Federal Support Services Contract Turnover

Who Stays
Who Doesn't
Where
Why

I. INTRODUCTION

Over the past seven years, the Reagan Administration has instituted wide ranging changes which affect the information technology contracting environment:

o   Reform 88-dictated productivity improvements have forced a growing reliance on information technology;

o   Reform 88-dictated consolidation efforts have increased the size of the average procurement by combining formerly separate procurements;

o   Federal personnel ceilings have sharply restricted the ability of agency executives to staff automation projects with in-house personnel;

o   Federal personnel policies, including reduced benefits and limited pay raises, are driving many information technology professionals out of federal service;

o   The General Services Administration's (GSA) efforts to streamline the procurement process have been offset, to some extent, by new Congressional initiatives:

   -    The Paperwork Reduction Act of 1980,
   -    The Competition in Contracting Act of 1984,
   -    The Paperwork Reduction Reauthorization Act of 1986, and
   -    The growing influence of the General Services Board of Contract Appeals (GSBCA);

o   Federal budget cuts have forced price to become once again the dominant criteria in competition evaluation;

o   The President's recent proclamation on privatization, Executive Order 12615, reinforced the tilt toward contracting for commercial activities and strengthened the role of OMB Circular A-76; and

o   Agency executives are increasingly looking to the private sector for solutions, rather than merely components or limited services.

In order to participate in this market, potential contractors must understand all the factors which drive their cost profile, as well as that of their competitors. Otherwise, they will either lose most of their bids or they will lose money in the execution of their contracts.

A.   **Scope**

With this environment in mind, INPUT, Inc. set out to examine specific portions of the federal marketplace for On-Site Support Services (OSSS). In particular, INPUT focused on the size and impact of attrition, particularly when the incumbent vendor is replaced in a recompetition. This report describes our findings and analysis of the attrition problem, and also contains some suggestions for controlling it.

This report covers the opinions of company executives who focus on the federal OSSS market. INPUT contacted vendors in every sector of the country, representing a wide variety of OSSS contracts. INPUT focused on those vendors who had large numbers of current and previous contracts which met our criteria.

B.   **Methodology**

INPUT approached approximately 40 executives at more than 30 firms who are currently engaged in federal OSSS contracts. Our efforts focused primarily on large companies with multiple contracts, preferably scattered in various geographic areas. However, we also included a few small businesses with only a handful of contracts. In this way, the report achieves some balance by representing a wide diversity of viewpoints.

INPUT developed a questionnaire (Appendix A) for interviews of OSSS vendors. Vendor executives selected for interview included:

o   Company management executives,
o   Marketing executives, and
o   Technical operations executives.

C.   **Report Organization**

In addition to this introductory section, the report contains the following:

o   Executive Summary,
o   Staff Patterns,
o   Findings, Analysis and Synthesis, and
o   Conclusions and Recommendations.

Appendix A contains a copy of the survey questionnaire.

II. EXECUTIVE SUMMARY

A. Federal On-Site Support Services Environment

All respondents identified the growing competitiveness of OSSS contracting as their major concern. Procurements are becoming so competitive that the market is all but closed to new competitors. Most respondents emphasized the need for experienced, realistic costing in order to win the business.

Contracts are becoming larger and longer in duration, as agencies seek to reduce the burden associated with procurement. One respondent reported that his current on-site contract replaced 23 contracts at the client agency. This further supports respondents' contention that inexperienced vendors have virtually no chance to crack this market. Another respondent stated that he competes with the same vendors repeatedly.

Profit depends primarily on performance, which in turn depends heavily on staff retention, the subject of this report. If vendors are not able to control their attrition, they will likely perform poorly, lose money, and assure their failure to win the recompete. Even with good control, margins remain very low.

In terms of trends, many OSSS vendors stated that, as contracts grow, on-site support will become only one component. Increasingly, agency executives are looking to the private sector for solutions, not just components or narrowly defined services. OSSS vendors must therefore either offer a wide array of services or be prepared to team with other companies. This additional support includes typical systems integration efforts, as well as maintenance and consulting.

In summary, OSSS vendors expect larger but fewer contracts, leading to some shakeout in the industry. Only the strong will survive.

B. Personnel

While respondents identified a variety of personnel concerns, the need to attract and retain key people remains paramount. Failure to do so will prevent success in this business. Regardless of how many predecessor people the successor vendor can pick up, failure to retain them will doom the contract.

Other personnel concerns relate to the ability of personnel to deal with the client. Several respondents complained of hiring technically strong, hard working people who could not talk to the client. This is a special problem with on-site contracts, since vendor-client interaction is so frequent and pervasive.

C. Summary of Key Findings

As shown in Exhibit II-1, successor vendors, on average hire a high percentage of predecessor personnel.

