably, costs of compliance are expected

to rise. However, leading companies are not afraid of the prospect of investing in people, processes and technology to drive their financial results.

22% expected growth rate for 2023



TOP FINANCE & FINANCIAL COMPLIANCE CHALLENGES

1 Reducing costs

2 Increasing profitability

3 Increasing cash flow

The top challenges in the finance and financial compliance function are unsurprisingly focused on the key bottom-line drivers. The clear top selection is reducing costs. Costs are just one half of the equation for profitability, the second highest-rated challenge, but it's the half that the finance function can have most control over.

This is not surprising as the current environment is putting a lot of pressure on profit margins. As Jason Miller, Executive Editor, Federal News Network, noted,

“It impacts contractors’ profits because if they’re on a firm fixed price contract and their costs go up, it’s not easy to raise their prices.”

In response to these pressures, most finance teams are focusing on better qualification of the profitability potential for new opportunities (55%). Almost half (45%) are enhancing their business intelligence as well as considering uniform KPIs.

It’s also worth noting that attracting and retaining talent is highly rated as a finance challenge, another indication of the continuing war for talent across all the different departments of government contracting companies.

The difficulties can be heightened in finance, as contractors are competing, not only with each other, but also the government as the most experienced specialists with the most knowledge of the complex federal environment age out of the workforce.



Financial Metrics Improving

Finance respondents report strong performance metrics, continuing upward trends from last year.

12% Median Growth Rates

Median growth rates were 12%, with expectations for further increases in 2023 and 2024.

17% Median Profit Margins

Median profit margins rose to 17% this year. It's worth noting that, while growth rates were consistent across company sizes, profit margins are mainly driven by larger companies, with smaller companies tending to fall below average.

Although **fringe rates** have mostly been static over past years at around 30%, the median this year dipped to 16%. **Overhead rates** landed at a median of 20%, more consistent with recent years

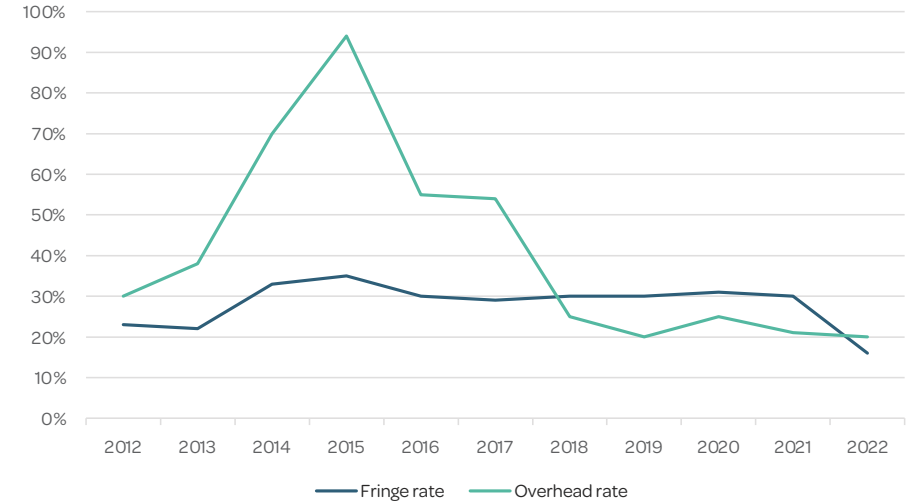
In billing metrics, year-over-year trends continued:

- **Monthly invoice cycles** continued to rise, reaching 26 days on average.
- **Average days sales outstanding (DSO)** came in at 33, in line with last year, though still below most previous years.

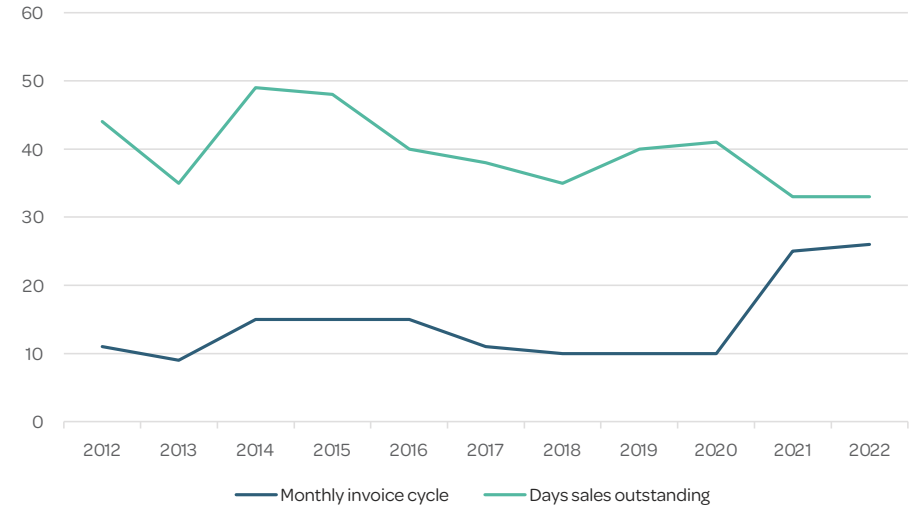
Growth Rates and Profit/Loss Margin (Median)



Fringe and Overhead Rates (Median)



Monthly Invoice Cycle and Days Sales Outstanding (Average)



Audits on the Rise

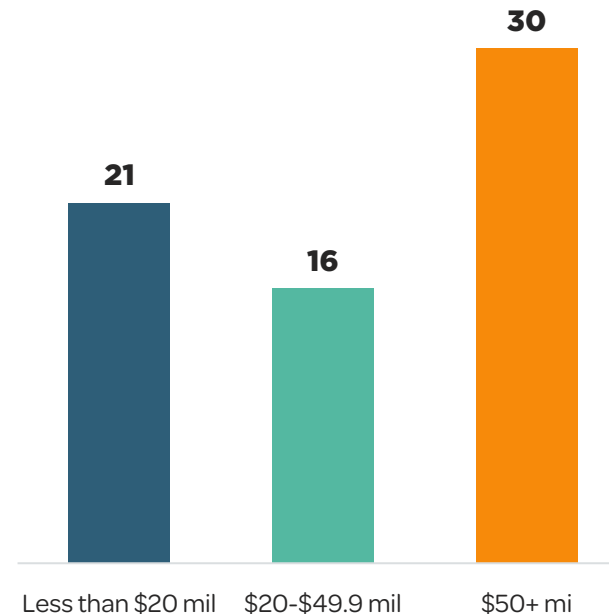
Companies reported 25 audits on average, about half financial (12), with the rest government or cybersecurity (8 and 5, respectively). This represents a significant increase since last year, with the average number of audits nearly doubling from just 13. The largest companies saw the most audits, averaging over 30. Most companies (51%) spend 41-160 hours per year preparing for government audits.

Aside from time spent, audits present other difficulties for government contractors. **The highest ranked audit challenge was internal control systems, followed by indirect rates.**

30% of respondents ranked indirect rates in their top three audit challenges, though most respondents (55%) indicate that their indirect rates have not changed, and of those that have, most have done so a small number of times (59% 1-2 times). The addition of service centers was the most common indirect rate structure change, potentially in efforts to provide more granular detail on overhead costs.

