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GC Newsletter

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IN THIS ISSUE:

Welcome to 2006! We at Gaffey & Associates want to wish all of you a healthy and prosperous new year.

We again invite you to visit our website where you can access previous issues of this bi-monthly GCNewsletter, copies of the periodic GCAlert, our express notification of significant happenings in the government contracting arena of an immediate nature, and White Papers on various subjects of interest. We have just added a White Paper on "Compliance with FAR 31.205-35(b) – Lump-Sum Relocation Cost Reimbursement" that you may find useful.

Visit www.GaffeyCPA.com

If you have any questions or comments relative to our website or the articles included in this issue of the Government Contracting Newsletter please contact us.

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MORE SELLING, LESS OVERHEAD //
The Customer Acquisition Methodology

The Government is relying more and more on multiple-award, indefinite quantity contracts (IDIQ). These come in a number of variations, but all have one thing in common. They are merely a hunting license for contractors to find and sell work. For decades, "selling" was a bad term in the Government market. Now, contractors must recognize that selling is a part of their business. Selling is different from classical Business Development. Selling products and services under an IDIQ contract involves finding what the customer needs and creating a business case. It is often involves a short time horizon. While a need for long term Business Development still exists for targeted agencies, contractors must increase day-to-day selling. Smart contractors are using everyone that interacts with customers to sell. Companies must do this in a controlled manner to get the maximum benefit of all the face time that you have with customers. Team selling in the federal marketplace results in more sales with less overhead.

This is the first in a series of articles that defines the Customer Acquisition Methodology that companies can use to improve sales to the Government, and manage overhead at the same time. Companies can use this approach for IDIQ and RFP based contracts. This article provides an overview of the approach. Subsequent articles will discuss account planning, the Account Management framework, how to guide your staff in support of sales activities, how to be viewed by your customer as a strategic partner and steps to implement such a methodology.

Overview of the Customer Acquisition Methodology

The objectives of the Customer Acquisition methodology are to increase account management and sales effectiveness, win new large account opportunities through enhanced positioning, efficiently win IDIQ buying vehicle procurements, grow and protect existing accounts, and accomplish all this with minimal impact on overhead.

There are several basic premises behind the Customer Acquisition Methodology.

1. Pure sales or business development staffs are a high overhead burden.
2. Clients can rarely afford to spend quality time with sales or business development personnel.
3. Clients can and do spend quality time with those persons that deliver solutions to their problems.
4. Government agencies are large, complex customer entities with multiple people affecting buying decisions.
5. Delivery personnel such as Program Managers generally have the best opportunity to determine customer needs and present ideas for customer acquisition.

These premises lead us to the conclusion that companies can improve upon traditional methods of business development. A better way to achieve this is to implement a methodology that orchestrates the activities of all customer-facing personnel, and optimize the opportunity to use personnel with the most intimate customer contact to develop new business within in existing accounts while supporting strategies that will penetrate new accounts.

This is more than a process flow or template and requires personnel who interact with customers to be skilled in gathering information and delivering the right messages. To do this right requires a clear management vision regarding which accounts to target for new penetration or growth. All members of the company must have a common framework for all customer interactions that drive the information exchanged with buying influencers and which buying influencers to meet.

Important Definitions

To simplify terms in the remainder of this and future articles in this series, losted below are several commonly used definitions.

Account Management/Sales Methodology—A repeatable methodology that provides a corporate framework for new business acquisition. It guides the company in fulfillment of Account Strategies to grow existing accounts or to acquire new accounts, and in overseeing Opportunity Strategy development and execution.

Account—A logical business entity with common characteristics that lends itself to a specific strategy. It is not based solely on organizational charts; rather it is based on how a contractor can best interact with an agency

Account Strategy – A formal plan to penetrate or grow targeted Accounts. It creates a framework for all business pursuit activity within the company, guiding the activities of others within company. An Account Strategy involves understanding how to address a customer's business challenges from the customer's perspective.

Sales Opportunity – A specific sales opportunity within an Account. This is a definable, traceable business opportunity allowing you to know the size, buying influences and award schedule. The Government uses IDIQ contract vehicles for these acquisitions.

Sales Opportunity Strategy – A plan to guide personnel in gathering information and positioning the right message in pursuit of a specific Sales Opportunity. It is more tactical than an Account Strategy and might exist as part of an existing Account, or a new Account depending on business parameters. Not every Sales Opportunity will warrant an Opportunity Strategy.

Customer Call – A meeting with decision maker(s) who should be contacted in an organized, systematic manner. Each call is an important use of the customer's time as well as yours. Every call should tie to either an Account Strategy or an Opportunity Strategy.

Customer Call Plan—A simple, repeatable tool for organizing the information you are seeking and information you want to give during any Customer Call. It ties to Account or Opportunity Strategy. You need a Call Plan regardless of the level of the call.

Buying Influence – Any customer that has an affect on the decision to purchase your product or service. Government contracts usually have multiple buying influences, more than most people consider

Customer Lead—An individual who, in the course of doing their job routinely has close contact with customer decision makers, and that actively pursues new Opportunities. This is a hybrid of program or delivery management and sales. This is the key role in a team-selling environment.

