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Welcome to the Change Challenge Newsletter

Dear Eric,

Welcome to 2011's first *Change Challenge* e-letter. With federal contractors and employees having little to celebrate in the new year, this month's feature article titled "**Challenging Times**" discusses changes in the federal market and recommends actions that will help companies grow despite new challenges.

This month's *Results Through Relationships* article titled "**Less Can Be More**" suggests that hoarding opportunity and knowledge does not provide a strategic advantage and may even limit your growth. And the *Managing Change* article titled "**Making It Perfect**" invites us to strive for progress instead of perfection, because when we seek perfection we increase the probability of failure.

Your feedback and recommendations to improve this e-letter are appreciated via return email or through *The Change Blog* at www.dickstieglitz.com.

Have a healthy, happy & prosperous new year!

Dick Stieglitz

Feature Article CHALLENGING TIMES

Federal contractors didn't buy much champagne this New Years Eve because they don't have a lot to celebrate. Federal employees didn't have much to celebrate either since President Obama eliminated their 2011 pay raise. It took a few years, but the ailing economy finally penetrated the shield that protected the federal market from the layoffs, pay cuts, and obsession with productivity happening in the private sector. The good news is that executives in federal contracting firms who meet the new challenges will emerge from these tumultuous times with bigger and stronger

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**Buying or selling a
business can be a
lucrative but risky
transaction**

companies.

The Changing Federal Market. The federal market has more than doubled since 9/11, but the boom years of business with the world's largest customer are over. Pressure to cut spending is front page news, but that is just the most visible of the four concurrent changes affecting the federal market:

- Analysts project that expenditures to federal contractors will fall about 5% (\$30 billion) in 2011 compared to 2010, with further cuts expected in 2012.
- Civilian agencies' budget share is increasing relative to Defense and Homeland Security since some agencies still haven't spent all their stimulus money.
- A shift is occurring in the services and products that federal agencies buy, causing upheavals in traditional growth sectors like IT services.
- Continuing resolutions, insourcing, and increased oversight make the federal market more complex, more competitive, and more risky.

The last three changes are more of a long-term threat than budget cuts. Nuclear submarines, space shuttles, and jet fighters are hard to justify; and are being replaced by purchases of health care, energy management, and smart devices. In the IT world, networks and servers are a commodity while cyber-security, telework, cloud computing, and software-as-a-service are seeing spending increases.

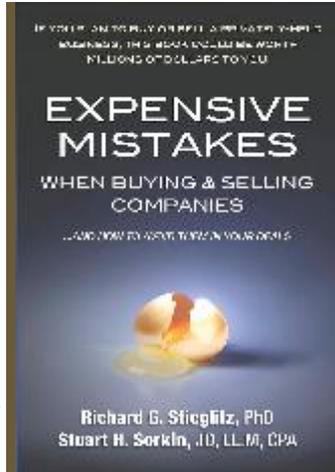
Continuing Resolutions (CRs). In a familiar ritual, the 111th Congress ended by passing another CR - this one effective until March 4th. The adverse effects of CRs are enormous. Federal agencies must operate under last year's budget even though priorities have changed, which wreaks havoc with strategic planning and project management. Who knows how long it will take the 112th Congress to approve spending bills for the remainder of FY11. In 22 years as a federal contractor, the only year my company lost money was 1995 when President Clinton and the Republican majority fought over CRs into March - some competitors went out-of-business. That calamity may happen again!

Insourcing. As federal agencies look for tasks to insource, friction between industry and government increases due to contract cancellations and employee poaching. To say the least, President Bush's policy of pitting federal workers against industry under OMB Circular A-76 provisions was controversial. But the Obama administration is pushing insourcing, the flip side of A-76, because it thinks government work should be done by federal employees. While it is unlikely that significant contractor work will actually be insourced, the raging debate will slow contracting actions for the remainder of the Obama presidency and make industry-government partnerships difficult to form and sustain.