Over a quarter of companies (28%) ranked CMMC (Cybersecurity Maturity Model Certification) compliance as a top-three audit challenge, a theme we'll return to in more detail in the Information Technology & Security section.

Average Number of Audits in 2022

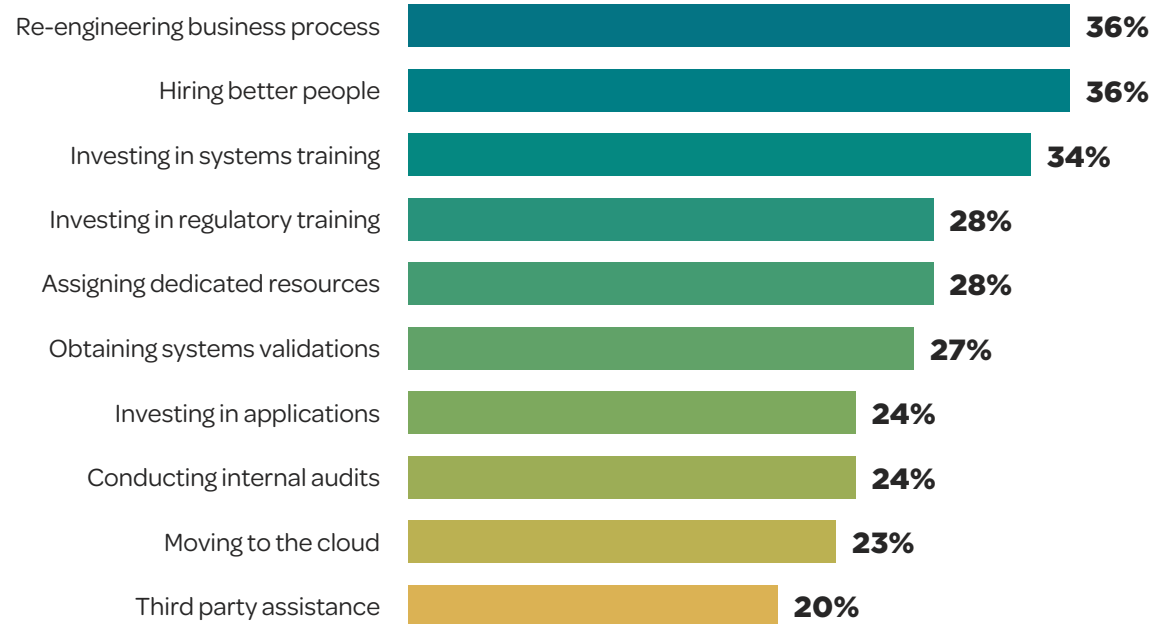


Processes and People to Support Finances

As we have seen, and will continue to see in other functional areas, government contractors are making business processes a focus for 2023. When asked about initiatives to address their audit challenges, over a third (36%) chose re-engineering their business processes, tied for the top choice with hiring. Respondents also cited process reorganization as a top digital transformation challenge, underscoring how processes are such a priority for this year.

While business processes are often seen as a more cost-effective way to improve performance, finance specialists also believe their companies are willing to invest to overcome the difficulties audits present. 36% say they plan to hire better qualified or more experienced people, while **many are investing in systems or regulatory training** (34% and 28%, respectively).

Initiatives to Address Financial Challenges



FROM YOUR PEERS

“Improving processes is a way to cost control - and it’s not even a cost you see. It’s a soft cost. It reduces redundancy, disjointed workflows and archaic ways of working.”

HIGH PERFORMERS: FINANCE & FINANCIAL COMPLIANCE

Top performers in finance and financial compliance were defined by top 10% in profit margins, which calculated to 50% or above. Other metrics reflected their impressive performance, including higher G&A rates and lower overall rates than the rest of the sample.

A theme that emerges looking at their responses to other questions is that these companies are willing to invest, spending money to make more. Top performers report that their companies spend more on bid and proposal costs but also see higher growth, and expect that to continue.



Top performers' bid and proposal costs are

57%

of revenue, versus just 18% for others

Finance & Financial Compliance Wrap Up

Financial results paint a positive picture of the health of the government contracting industry.

However, profits are not evenly distributed across company sizes, with smaller companies underperforming their larger competitors. Challenges such as rising costs, particularly around compliance and audits, are having an impact, although not enough to stifle the overall optimism.



Recommended Finance & Financial Compliance Resources

To the right are additional free resources to help your government contracting organization optimize its finance function in the year ahead:



Webinar

[Introduction to Cost Allowability](#)



Webinar

[GovWin Report: Federal Contract Trends to Watch for in 2023](#)



Research

[Nucleus Research: How Costpoint Customers Achieve Audit Compliance](#)

SECTION FIVE

Manufacturing

Though under pressure due to supply chain challenges, manufacturers in government contracting know they cannot compromise on quality.

Manufacturing is especially susceptible to broader challenges in the supply chain, as well as the competition for talent. However, a focus on quality emerged from the

Clarity Survey findings as more top of mind for respondents in the discipline. Many, including top performers, are turning to technology to maintain their high standards.

55% of government contractors have automated their manufacturing operations



TOP MANUFACTURING CHALLENGES

1 Quality control

2 Talent management

3 Better traceability

Manufacturers in the government contracting industry are tackling a variety of challenges. First and foremost, they are responsible for the quality of their outputs, with 42% ranking quality control a top three challenge. Respondents are also concerned with shortages of qualified talent impacting their operations (37%). Traceability placed third – like quality control, likely an artifact of legacy, non-standardized, often paper-based systems in need of modern tools like electronic quality management systems.

While supply chain issues grab headlines vis-a-vis material shortages, forecasting complexities and logistics to name a few, supply chain visibility closely follows as a manufacturing challenge (30%). This is because visibility into supplier quality and its efficient management, especially for government contracts, are areas where improvements are typically sought by manufacturers. Other data points in the Clarity Survey reinforce that risks to supply chains are ongoing, but other challenges are competing for manufacturers' attention.

Of the initiatives to address these challenges, technology is a recurring theme. First is integrating solutions with finance (39%), with other related options also scoring highly (e.g. investing in execution systems at 37% and software solutions (33%).



