

## Obama, Government Contractors & the DC Region

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How will Barack Obama's Administration change government contracting and what should businesses expect and do?

A September position paper vows to, "reform federal contracting and reduce the number of contractors, saving \$40 billion a year." He will also "hire more contract managers and improve training."

Drilling down further, Obama pledges to require "each federal agency to defend each of its noncompetitive contracts of the Office of Management and Budget," while decrying cost-plus contracts. Specifically, the President-elect will, "encourage the use of fixed-cost or incentive based contracts and when cost-plus contracts are necessary, force agencies to use mitigating procedures like incentives tied to performance goals and cost savings."

Obama's election may indeed serve as a wake-up to contractors to make sure they have highly effective financial management practices and procedures. This will be increasingly important to keep business, and to compete for new business.

The new administration and the changes it pledges to bring will be the latest installments of changes and evolution in government contracting. For small businesses, keeping up with these developments can be particularly daunting and costly, as failure to comply with the requirements can curtail new business opportunities or even lead to the loss of current contracts.

Recent changes include the following:

- The U.S. Small Business Administration has put forth rules that make it less advantageous for big companies to acquire smaller ones. Typically, when a smaller company is in the midst of servicing a government contract, that contract will be put out for re-bid following an acquisitions. With fewer marketplace acquisitions, the emphasis now is on "teaming" and joint ventures.
- The government has been discouraging many Time and Material Contracts, having determined that these were often in place for ease of use but not in the best interests of taxpayers. This has led to a shift toward cost-plus contracts, which generally entail more stringent accounting regulations.

- The government has been leaving Earned Value Management (EVM) standards out of many contracts because it cannot enforce these standards. It was once thought that EVM could lead to a huge "cultural shift" in government accounting and with the new administration that is again possible. Companies which are proficient in EVM standards now will have a distinct advantage in keeping existing contracts and being in an advantageous position as this is revisited.

For small businesses, there will continue to be huge opportunities in the government contracting space. In the past year, the amount of government contracts going to small businesses has been approximately 18 percent, a decline from the previous year's 23 percent and far off the state goal of 30 percent.

Thus, the opportunities for small businesses in the government contracting space are and will remain significant. If the percent of contacts small businesses are receiving does meet the new goal, it would amount to a more than 65 percent increase in the number of contracts going to smaller businesses.

Against this backdrop, government contractors, particularly at emerging, entrepreneurial firms, are well served to do the following.

- Make sure that all accounting and financial management practices meet the wide array and changing number of government regulations.
- Anticipate that the government contracting space will continue to change and evolve, and adopt new standards (e.g., the ability to meet Earned Value Management requirements) that provide a competitive advantage.
- Focus on the core business. At a time of such change and opportunity, business leaders, especially now, are best served by devoting internal resources that focus on the deliverables of a contract, rather than getting bogged down in administrative minutia, to which they can often turn to more efficient, less costly outside expertise.

The Obama years, for better or for worse, will likely lead to change. By addressing recent changes, and anticipating new ones that might be forthcoming, government contractors will continue to have numerous opportunities to grow and prosper.

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