



# EFFECTIVE CAPTURE AND PRICING STRATEGIES FOR GOVERNMENT CONTRACTORS

LYNNE GUMMO, DIRECTOR, TAX ADVISORY SERVICES

In today's austere budgetary environment, government contractors are finding they must walk a fine line between developing a winning contract capture and pricing strategy and making a profit to grow their businesses.

SC&H Group and Red Team Consulting have launched a three-part, on-demand webinar series for government contractors that aims to cover everything from effective capture strategies to pricing best value contracts to direct and indirect rate strategies.

Following is an exclusive SC&H Group Q&A on the changing procurement landscape, featuring Lynne Gummo, a Director of Tax Advisory Services at SC&H Group.

**Q:** Overall, what is happening right now in the government contracting marketplace that is causing the changing procurement landscape?

**A:** Government contractors still face a tremendous level of uncertainty. Coming into 2014, through our financial statistics, we learned that many contractors employed some cost-cutting measures due to sequestration, the LPTA climate, and the government shutdown from 2013, which carried into 2014.

The challenge for the current environment is that, at least for the first and into the second quarter, we still did not see a large number of solicitations coming out from the federal government, even though we had a two-year budget in place. As such, many awards are not being realized.

Beginning in June, we are seeing some movement. The long awaited, GSA OASIS contract finally announced their awardees and had their kick-off. We are seeing a definite uptick in the last 30 to 45 days with more solicitations being announced and procurements hitting the streets, with not only re-competes, but also new opportunities.

As a result, our cost and proposal team is very busy right now, which we view as a good sign. We are also seeing other statistics and trends pointing to the last two quarters being much better. This makes it a great time to evaluate and prepare for that surge so that you're in the best position possible to capture those opportunities.

**Q:** **How can your three-part webinar series help government contractors navigate the ever-changing procurement process?**

**A:** Over the last year, we've been assisting contractors in their cost analysis and development and pricing strategies. The government contracting environment has always been very competitive. Today, however, especially with the LPTA [lowest price, technically acceptable] climate, contractors need to better understand what they are spending and how it will benefit the organization. In working with our contractors, we have learned a lot from this stand point and wanted to create a seminar series in areas where we felt our contractors were really challenged in the last year.

The three parts provide a guide that a contractor can use through that procurement process. The first webinar highlights the capture management process. This entails first truly understanding the solicitation you are bidding on, your potential customer, you as the solution provider and understanding your competition. Through the process, we evaluate whether a contractor should even bid the opportunity. As such, we address bid/no bid strategies and help contractors understand their competitive advantage and how to best position themselves.

The second webinar is focused on determining the right pricing strategies once you've decided to go after an opportunity. While not all solicitations are LPTA, a large number

of them continue to be so today. Therefore, we address price-to-win strategies that our clients can employ that have been successful in establishing an LPTA bid, and concurrently, allow the contractor to sustain successful operations. It's not just about being the lowest price, but being the lowest price *and* still being able to run your company accordingly.

The last webinar focuses on how to execute this effort and still maintain a profitable and viable operation. This includes ways to re-evaluate the composition of your direct and indirect costs. We address the most significant areas of spend including labor, infrastructure support, and facilities. Our overall goal is to help our clients and prospects become more efficient in their operations. We can measure progress based on benchmarking financial statistics from our client base.

**Q:** **In terms of developing capture strategies, what more can government contractors do? It sounds like the floodgate might be open and they have to ready themselves?**

**A:** That's absolutely right, and here are the challenges. When we work with our contractors, some of them have done a good job of knowing their customers, understanding their requirements, and being in front of them already. However, many contractors are not as prepared. Many are looking at solicitations that are just coming out through GovWin, and responding to them. So, they may not necessarily have the best understanding of the entire solicitation.

Contractors have to determine if they should really bid the opportunity in the first place. It is very expensive to put a proposal together. Before, contractors would bid proposals if it was generally in their wheelhouse. That's not a great strategy for today's environment. Many times in today's contracting marketplace, it's a win or lose game with the winner taking all. Even with wins, there are no guaranties since many wins are bid protested, resulting in additional delays or cancellation of the solicitations.