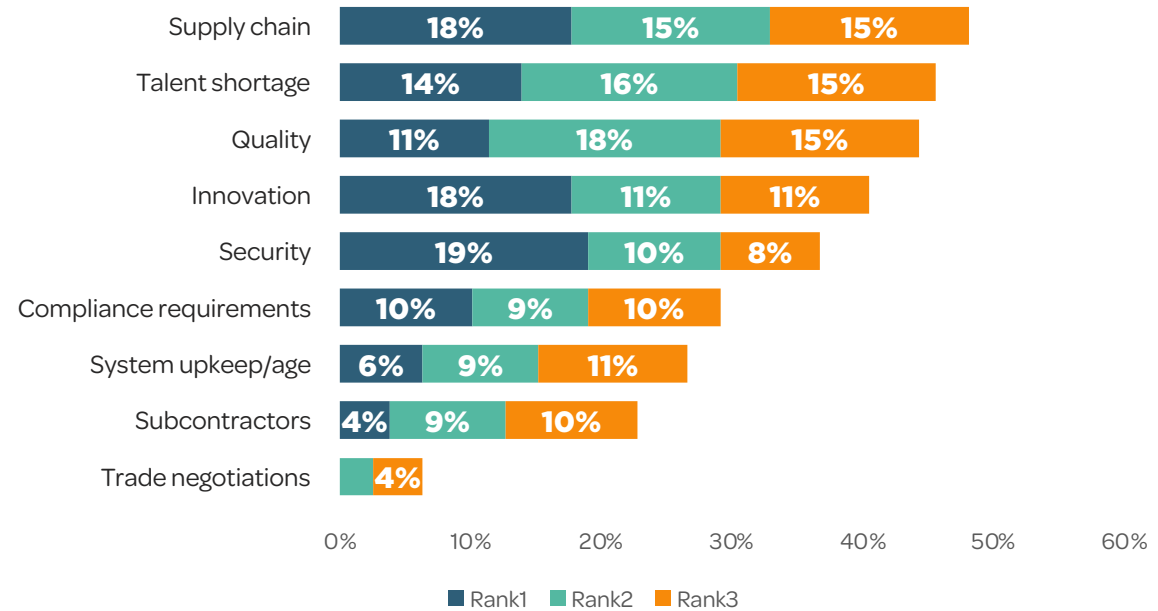
Supply Chain Remains a Risk

With supply chain difficulties persisting year over year, it's no surprise that it remains the highest risk potential for manufacturing. **Talent also remains an issue** - the same top two risks as last year.

This year, though, quality rose to third, with 44% of respondents ranking it in their top three. Smaller companies are particularly concerned; that figure increases to 58% for under \$20 million in revenue where they are subject to the same exacting standards without the systems larger companies have in place.

Notably, compliance is ranked well under these and other challenges. While it's always a focus for government contractors, manufacturing respondents' feel confident with these requirements.

Top 3 Potential Manufacturing Risks



FROM YOUR PEERS

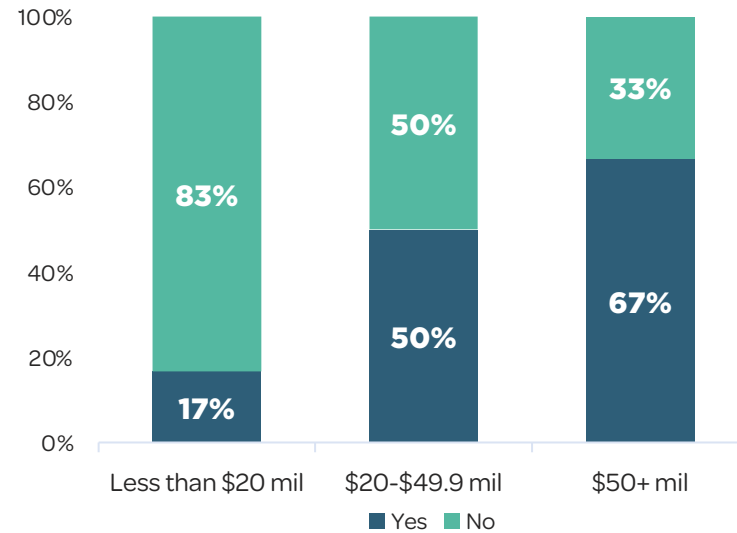
“With the supply chain issues, we’ve had materials just sitting on a barge in the middle of the ocean. **We have had to find alternative solutions,** which then means we have to re-engineer the machines that we’re building to accommodate those new parts. That’s been sort of our strategy in this last two years, re-engineering the different types of machines that we are selling and building to offset our supply chain challenges.”

Smaller Companies Have an Automation Gap

Technology has the potential to help manufacturing run with the efficiency government contractors require. More than half of manufacturing respondents (55%) say that their operations are automated, although smaller companies are well behind their larger competitors. **Just 17% of companies with less than \$20 million in revenue have automated manufacturing operations**, as compared to 67% of companies over \$50 million. Rather than rebuilding their current operations, they are likely holding onto working capital to invest in other areas, like product development or their workforce.

For most of the companies that have not managed automation yet, costs are the main barrier (58%), unsurprising given how many of these companies have smaller revenues and budgets. However, a notable number of these companies (44%) also struggle to overcome skeptics of the benefits of technology.

Companies with Automated Manufacturing Operations

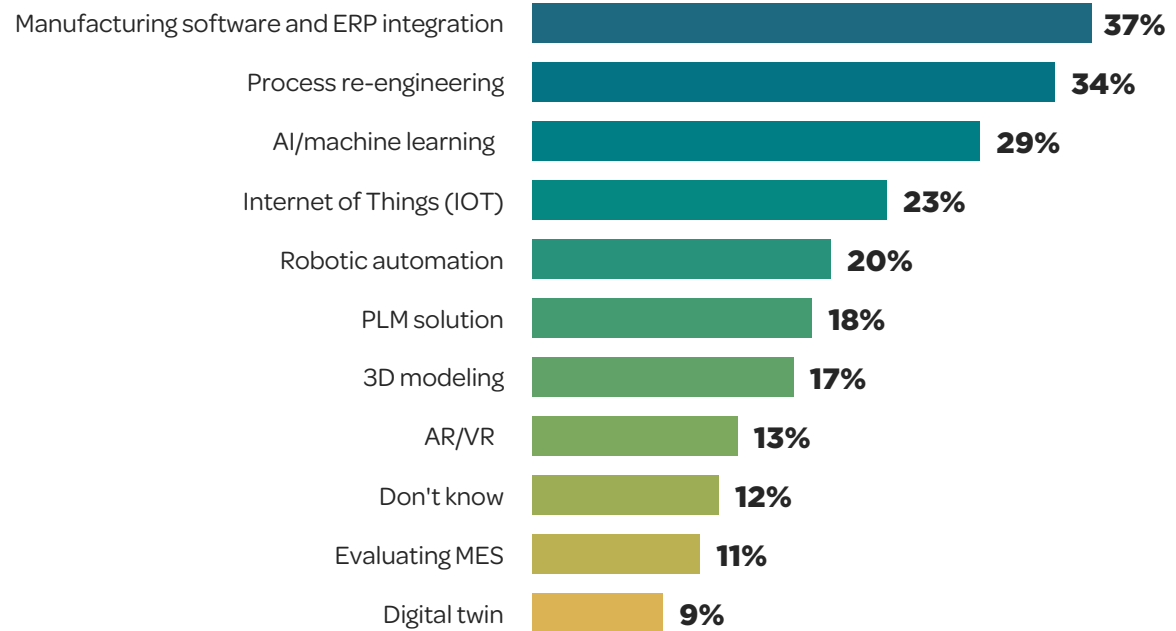


Ongoing Technology Initiatives

Aside from automating operations, companies are pursuing a variety of other technology initiatives. The most common target for digital transformation in the manufacturing space is integrating enterprise resource planning software and **implementing smarter systems to handle evolving government regulations and requirements more efficiently.**

As with other functional areas, companies are also re-engineering their manufacturing processes. This is an especially prevalent strategy with smaller companies, who are focusing on data-driven initiatives that optimize their existing resources that may or may not require additional investment in technology.

Top Digital Transformation Initiatives



HIGH PERFORMERS: MANUFACTURING

Top performers in the manufacturing space stand out for a few technological developments. Almost all top performers in the manufacturing space are automated (80%). Most top performers (60%) are planning to provide suppliers with access to their systems, a less common tactic for other companies (29%) but one that helps achieve a robust, predictive and resilient supply chain.