EXHIBIT II-1
PREDECESSOR HIRING RATES
Percent of Predecessor Personnel

	Management	Professional	Technical
Rural	25-35	60-80	80-100
Average	27	75	93
Metro	0-5	30-80	80-100
Average	2	65	93

Unfortunately, successor vendors then experience higher than normal attrition from these people. INPUT asked respondents what their experience had been six months after they had hired workers from the predecessor vendor. Exhibit II-2 summarizes the responses, based on a potential 100% attrition rate, if everyone were to leave in the first six months.

EXHIBIT II-2
ATTRITION RATES
Percent of Predecessor Personnel

	Management	Professional	Technical
Rural	0-5	0-10	0-3
Average	3	5	15
Metro	0-5	0-40	5-20
Average	3	20	15

The low figure for management appeared somewhat surprising, since it might be expected that these key people could easily find other jobs. However, respondents stated that, when they did hire those key managers, they made extreme efforts to retain them.

It is important to note that attrition varied widely among respondents. Geography, more than any other factor, represents the most important consideration in attrition rates. In areas with other employment opportunities, such as Washington, Boston, or Silicon Valley, attrition is quite high. In more isolated or rural areas, attrition remains low.

A respondent in Huntsville, Alabama presented a graphic example of this. When he replaced an incumbent contractor six years ago, he hired nearly 90% of that vendor's personnel. In the first year, attrition was very low. However, in the past five years, Huntsville has undergone something of a boom. Many new government programs, some with hundreds or even thousands of contractors, have begun. With each passing year, attrition has increased. It has now gotten to the point that it is affecting both project performance and profitability. Attrition can become very expensive.

In determining outside staffing requirements for a replacement effort, one can multiply the average predecessor hiring by the average retention rate (100% - attrition rate) and then subtract from 100%. As shown in Exhibit II-3, successor companies must perform significant outside staffing, particularly in metropolitan areas.

EXHIBIT II-3
OUTSIDE STAFFING REQUIREMENTS

	Management	Professional	Technical
Rural	74%	29%	21%
Metro	98%	48%	21%

D. **Likely Impact on Contractors**

When bidding an on-site contract in a major metropolitan area, an OSSS vendor needs to factor attrition into the costing profile. Otherwise, he may win the business and then lose money on it. The body of this report contains respondent suggestions for controlling attrition. However, our findings suggest that some attrition is unavoidable. There are even some positive aspects to attrition, as described in this report.

If bidding on-site support in a rural or isolated areas, attrition does not represent a major concern. This occurs most often on military bases which have been established in remote locations. At these sites, the base may be the only game in town. In this case, salaries are typically lower anyway. INPUT's research suggests that attrition should be omitted from the bid model. Its impact, at most, will be minimal. In fact, several respondents stated that the personnel identified more with the base than the contractor who happened to be paying their salary at any particular moment.

E. Conclusions and Recommendations

INPUT recommends that, in bidding an on-site contract, a vendor look at the extent of similar technical and other local job opportunities. Based on what they find, they should then factor into their bid model a reasonable attrition rate.

Beyond this, the respondents made numerous suggestions for retaining the people. However, these come down to basically good management practices, and are already widely known. As with most competitive government contracts, the vendor must walk a fine line between overpricing and underpricing. If he overprices, he will lose the business. If he underprices, he will win the business but then probably live to regret it. Proper assessment of attrition prospects will help in avoiding both of these pitfalls.

III. STAFFING PATTERNS

A. Typical Staffing Categories

Respondents did not provide a uniform response to the question of staffing categories. While most could provide a full range of services, some respondents preferred to focus on the more senior categories, such as

o   Systems Analysts,
o   Programmers,
o   Scientists, and
o   Telecommunication Specialists.

Some respondents are more likely to subcontract out the lower level personnel, such as data entry clerks or computer operators. This enables them to offer an excellent benefits package to their key people, without extending it to the junior people. This also enables them to price somewhat tighter to cost. In the highly competitive OSSS environment, this slight difference in benefits structure might tip the balance in favor of the vendor who subcontracts.

B. Typical Numbers by Category

For the purpose of this survey, INPUT focused on three categories:

o Management,
o Professional, and
o Technical.

The Technical category included non-degree personnel performing support functions. Exhibit III-1 shows the average distribution of personnel among these categories:

EXHIBIT III-1
AVERAGE PERSONNEL DISTRIBUTION

Management	10%
Professional	50%
Technical	40%

Except for the very large sites (more than 100 people), the managers also perform professional functions. The responses for management share varied all the way from 5% to 20%, depending on the size and nature of the job. In particular, the management percentage became lower as the size of the job became larger. At some sites, there were few if any technical personnel, while other ranged up to 90% technical. Again, it depends on the nature of the work to be done.