It is important to decide if the opportunity is right for you. That means following a formal bid/no bid process, and not being emotionally wrapped into the opportunity. It also means looking at your competition and understanding what they bring to the table versus what you bring.

The whole process of a capture piece is understanding the opportunity and being honest with yourself about what you have to do to win. Employing these strategies can assist contractors in better positioning themselves to receive a better return on the dollars that they've spent investing and bidding on that opportunity.

Q:

**Tell us about the “Pricing Your Best-Value Contracts for Long-Term Success” webinar you are hosting.**

A:

Often many contractors take a price-to-win strategy and they receive the award. The challenge then is figuring out how to best execute on the contract in a way that enhances profitability and performance. In this particular webinar, we explore different avenues on how to price to

win for the long-term. Again, not all solicitations are LPTA, so understanding the true selection criteria, and what is meant by best value is the first step in then understanding how to execute. If the solicitation is LPTA, clients need to address how to execute and meet the minimum thresholds stated in the solicitation. This involves understanding what the government is really requesting from a “technically acceptable” perspective. With LPTAs, the government is buying for the defined basic level of support within the solicitation, which may mean using junior level staff. Our clients ultimately need to know what this means to their organizations.

Ask questions like: Are you going to bid a certain percentage number of incumbent personnel? Are you going to go back to that incumbent personnel and request that they take pay cuts? What other areas can you eliminate or reduce to offer the government the best cost-efficient solution? We look at all those different elements in order to assess how you're going to price the contract for long-term success.

Q:

**Tell us about the direct and indirect cost strategies contractors can employ to ensure that they continue to provide the government with the best-value solutions.**

A:

Again, it's really about understanding the current landscape. Once you've figured out the pricing strategy, the next step is executing within the organization. One key opportunity is looking at what other contractors are spending

and how they're cutting costs within their own organization.

Some of them are very basic. For example, anyone can challenge their vendors to give them better pricing for healthcare costs, or they can look for cheaper facilities, or have virtual environments and not have committed office space. All these have cost consequences to them, but the other missing piece is: how do you convert fixed price cost elements within your budget into variable costs?

Last year, we saw many companies looking at their infrastructure from a cost-cutting perspective. This is especially true for companies that have experienced mergers and acquisitions, and have duplicated staff structures. How do they streamline duplications to be more effective? Perhaps the answer is considering other alternatives like outsourcing, which might look more expensive upfront. However, if you can convert your normal fixed cost of having internal staff to a variable cost evaluation, this strategy could put you in a better position – especially in the event of an unexpected downturn, which may create capacity for individuals in a support function.

Most companies develop their rate structures based upon projected growth or projected wins of re-competes or options being exercised. Now is the ideal time to have a contingency plan. We have seen contractors counting on awards to come through in the “next” quarter. Continual delayed awards result in contractors

holding onto staff and infrastructure, which increases the overall cost of operations. In today's environment, it's important to implement strategies in order to survive and protect the financial viability of any organization. We're looking at various areas in order to make sure that contractors are considering all these different aspects in their operations from a direct and indirect rate strategy.



**Is there anything else you'd like to add about the current environment and what SC&H Group is doing to support contractors?**



We are working with different groups to come up with solutions to ensure the success of our contractors and assist them at a time when, now more than ever, they need an advisor who can really move the needle and support their best interests. To do just that, this webinar series will provide some valuable information to contractors that they can immediately begin to employ.

We're optimistic that 2014 will be a turning point for more positive trends in the future, but until we are sure of that, we hope these strategies and informational pieces will enable our contractors to weather the storm.

**To listen to the series of webinars, [click here.](#)**

**ABOUT LYNNE GUMMO** *Lynne Gummo, CPA, is a Director in the Tax Advisory Services practice at SC&H Group. She also leads the firm's Government Contracting Industry Group. Her clients include commercially based and technology businesses, as well as both large and smaller government contractors. She also is a member of the Professional Services Council, the Small Emerging Contractors Advisory Forum (SECAF), and chairs the Government Contracting Committee of the Tech Council of Maryland.*

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