80%

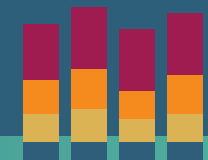
of top performers have automated their manufacturing operations

Manufacturing Wrap Up

Manufacturers face challenges beyond ongoing supply chain difficulties as they look to deliver on quality.

Knowing there is no easy solution for supply chain woes or talent shortages, manufacturers in the Clarity Survey are focusing on meeting high quality standards through both investing in technology and implementing new processes. While smaller

businesses must find ways to fund automation, companies of all sizes are building integrated systems to provide better visibility into their suppliers and operations.



Recommended Manufacturing Resources

To the right are additional free resources to help your government contracting organization optimize its manufacturing function in the year ahead:



Webinar

[3-Part Series: Quality Management, Paperless Shop Floor and Digital Transformation](#)



Guide

[The Importance of Integrated Quality Management](#)



Blog

[Uncover Digital Tools to Tackle Manufacturing Challenges](#)

SECTION SIX

Contract Management & Procurement

The government contracting industry presents unique challenges in contract management and procurement, but respondents report being up to the task.

About two thirds of respondents (66%) express confidence in interpreting and tracking complex contract requirements, versus just 4% lacking confidence. As seen from Project & Risk Managers, this optimism is warranted based on the high percentage of projects on or under budget (75%) or on or ahead of schedule (75%).

66% are confident in addressing complex contract requirements



TOP CONTRACT MANAGEMENT & PROCUREMENT CHALLENGES

1 Monitoring time and expenses ensuring project is on budget and profitable

2 Ensuring compliance to contract clauses

3 Contract data not centralized in a single system

Last year, respondents were most concerned with tracking changes as their top challenge. This year's results show some progression from those technical concerns to a closer focus on their bottom line, likely a reflection of inflation pressures. The top challenge, selected by over one third of respondents (35%), was managing expenses to stay on budget and ensure profitability. And while it's a top challenge, this focus is also what's giving contractors confidence in interpreting complex contract requirements.

The second highest concern is ensuring compliance with contract clauses which, given the growth in contract scope and complexity, is never far from the top for government contractors. Its top-three ratings are nearly as high as expenses (34%), mainly driven by smaller companies balancing compliance demands with limited resources.

FROM YOUR PEERS

"The reporting requirements are complex, and getting **more and more complex.**"



Investing in People, Process & Technology

To overcome these challenges and the usual constraints on budgets and staff, contractors are trying to control the controllable and focus on the bottom line. They are looking for ways to leverage the resources they have more efficiently. This shows up as initiatives to change or modernize business processes, the most common strategy (41%).

However, the focus on reducing expenses does not preclude investment. Almost one third (32%) are investing in software to support these more modern business processes and address pain points such as the lack of a centralized system for contract data. Technology alone is not enough. Although process improvements and automation allow companies to redirect some of their existing workforce to more valuable tasks, a large number of respondents (40%) still plan to hire additional resources. Both the numbers for investing in software and people are driven by larger companies that have more resources to dedicate to multiple strategies.

FROM YOUR PEERS

“For us, Deltek enables the appropriate billing to be done and the appropriate government reporting to be done easier. **Deltek is pretty essential.** It enables growth by making sure we don’t screw up. And it is also very scalable and is also very customizable to support our business.”



Deltek Costpoint

Deliver successful projects on time and on budget with Deltek Costpoint, the industry-leading ERP solution to help businesses of all sizes meet complex government regulations and seamlessly handle end-to-end business processes.

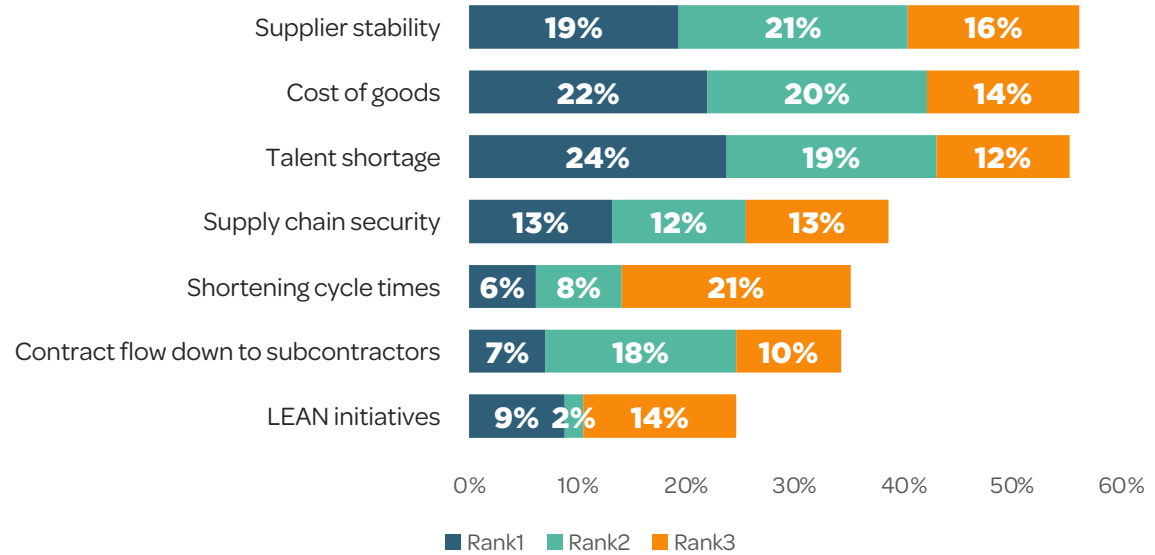
[Tell Me More >>](#)

Market Conditions Impacting Supply Chain

The challenges facing procurement leaders are shifting with market conditions as well. Talent shortages remain a key concern, with nearly a quarter of respondents (24%) ranking it first and 55% ranking it in their top three. However, with continuing supply chain difficulties and soaring inflation, supplier stability and cost of goods rival talent as top challenges - both ranked top three at 56%. The silver lining is that supply chain security has dropped down the list of challenges, from 66% to 39% this year.

These market trends manifest themselves differently based on company size. For instance, the largest companies are much more concerned with supplier stability than costs and inflation (23% ranked first, vs. 15% for companies with \$50+ million in revenue), while the reverse holds true for smaller revenue companies (13% vs. 38% for less than \$20 million). **A common strategy among companies of all sizes is to find new domestic vendors to address supply chain difficulties** as well as comply with new regulations; however, the largest companies are the most intent - and have the operational reach - to do so (71%, vs. 60% overall).

Top 3 Supply Chain Challenges



HIGH PERFORMERS: CONTRACT MANAGEMENT & PROCUREMENT

Contract management and procurement top performers were defined as the top 10% in shortest PO cycle time, calculating to 5 days or less this year. These companies are investing in this function, with the majority (57%) reporting hiring additional resources. Compared to non-top performers, they rely less on spreadsheets and more on dedicated technology (like contract management software) to support their teams.



4.5 days

PO cycle time on average for top performers

Contract Management & Procurement Wrap Up

A main focus for contract management and procurement professionals is ensuring that their companies are maximizing efficiency and continuing to monitor time and expenses against schedules and budgets.

This year, respondents report being occupied with business processes as well as their supply chains, particularly shifting suppliers domestically. Though

the government contracting industry is a challenging one, these professionals indicate confidence with recent results to support that sentiment.