IV. FUNDINGS, ANALYSIS, AND SYNTHESIS

A. Interview Population

As pointed out in the executive summary, INPUT contacted more than 30 firms engaging in on-site federal contracts. In some cases, more than one site of a given vendor was contacted, to reflect different kinds of support. In the limited time available to conduct the survey, INPUT obtained ten usable complete interviews. In several other cases, we received partial information which supported the narrative portions of this report, but were not included in the exhibits. In several other cases, respondents indicated that they would like to participate, but were in the midst of a bid and could not spare the time.

The interview population included the following categories:

o Small and or 8(a) firms,
o Professional services firms,
o Facilities management (exclusively) firms,
o Big 8 accounting firms, and
o Aerospace firms.

As with any survey, there are some firms that either crossed categories or did not readily fall into any category.

B. **Experiences of Other Vendors**

Exhibit IV-1, which repeats Exhibit II-1, summarizes respondent experience in hiring predecessor personnel:

EXHIBIT IV-1
PREDECESSOR HIRING
Percent of Predecessor Personnel

	Management	Professional	Technical
Rural Average	25-35 27	60-80 75	80-100 93
Metro Average	0-5 2	30-80 65	80-100 93

In most cases, successor vendors, as part of their proposal, assume large scale hiring of predecessor personnel. In some cases, the bidder expects to hire 70-80% of the professional and technical personnel. However, this sometimes does not work out, especially in major metropolitan areas. Further, the predecessor often makes a strong effort to retain key professional personnel, either placing them immediately on another project or temporarily putting them on overhead, often helping with proposals.

Exhibit IV-2, which repeats Exhibit II-2, summarizes respondent attrition experience six months after replacement:

EXHIBIT IV-2
ATTRITION EXPERIENCE
Percent of Predecessor Personnel

	Management	Professional	Technical
Rural Average	0-5 3	0-10 5	0-3 15
Metro Average	0-5 3	0-40 20	5-20 15

To avoid confusion, the percentages are based on a 100% potential. If everyone left, each percentage would equal 100%.

Unfortunately, there numbers, by themselves, do not help the bidder in pricing his job. As already pointed out, the actual attrition experiences varied widely, depending on the location, the unemployment rate, and other available opportunities, In major metropolitan areas, bidders can expect attrition rates up to 40%. Attrition of professionals seems to hurt the most, since they occupy key positions and frequently present a difficult replacement problem.

Successor vendors hire a limited number of managers, preferring instead to move in their own people. However, for those they do hire, they are able to retain almost all of them, regardless of the area. Respondents explained this by saying that, if the managers were worth hiring, they were also worth the extra effort to retain.

INPUT also asked the respondents if they had ever been replaced on a contract. For those who had been replaced, responses varied so widely that an exhibit on average retention would not be meaningful. Several stated that they retained all the people they wanted to retain, especially the managers and the key professionals. However, in remote locations, they admitted that they often had no place to put their people. In these case, up to 90% transferred to the new company. In most cases, the technical people left the predecessor company.

C. **Contractor Assessment of Problem**

Interestingly, when asked if attrition presented a cost problem, all but one respondent answered that it did not. This did not appear to be consistent with their previous complaints of high attrition, particularly in major metropolitan areas. The answer came from two distinct sources.

1. Most bidders expected the attrition, and factored it into their cost model. In fact, one respondent stated that recruiting and hiring costs were included in their contract, to be passed along to the government. Since they planned for it, it did not present a cost problem.

2. The second answer relates to the positive aspects of attrition. Respondents cited several advantages:

    o   The gaps between resignation and hiring save payroll costs for the vendor;

    o   In some cases, the remaining personnel find that they can do the job, leading to permanent staffing reductions; and

  o When junior people replace senior people, both
      direct salary and benefit costs go down.

Several respondents asserted that some attrition can be a
good thing, provided it is controlled. In terms of control-
ling attrition and minimizing its impact, the respondents
offered many suggestions, some of which are included in
Exhibit IV-3:

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EXHIBIT IV-3
MOVES TO MINIMIZING ATTRITION

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  o Improve Orientation to Company,
  o Increase Company Relations in Community,
  o Develop Company Career Paths, and
  o ·'Increase Transferability of Benefits.

Several respondents insisted that, to control attrition,
they had to go beyond wage board determination requirements
and contract requirements for benefits transfer. They have
instituted special personnel policies to insure that:

  o Leave accrual rates either remain the same or increase,
  o Retirement vesting be based on length of service on the
      job, rather than length of service with the company,
      and
  o Every effort is made to accommodate the special needs
      of transferred workers.

Some respondents go even further. One talked about flooding
the site with pens, cups, lighters, ash trays, T-shirts, and
other items with the company logo. Another respondent put
up a large billboard on the highway leading to the govern-
ment site, welcoming the transferred employees to the new
company.