Increasing Oversight. In response to allegations of fraud, waste and abuse by prominent companies like KBR, Blackwater, and GTSI, a wave of new controls is being imposed. Interestingly, some high-profile companies (e.g., Apple and Microsoft) have a policy of not contracting directly with the federal government. They say they earn more by avoiding burdensome accounting systems, audits, and rules (e.g., salary caps). Industry giants like Lockheed-Martin, General Dynamics, SAIC and Booz-Allen easily comply with new regulations via a full-time compliance staff. However, it's not so easy for small firms. With profits near all-time highs, Congress and the Press unfairly portray federal contractors as borderline criminals who profit at taxpayer expense. On the other hand, it's hard to argue against more oversight of spending that represents half of the federal government's discretionary budget.

Alternatives. Historically, federal contractors expand into the state-and-local market when federal rules tighten and budgets shrink - but the outlook in that sector is bleak. State and local governments are in such dire financial straits that analysts fear they may be the next meltdown. A few big states are particularly worrisome because their issues could increase borrowing costs for all states. For example, last year New York ran out of cash to pay contractors, California paid them with IOUs, and Illinois was delinquent in paying social service providers. Tax receipts won't return to pre-recession levels for at least two years, so states are making painful cuts and tax increases. With expansion into state-and-local markets not a viable option, small federal contractors must think strategically to survive and grow.

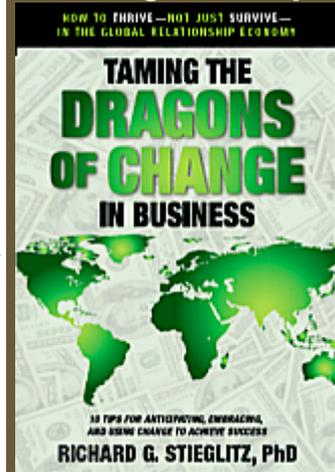
Think Strategically. Large contractors can grow even during downturns through



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acquisitions, but small companies must think strategically. That means identifying agencies with pressing needs and the budget to satisfy them. Approaching those agencies may mean shifting priorities, changing teaming partners, and acquiring new skills. IT service contracts, long a growth area, probably will be flat for the new few years due to server and network consolidations. Defense spending is likely to fall as deployments are curtailed and budgets are cut. However, small businesses have one reason to smile: agencies are introducing new competitions to meet their small business goals. Forward-thinking companies are adjusting their goals and strategies to fit the new reality. Specifically, small companies would be wise to focus on current clients, fine-tune their business development program, and cultivate strategic partnerships.

Focus on Current Clients. In today's environment, preserving relationships with current clients is more important than ever - so invest in recompetes as if they were new opportunities! Align your support with the client's priorities and never ever take a client for granted. Hold regular project reviews to assess your team, to see what (if anything) is missing from your services, to ensure your team is on top of emerging opportunities in the client's office, and to weaken competitors. Face-to-face client satisfaction interviews are a great way to obtain first-hand feedback to augment project reviews. Are you helping your client to deliver results with their current budget and justify increases when appropriate? The bottom-line: position yourself to grow your current business by winning every recompete!

Fine-Tune Business Development. In my experience, assigning annual business development and revenue goals to service delivery teams is a good way to grow. That approach works to a certain revenue level, but then growth stagnates. Satisfying existing customers' current and emerging needs consumes enormous amounts of time so, without a corporate business development unit, the pursuit of new clients loses steam. Therefore, your service delivery teams and proposal writers should be augmented with a full-time opportunity identification, intelligence gathering, and qualification team to produce smart bid-no bid decisions and a favorable win rate. Furthermore, pipeline management metrics are essential to measure performance and motivate business development behaviors that produce growth in tough times.

Cultivate Relationships. Due in part to CRs, most of the mega-contracts likely to be awarded in 2011 are recompetes where the offering agency will make multiple awards. For small companies, winning a prime or subcontract on one or more of these multi-billion dollar vehicles could produce substantial growth. On the other hand, missing these opportunities could leave a company on the outside for several years relative to getting work from the agencies. This situation intensifies the need for small businesses to gather intelligence, strengthen relationships with their big-business primes, and form new strategic partnerships. Memberships in associations like the American Small Business Coalition (ASBC) are a great way to satisfy all three objectives. As a member of the ASBC Advisory Board, I have seen how the organization provides a fertile forum for small federal contractors to gather information about specific opportunities, meet teaming partners, and learn how to deal with new rules and regulations.