Recommended Contract Management & Procurement Resources

To the right are additional free resources to help your government contracting organization optimize its contract management & procurement function in the year ahead:



Guide

[The Path to Procurement Efficiency](#)



Blog

[Subcontracting Government Contracts: Best Practices](#)



Webinar

[Turning Procurement Into a Strategic Advantage](#)

SECTION SEVEN

Human Capital Management

Trends beyond the government contracting industry are intensifying the war for talent, but the industry continues to evolve, making sure it has the right people to deliver on contracts.

The availability of qualified talent remains a challenge in government contracting. In a disappointing finding, companies report that voluntary departures have caused headcounts to shrink over the last year.

Retention rates also dipped from 82% to 75%. While this poses challenges, particularly to business development, project management, and IT teams, human capital managers continue to evolve their strategies for the talent market.

3.4% decrease in average headcounts in 2022



TOP HUMAN CAPITAL MANAGEMENT CHALLENGES

1 Retaining top talent

2 Flexibility and work/life balance

3 Strategic capacity and planning

Human capital managers (HCM) have been on the frontlines of the war for talent for the last few years, and they expect 2023 to be difficult as well, with retaining talent as their top challenge. This does represent a shift from last year where attracting better qualified talent was the top challenge. While acquisition remains a concern, companies today are looking more inwards to keep and develop the talent they already have.

The pandemic has also had a lasting impact on employees' expectations, pressuring companies to provide the flexibility and work/life balance that people have become so accustomed to. Companies are continuing to support hybrid working models (40%) to meet employees' expectations and widen their recruiting footprint.

As they face those challenges, human capital managers are also struggling to think strategically around capacity, especially those at smaller companies. Clearly, there is a rising interest in having the foresight and stability to get ahead of resource and workload planning.

“There are fewer people to hire

with a lot of need for skillsets like cybersecurity or cloud architecture, or programming project management.”

— JASON MILLER,
EXECUTIVE EDITOR, FEDERAL NEWS NETWORK



Career Development Leads Retention Strategies

To address these challenges, the industry's top initiative is formalizing career development programs (46%), benefiting employees while building the skills the company needs to deliver on their contracts. These programs often leverage internal staff like managers who provide coaching (51%) or peer mentorship (49%), although formal learning programs are the next most common (43%).

However, government contractors are also evaluating their culture and technology. Respondents cite investing in employee training

and development and focusing more on work/life balance as their top culture initiatives (each 45% ranked top three). Also prominent on the list are improving manager/employee communications, modernizing performance management practices, and ensuring mission / vision / values alignment. As new skills and competencies are required to meet business demand, workforce analysis becomes even more critical. With top HCM tech trends including continuous performance management, total workforce planning,

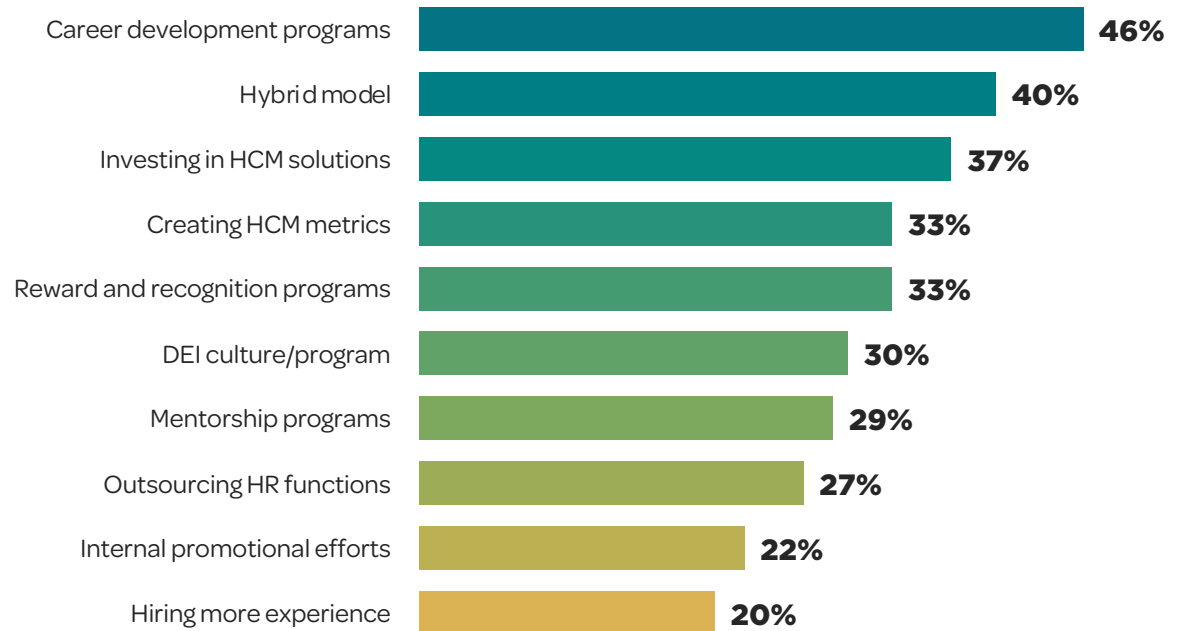
and HCM analytics, the value businesses are placing on holistic understanding and development of their workforces is clear.

While less common overall, rewards and recognition programs also have a foothold in the industry. A third of companies (33%) have reward and recognition programs, with 35% interested in implementing new programs. It's also seen as a noteworthy HCM technology trend (35% ranked top three).

FROM YOUR PEERS

"I have always been a proponent of the formal career development plan that looks at not only how the individual's career can be developed for the organization, but what kind of skills they may be able to take with them elsewhere. And that may be counterintuitive, but **it actually makes the employee feel valued...** where they realize that the organization is willing to invest in their career development."

Initiatives to Address Management Challenges

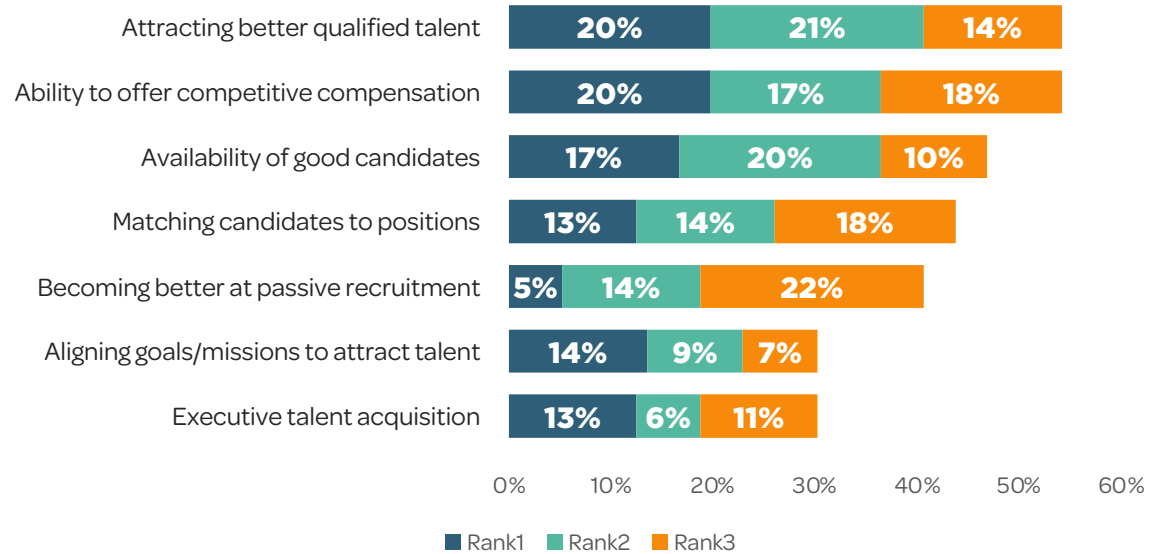


Acquisition Still Requires Attention

While retention is unsurprisingly a top priority, government contractors inevitably do need to stay active in the job market to replace departed employees and grow their workforce. As in the past, their top challenge is finding candidates with the right qualifications. This year, in a sign that job seekers' power continues to grow, this challenge is equaled by **the ability to offer compensation that meets candidates' demands - and outbids their competition.** (Both 20% ranked first, 54% ranked top 3).