D. **Likely Impact on Costing**

As has already been pointed out, most respondents factor
attrition rates into their cost proposal, depending on
location. In major metropolitan areas, respondents expect a
30% attrition rate in the first six months, and 40% in the
first year. After that, things level off.

Depending on how the Request for Proposals (RFP) is written,
it may be possible to pass these costs along to the govern-
ment. One way or the other, the government pays for attri-
tion. Either it is bundled into other costs, or it is
broken out separately.

Once an attrition assumption is made, it should be a fairly easy matter to factor it into the price proposal. Most respondents use automated pricing programs which can readily accommodate the attrition factor.

V. CONCLUSIONS AND RECOMMENDATIONS

As already pointed out, OSSS contracts are becoming larger and fewer, as agencies consolidate previous multiple contracts into one. This will lead to some shakeout in the vendor community, as well as effectively precluding new entrants. Within this environment, vendors must manage attrition or they run the risk of being overwhelmed by it.

INPUT recommends that, where possible, vendors prevail on the government to include recruitment and replacement as a regular cost of the contract. When this is not possible, INPUT recommends that attrition be factored into the pricing model. When other local job opportunities are available, the successor vendor should expect significant attrition, and then plan accordingly for it. Otherwise, the company may fare better by losing the job than by winning it. Poor contract performance can harm the vendor's reputation, and execution losses can certainly damage the company even more.

ON-SITE SUPPORT SYSTEMS VENDOR

INPUT QUESTIONNAIRE

INTERVIEWER: _____   DATE: _____

STUDY TITLE: On-Site Support Systems

TYPE OF INTERVIEW: _____TECHNICAL   _____TELEPHONE
                  _____MARKETING   _____ON-SITE
                  _____EXECUTIVE   _____MAIL

COMPANY:_____   ADDRESS:

DIVISION:_____   _____

FUNCTION INTERVIEWEE:_____   _____

NAME:_____   _____

TITLE:_____

TELEPHONE NUMBER:_____

REFERENCES:_____

_____

NAME:_____

TITLE:_____

TELEPHONE NUMBER:_____

SUMMARY:_____

_____

_____

3b. What is the distribution among management, professional, and
technical personnel?

_____

_____

_____

4. Have you ever replaced an incumbent OSSS vendor?

YES___ NO___

If no, go on to question #6.

5a. What has been your experience in hiring the predecessor's
in-place staff?

_____

_____

_____

5b. What has been a typical hiring percentage, by the three
categories?

Management___ Professional___ Technical___

5c. What has been your retention/attrition experience with these
people, by category, six months after contract award?
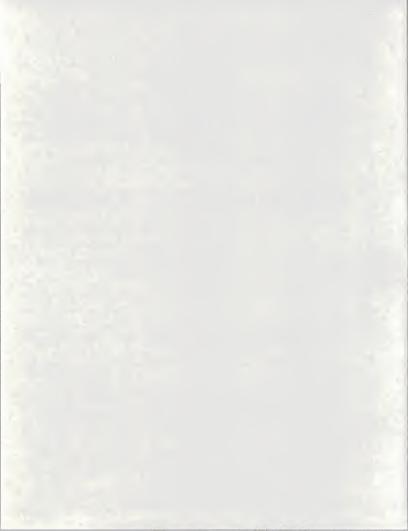
Management___ Professional___ Technical___

ATTACHMENT A

VENDOR QUESTIONNAIRE

ON-SITE SUPPORT SERVICES (OSSS)

As part of its continuing examination of the federal information technology marketplace, INPUT is currently investigating staffing aspects of federal OSSS contracts. Since personnel acquisition represents a key cost in staffing federal support contracts, we are trying to assess the impact of attrition, particularly during contract replacement. We are looking at staff retention patterns at both the predecessor and successor firms:

1.   Do you engage in federal OSSS contracts? YES___ NO___

      If no, close interview.

2a.   How would you characterize the federal OSSS environment, in such areas as pricing, staffing, competition, contract value, and variety of opportunities?

      _____

      _____

      _____

2b.   What do you see as the key trends in OSSS?

      _____

      _____

      _____

2c.   In bidding this type of contract, what are your major personnel concerns?

      _____

      _____

      _____

3a.   What staffing categories do you typically use in performing OSSS contracts?

      _____

      _____

      _____

5d. After contract initiation, does staff attrition present a cost problem for you in contract execution? YES___ NO___.

If yes, in what ways?

_____

_____

_____

5e. Do you have any suggestions for minimizing the attrition problem?

_____

_____

_____

6a. Have you ever lost a support contract, in which you were the incumbent vendor? YES___ NO___.

If not, close interview.

6b. What has been your experience with the successor vendor hiring away some of your people?

_____

_____

_____

6c. Which categories did you mostly retain?

_____

_____

_____