



DIRECT AND INDIRECT RATE STRATEGIES FOR WINNING GOVERNMENT CONTRACTS

Government contracting, a highly competitive environment, continues to suffer from the lingering effects of sequestration and increases in the cancellation of awards and solicitations and even bid protests. Given these challenges, it is now more important than ever to take a strategic approach to factoring in costs when pricing a contract.

SC&H Group works with contractors to help them understand how to align their revenue growth and other business goals with the costs of pursuing an opportunity. That requires understanding the direct and indirect costs that must be properly accounted for in order to win the bid, perform the work, and make a profit.

First, it is best to fully understand the criteria the government agencies use to evaluate and award contracts. The contract selection criteria most often used are Best Value and Lowest Priced Technically Acceptable (LPTA).

Best Value means the expected outcome of an acquisition that, in the government's estimation, provides the greatest overall benefit in response to the requirement, according to Federal Acquisition Regulation, commonly known as the FAR. LPTA means the award goes to the lowest priced offeror who submitted a "technically acceptable" proposal.

Best Value Procurements are often ambiguous, with definitions varying from agency to agency. These procurements aren't always based on price. Federal agencies typically use a "trade off" process to evaluate the value of the competing bids. For example, can the higher-priced bid deliver services faster, or of better quality, to the government customer to justify the spend? If this is the case, then value might win over price.

LPTA evaluations are more clear-cut: cost is the only factor in which bids are won or lost. For example, if the requirement is for a professional with a Bachelor of Science degree at a certain hourly rate, then that credential and rate must be in the contract in order to win. LPTA is often used to evaluate acquisitions that are not complex, as well as when the requirements for services, supplies, or equipment are all well-defined.

Next, once the decision has been made to make a bid, the contractor should consider the direct costs involved in meeting the proposal's requirements.

To illustrate, in the Washington, D.C. region, labor is generally the greatest component of direct costs. Contractors should consider paying for a current salary survey specific to its industry/NAICS code to get a more accurate view of labor costs in the region. If the work is performed in an area of high unemployment, labor costs may be lower. If unemployment is low, consider offering benefits to attract candidates to offset higher salaries.

Travel and lodging are often an expensive source of direct costs. Consider negotiated discounts and guarantees with vendors, frequent flyer programs, and hotel chains with special deals for frequent stays. These programs can result in reductions in costs that can, and must, be passed on to the government, especially if they are directly related to the direct costs. From there, contractors should evaluate and determine their overall indirect costs.

An indirect cost strategy should include each service center (Human Resources, Information Technology, Facilities, and Program Management) as unique with its own cost structure. Outsourcing functions such as information technology and human resources support, or re-evaluating the company's compensation structure, are all viable cost-savings options.

Other areas of indirect cost savings include:

- **Fringe benefits:** These include health insurance, 401(k) plan matches, bonuses, and other benefits. Many contractors are finding ways to reduce costs in these areas, such as raising insurance deductibles or reducing bonuses.
- **Evaluating facilities:** This includes negotiating new terms when a lease comes up for renewal, recruiting workers who can telecommute versus being on-site, or keeping assets, like computers, for another couple of years before making a replacement.
- **Evaluating sales/marketing:** To enhance addition cost-savings efforts, some companies have merged the marketing and business development functions, or hired subcontractors to be used on an as needed basis.
- **General and administrative (G&A) costs:** Contractors should continually evaluate G&A costs by preparing annual budgets and monitoring them at a minimum quarterly, but ideally on a monthly basis. They should also hold staff accountable for cost areas to which they are assigned and avoid unexpected "miscellaneous" costs. Contractors may also want to evaluate the cost of using in-house labor versus using an outsourced accounting and HR firm.

You can reduce costs across every service center to price a contract to win. However, in reality, pursuing an opportunity is about looking forward: if the profit margin of the contract is so small, or requires staff layoffs or reducing salaries, is it really worth it?

SC&H Group helps government contractors weather the challenges of the contracting process and prepare for the future by offering benchmarking and consulting services. For example, benchmark data shows companies in specific industries within specific revenue ranges must invest in infrastructure in order to grow.

These insights help government contractors overcome current marketplace challenges by enhancing operational performance for best managing direct and indirect costs.

To learn more about how government contractors can develop winning business strategies, visit SC&H Group's Resource Center for more insights from our government contracting experts.

ABOUT SC&H GROUP SC&H Group is an audit, tax, and consulting firm applying “expertise that works” to minimize risk and maximize value. SC&H Group’s practices advise leading companies from emerging businesses to the Fortune 500 on accounting, tax, profitability, and strategy solutions. Clients in all states and worldwide benefit from SC&H Group’s commitment to delivering powerful minds, passionate teams, and proven results on each and every engagement. Learn more at www.scandh.com.

Disclaimer: This document is property of SC&H Group. No replication of its content is permitted without express permission from SC&H Group.

POWERFUL MINDS | PASSIONATE TEAMS | PROVEN RESULTS

Visit | www.scandh.com Toll Free | 800-921-8490 Email | sch_group@scandh.com