As in years past, referrals are a leading way to find talent. Nearly half of companies (45%) are leveraging current employees' networks and knowledge as a targeted and cost-effective way to overcome their top challenge. Notably, respondents say their companies are more likely to staff up recruiting teams than outsource (33% to 20%).

Top 3 Talent Acquisition Challenges



FROM YOUR PEERS

“The challenge today is the availability of qualified and skilled resources. But that is partly addressed because the **talent can work remotely.**”

Adapting to a Competitive Talent Market

Acquisition in a tight labor market remains challenging. However, with all the tools at their disposal, there are signs that government contractors are finding effective ways to meet their companies' hiring needs. Over a third of respondents (34%) say that at least 75% of offers are accepted without negotiation, and a further third (33%) say at least 50% – likely a sign that they are making job offers in-line with the market. Most roles are filled within 60 days, a modest improvement from last year (74%, up from 71%).

Contractors are still being turned down by prospective hires for the usual reasons: insufficient compensation, lack of remote work flexibility, concerns over work/life balance, dissatisfaction with benefits packages. Overall, though, two thirds of respondents (67%) consider their companies' hiring strategies sustainable, with just 5% expressing some concern in that regard. This is impacted by factors like company size and industry, though. Smaller companies are less likely to feel "very sustainable," and those most worried about sustainability are clustered in labor-centric industries like professional services.



“Right now, **finding the right talent at the right price** is more difficult than ever. The more specialized the task order, or the business you are pursuing, the more expensive that butt in seat is going to be. And it can price you out of a win-range.”

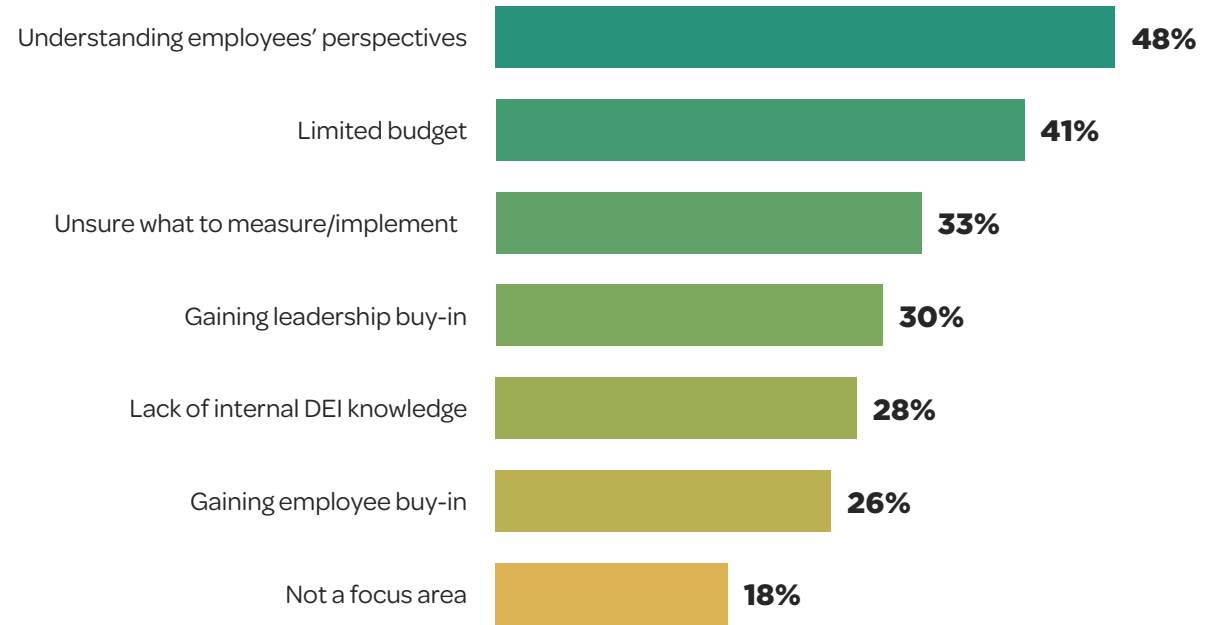
– MARK AMTOWER, GOVERNMENT CONTRACTING ADVISOR

Diversity, Equity & Inclusion Gaps Remain

While it can be overshadowed by other concerns, DEI (diversity, equity & inclusion) remains important to compliance requirements as well as ensuring that qualified candidates are not alienated due to culture. With that in mind, 30% of human capital managers say their companies are implementing DEI culture programs.

However, these efforts pose additional challenges beyond the human capital function. Nearly half of respondents (48%) say their **company struggles to understand employees' perspectives on culture**. Limited budgets are the second largest challenge (41%) - although that should not be a barrier to these efforts as not every program requires funding. Other responses show a general lack of knowledge or clarity on DEI and what to do in that space. There is no clear consensus on what DEI metrics to track, although some options like job satisfaction / engagement, pay equity, retention, and leadership diversity are relatively common around 40% or above. Among those that do track retention rates for underrepresented groups, results average around 70%, lagging overall by about 5%. Whether tracking metrics via annual or pulse surveys or driving meaningful connection via manager and peer-led conversations, the industry continues to have work to do on the DEI front.

Top DEI Challenges



HIGH PERFORMERS: HUMAN CAPITAL MANGEMENT

Contrary to the overall trend, top performers - defined as top 10% in retention rate, above 97% - reported that their companies grew over the past year. They hired aggressively, resulting in headcounts increasing over 10%. They tended to see a higher percentage of job offers accepted, likely due to generous benefits packages. With layoffs in the news, companies must be careful with aggressive hiring practices; top performing government contractors were less convinced that their compensation strategies were sustainable, but not overly concerned (none selected "Not sustainable" for that question, but a majority (55%) were neutral rather than positive). It likely doesn't hurt their efforts to attract candidates that they are more likely to offer hybrid working models (80%, versus 35% of non-top performers).




80%

of top performers offer hybrid working models

Human Capital Management Wrap Up

Human capital managers report the war for talent continues, shifting from attracting to retaining talent, with no signs of abating for 2023.

Government contractors faced significant challenges in the past year, with headcounts shrinking. One of the main solutions to acquiring and retaining talent is as simple as increasing compensation, a tactic that most respondents claim is being done thoughtfully and sustainably. That said, companies cannot overlook non-monetary elements of satisfaction and retention.