Change is Hard...And Essential. The reason for change rarely originates inside a company. More often, change is driven by extraordinary external events like the market shifts federal contractors face in 2011-2012. Such circumstances force companies to re-examine their priorities, their processes, and the commitment and skills of their people. In perilous times like these, small businesses must think strategically, focus on current clients, and build relationships to survive and grow - because they won't be bailed out by an expanding market or another stimulus package.

Results Through Relationships

LESS CAN BE MORE

To streamline their operations, a federal agency issued a Request For Proposals to combine work previously performed by three companies, including mine. The winning strategy seemed obvious: the three companies should join in a prime-subcontractor relationship and submit one proposal to make the client's choice easy. Such teaming arrangements are common in government contracting. We immediately teamed with one of the other companies but, despite concerted efforts, the third company refused to join us. Driven by the *we-want-it-all* dragon, they insisted on submitting a competing proposal in an attempt to win the entire thirty million dollar contract.

With two excellent proposals to choose from, the government's choice was

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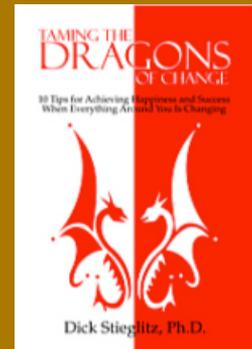
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difficult. Some members of the selection panel wanted our team, while others wanted the third company. The client took 18 months to make a decision. Our team eventually was awarded the contract, but everybody lost. The client lost the expertise of the third company. The third company lost all of the work they previously had. And we lost too because, during the long evaluation period a fourth company was awarded a ten million dollar software project that probably would have been added to our contract if our three companies had teamed and the contract was awarded sooner.

For most of my career I thought and acted like the third company. I believed that hoarding opportunity and knowledge gave me a strategic advantage. I was painfully wrong for a long time, and that scarcity dragon limited my company's growth. Today, I willingly share knowledge and expertise with others because relationships are more important to long-term growth than what I may or may not win in any particular deal. Nothing is more valuable in today's relationship economy than a consistent record of *win-win* transactions with business partners. That reputation will preserve and enlarge your network, and increase your chances of success. *Win-win* relationships prosper because they build synergy; while a *win-lose* attitude drives others to protect what they have and compete ruthlessly for every new opportunity.

Leading Change **MAKING IT PERFECT**

***If you wait until all the lights are green before leaving home,
You'll never start your journey to success.*** Zig Ziglar

On the fifth anniversary of the September 11, 2001 terrorist attacks on the World Trade Centers, members of the government commission that investigated the attacks blasted both Congress and the Bush administration for inadequate progress in executing their recommendations. The Commission felt the President and Congress were endlessly debating several areas vital to protect the country from further attacks. In their last appearance, the commissioners issued a report card with more *F*s than *A*s relative to executing the 3-year old recommendations. They issued a strong, emotional plea for bipartisan action to enact improvements in areas like protecting borders, preventing the spread of weapons of mass destruction, and allocating homeland security funds.

Since change is always uncertain, a compulsion to make things perfect is the mortal enemy of progress. There are parallels between the lack of action by the President and Congress, and a lack of action to change ourselves and our organizations. Too often we:

- Substitute analysis and debate for action,
- Search for a perfect solution because we're afraid to make a mistake,
- Do nothing when we can't agree on which alternative is best,
- Rationalize inferior results by blaming external factors,
- Avoid accountability by refusing to measure our performance, or
- Fall into the working hard trap and let activity replace action.

The *make-it-perfect* dragon can cripple your efforts to grow and improve your organization.

Tame that dragon by pursuing progress instead of perfection. Don't surrender your right to be wrong, because in doing so you lose the ability to change directions later. When you seek perfection, you actually invite failure because nothing is perfect. When you set an unrealistic goal, you're guaranteed to be disappointed. "*I'm waiting until I'm 100% ready*" is an attitude that will block the path to success, because you'll never truly be ready for anything that is a significant change from what you've always done.

Friends & Colleagues,

If your organization is looking for ways to grow in these challenging times, contact me to discuss the possibilities. If you find this e-letter to be useful, send it to a friend. If not, please let me know why at dick@dragonsofchange.com.

Wishing you a healthy, happy & prosperous 2011!

DICK