They must address employees' demands for flexible working arrangements and work/life balance. They are supporting career development through methods such as manager coaching and mentoring. Still, there remain gaps to fill in developing talent internally and being inclusive of all employees regardless of background.



Recommended Human Capital Management Resources

To the right are additional free resources to help your government contracting organization optimize its human resources function in the year ahead:



Webinar

[Employee Recognition for the Modern Distributed Workforce](#)



Blog

[Engage Applicants with Talent Relationship Management](#)



Blog

[The Great Employment Experience Can Overcome the Great Resignation](#)

SECTION EIGHT

Information Technology & Security

IT teams have a critical role in ensuring that their companies meet the requirements for government contracts, a responsibility that came through strongly in this year's survey results.

This year, IT professionals noted that satisfying government requirements and ensuring their teams' understanding and compliance with policies such as CMMC is the top challenge. They are required to stay up to date on the latest trends and threats in cybersecurity to both the private and public sectors.

And while they would likely appreciate increased budgets and talented additions to their teams, these factors are less top of mind than supporting their companies' core business functions.

87% have around half or more of their business applications in the cloud



TOP INFORMATION TECHNOLOGY & SECURITY CHALLENGES

1 Satisfying government requirements

2 Operating with a smaller budget

3 Finding top IT talent

Government technology oversight continues to expand, placing increasing pressure on IT professionals to account for both operational needs and government requirements. Nearly half of respondents (45%) cited satisfying these requirements as a top three challenge. Limited budgets and talent shortages - the second and third highest rated challenges - compound the issue.

Government requirements aside, IT professionals' jobs are not getting any easier. When presented with a list of 14 technology trends, a majority of respondents rated every single one as important. The top trends were selected nearly universally, led by cybersecurity (93%). Others including big data, data science, IoT, artificial intelligence and machine learning were rated similarly, but even lower priority trends such as blockchain, natural language processing (NLP) and augmented / virtual reality (AR/VR) emphasized the importance of highly-qualified IT staff who are comfortable with a wide range of diverse technologies.

Cybersecurity and Cloud (93%) is the most important technology trend

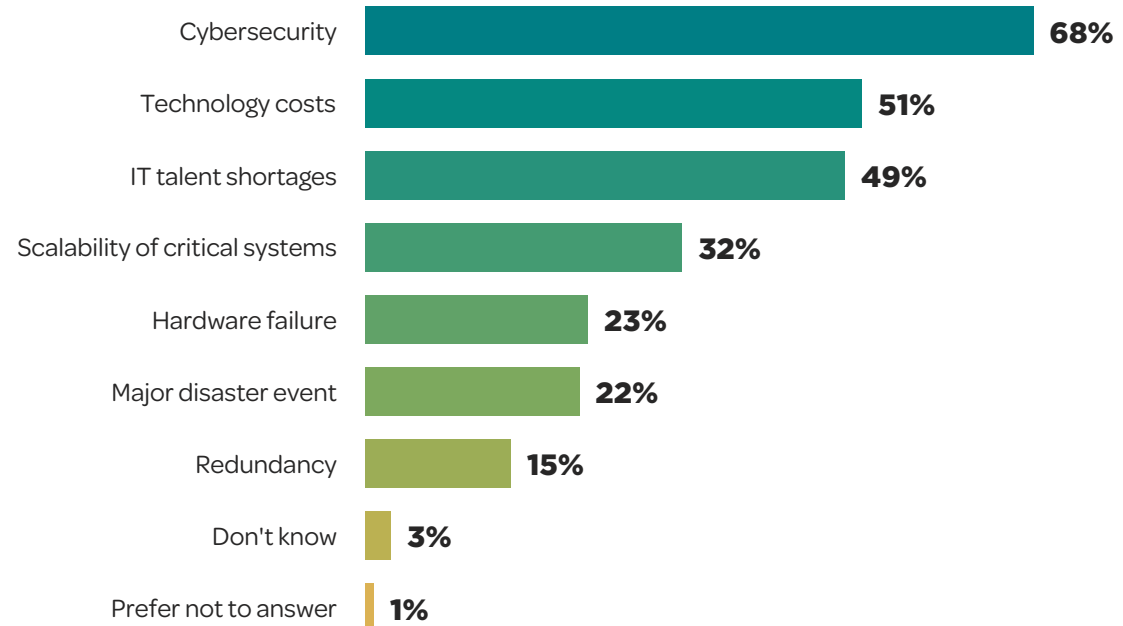


Cybersecurity a Top Concern

Unsurprisingly, **cybersecurity is the top concern for IT teams**, selected by over two thirds of respondents (68%), even more so than technology costs and talent shortages. IT teams face a variety of security threats, with a variety of options selected equally by the sample: phishing, data exfiltration, ransomware, etc.

While the industry response to security challenges requires a multi-pronged strategy, about half of respondents say their companies are focusing on increasing monitoring (51%) or updating infrastructure (49%). While lower, skills training for IT staff was still a notable selection (34%), with training for their companies' broader workforce close behind (32%).

Most Concerning IT and Security Topics

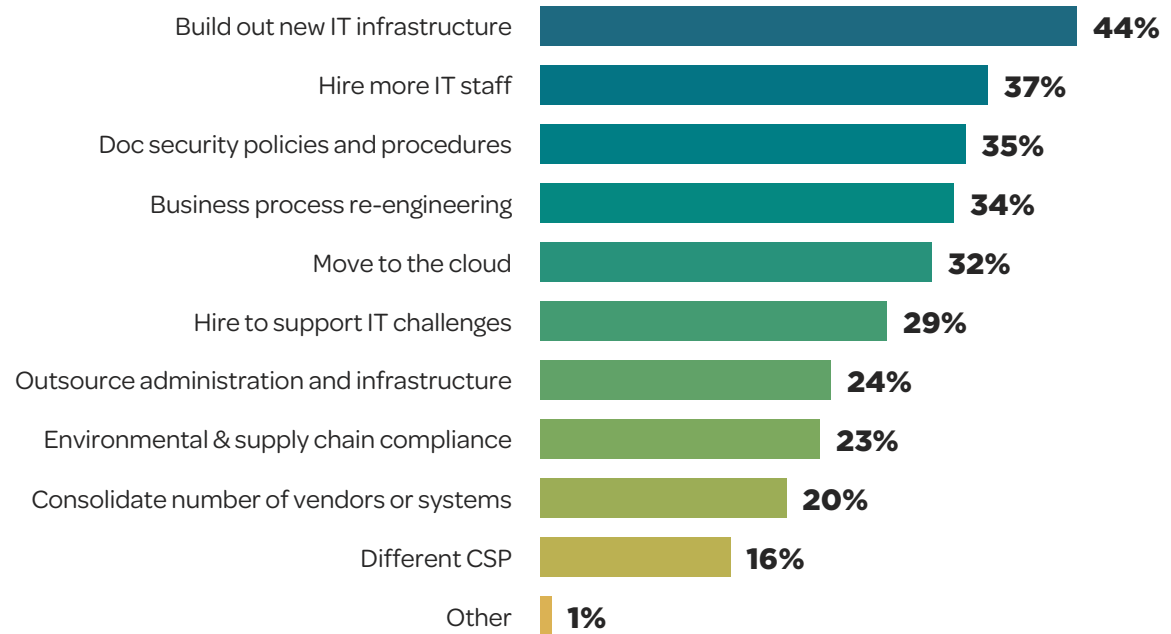


Top IT Priorities: Infrastructure & People

Faced with technical, compliance, and security challenges, government contracting companies are responding by **modernizing infrastructure and hiring people**. These investments show that the challenge of limited budgets is not absolute.

Respondents also noted several strategies to streamline IT operations. Over a third of respondents (34%) said their companies are re-engineering business processes, in line with responses in other functional areas. Moving to the cloud was just below (32%), probably because a vast majority of companies (87%) have already deployed around half or more of their business applications in the cloud.

Initiatives to Address IT Challenges



“Spending around **IT and technology continues to grow** because of how important it is, and if nothing else, the pandemic has shown how important technology is.”

— JASON MILLER, EXECUTIVE EDITOR, FEDERAL NEWS NETWORK

Cybersecurity Maturity Model Certification (CMMC) Top of Mind

One critical requirement for working with the Department of Defense (DoD) is the Cybersecurity Maturity Model Certification. As this program certification has changed in recent years, the Clarity Survey has shown continuing uncertainty, confusion and possibly misinformation. 82% of IT respondents whose companies work with the federal government indicated that they anticipate CMMC applying to them. The 10% who do not think it will apply may very well be incorrect; the 9% “don’t know” is a reasonable response, but still shows an information gap among IT professionals, and likely even greater among their colleagues in other functions, not to mention small business.

When asked the maturity level required for their company, most respondents (55%, up from 42% last year) responded with Maturity Level 3, which is not the general industry expectation (CMMC program officials have stated they anticipate Maturity Level 2 to be the most prevalent). Respondents could be overstating the expected requirements on their companies, confused about the change in CMMC maturity levels, or perhaps mistaking whether Level 1 or 3 is the most stringent. Many companies are possibly unaware that the CMMC program was designed mainly to ensure compliance with the FAR (Federal Acquisition Regulation) and DFARS (Defense Federal Acquisition Regulation Supplement) cybersecurity requirements that have already been in federal contracts for many years, which has been a big part of the delayed rollout of the CMMC rule.

FROM YOUR PEERS

“I have two people that are **very concentrated on [CMMC]**. I think they understand what they’re doing. Has it been a rough road? Yeah, it has.”



Understanding CMMC 2.0 Compliance

Learn About the three CMMC Maturity Levels in this Guide

[Get the Guide >>](#)

HIGH PERFORMERS: INFORMATION TECHNOLOGY & SECURITY

Results from the survey show that high-performing IT teams, defined as having the highest percentage of apps in the cloud, are farther along than their peers on other key progress metrics. They were less likely to choose the top initiatives - building infrastructure and hiring – likely indicating that they are farther along on their infrastructure modernization and staffing journey. Instead, their top initiative is documenting security policies and procedures (53%, vs. 32% among others). They are also more prepared to support the rest of their organization with business process re-engineering (41% vs. 33%). They see less concern with most IT topics, including cybersecurity (55% vs. 71%), although they see unpatched systems as a larger potential threat (35% vs. 10%). Their teams can focus the most on their own skills training (45% vs. 32%).



45%

of top performers are increasing skills training for their teams

Information Technology & Security Wrap Up

IT teams are hard at work ensuring compliance and cybersecurity.

Last year's results showed that a critical initiative for IT teams would be finding talent to build the IT infrastructure to support a distributed workforce while maintaining cybersecurity readiness.

While talent remains a concern, a shift in focus to maintaining compliance and security indicates that, to an extent, that initiative was successful.



Recommended IT & Security Resources

To the right are additional free resources to help your government contracting organization optimize its IT & security function in the year ahead:



Webinar

[Cybersecurity Regulations Overview](#)



Guide

[Understanding CMMC 2.0 Compliance](#)



Guide

[Why the Cloud Sets GovCons up for Success](#)

CONCLUSION



2022 continued positive trends from previous years, as the government contracting industry and economy emerged from the pandemic with the confidence to overcome new challenges and continue growing into the future.

Across company sizes, locations, and specialties, key trends for the government contracting industry include:

- An emphasis on re-engineering business processes to ensure efficiency.
- Ongoing challenges in competing for talent and managing compliance requirements.
- Rising concerns due to supply chain difficulties and cost inflation.
- Overall strong performance and positive outlook, led by the largest companies in the industry.

There is no doubt about the complexities and challenges within the public sector market. And it's why the need for supportive partners who understand this space is great.

Deltek takes pride in supporting government contractors through project-based solutions and services and through the thought leadership and education we provide to the industry.

GOVERNMENT CONTRACTING BENCHMARKS

| | CLARITY BENCHMARK - ALL PARTICIPANTS | CLARITY HIGH PERFORMERS |
|---|--------------------------------------|-------------------------|
| FUNCTIONAL AREA KPIS | | |
| BUSINESS DEVELOPMENT | | |
| Bid & Proposal Costs | 22% | 57% |
| Win Rate on Recompetes | 58% | 80% |
| Win Rate on New Bids | 44% | 87% |
| Revenue Growth Forecast | 22% | 53% |
| Target Pipeline-to-Win Ratio | 3x | 3x |
| PROJECT & RISK MANAGEMENT | | |
| Percentage of Projects Under Budget | 17% | 42% |
| Percentage of Projects Ahead of Schedule | 20% | 30% |
| Steps to Address Supply Chain Challenges | New domestic vendors | New domestic vendors |
| FINANCE & FINANCIAL COMPLIANCE | | |
| Average Monthly Invoice Cycle | 28 days | 50 days |
| Average Days Sales Outstanding | 63 days | 34 days |
| Median Profit/Loss Margin | 20% | 70% |
| Median Growth Rate (2022) | 22% | 57% |
| Median G&A Rate | 20% | 29% |
| Median Fringe Rate | 18% | 14% |
| Median Overhead Rate | 22% | 16% |
| Average Financial Audits Started | 12 | 12 |

GOVERNMENT CONTRACTING BENCHMARKS

| | CLARITY BENCHMARK - ALL PARTICIPANTS | CLARITY HIGH PERFORMERS |
|---|--------------------------------------|------------------------------|
| FINANCE & FINANCIAL COMPLIANCE (CONT.) | | |
| Cybersecurity Audits Started | 5 | 9 |
| Shop Floor Audits Preparation Time | 27 days | 57 days |
| MANUFACTURING | | |
| Percent with Automated Manufacturing | 55% | 80% |
| CONTRACT MANAGEMENT & PROCUREMENT | | |
| Top Contract Management Challenge | Monitoring time and expenses | Tracking changes |
| Top Supply Chain Challenge | Talent shortage | Cost of goods |
| Purchase Order Cycle Time | 52 days | 4 days |
| HUMAN CAPITAL MANAGEMENT | | |
| Current Retention Rate | 75% | 99% |
| New Hire to Bill Time | 39 days | 84 days |
| Top Reasons Candidates Turn Down Offer | Compensation too low | Not interested in actual job |
| Employee Development Initiatives | Manager coaching | Mentoring/manager coaching |
| Top DEI Metrics | Job satisfaction & engagement | Retention |
| INFORMATION TECHNOLOGY / CYBERSECURITY | | |
| 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 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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