Some companies informally define such a role by giving a program manager new business goals. However to use this role to your best advantage requires formally defining the job for what it is; namely a sales and sales support role. This role requires properly motivated and trained personnel. Management must support and actively manage this role.

Planning

We have mentioned three different types of planning activities: Account Strategy, Sales Opportunity Strategy and Customer Call Plan. Don't let the word plan scare you. These plans are practical guides that show you how to use all of your customer-facing resources to position, retain and grow existing clients and acquire new ones. You can view them as a hierarchy, as shown in Figure 1.

The first is the Account Strategy, which focuses on a segment (Account) of a Government agency that you are either protecting and growing or putting a corporate effort into penetrating. The Account Strategy Plan will force you to break very large Government agencies into manageable pieces based on how the customer buys and how you want to sell. You use this plan to determine what investments in time, money and personnel you will make on the Account and to develop a specific plan of execution with actions, owners and target dates. You then use the plan throughout the year to focus your team's efforts and to manage progress. Usually this is a long-term process covering a 1 to 3 year time span. The benefit of this plan forces you to evaluate your activities with an account, agree on a plan, create stakeholders in the plan and review and correct your plan as you implement it. One more part of the plan is to formally show how you plan to add value to their operation, and get their validation or guidance.

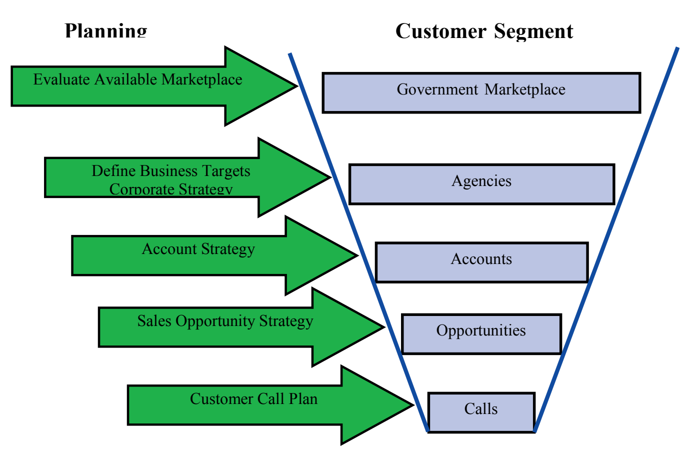

Figure 1 – Planning Hierarchy

Next is the Sales Opportunity Strategy, which is short, simple and tactical. You only use it on Sales Opportunities that fit your management criteria on such metrics as size or strategic importance. Additionally, a short version of a Sales Opportunity Strategy will help you organize your approach to smaller opportunities. When you consider a Sales Opportunity worthy of a focused corporate effort, your use of this plan defines the marching orders for anyone that might be able to help win this Sales Opportunity. An Account Manager, for example, can manage this strategy and can guide everyone who interfaces with the target customer thus defining who to call on, what information is needed and what information to position with the client. This provides a framework for all customer interaction.
At the lowest level, we have a Customer Call Plan. Every time an employee engages a customer to discuss any new business he or she should be aware of the activity with the Account and information to give and receive. A Call Plan also includes what types of questions to ask and in what sequence. A well-prepared Call Plan will tie back to the Account Strategy and Sales Opportunity Strategy.

This article represents and overview and we will discuss these plans in more depth in the future.

Benefits of the Customer Acquisition Methodology

The Customer Acquisition Methodology helps you break your largest accounts into manageable segments. This in turn allows you to allocate resources more effectively. By aligning your value proposition to the customer's true needs you can increase account retention and long-term stability.

In addition, you will grow key client relationships, increase close ratios, shorten sales cycles, improve forecasting through better visibility and unify your sales organization with a universal sales process that simplifies communication among management, your sales organization, and the customer.

The Call Planning portion of The Customer Acquisition Methodology helps you teach your staff how to use time in front of customers effectively by providing your team with a template to gather the right information that will give customers the right message.

Future Article

This article summarized the Customer Acquisition Methodology. The next article will explain in detail the Account Management/Sales Methodology and provide insight into how to use it to improve account protection and growth, and new account acquisition by using all the resources you have at your disposal.

About the Author

Jerry Sparger has over 30 years of experience using technology to solve business problems for Government and commercial clients. He began his career in software development and program management, and then moved to sales management and general management. He has over 12 years of executive management experience and 7 years of hands on management consulting in sales, customer relationship management, supply chain execution and knowledge management.

In 1997, Jerry started Global Business Solutions (GBS) consulting groups dedicated to helping clients solve business problems through strategy, process improvement and proper application of business technology. GBS has focused on those business aspects that most affect customers, such as sales, marketing, account management, order entry, fulfillment and customer service. GBS has provided business strategy, process design and implementation, technology selection, process and technology alignment and pilot rollout management.

Jerry can be reached at 703-620-2770 or via email at: jrsparg@gbsonline.net. His web site is www.gbsonline.net.

Thought for the Day

"Real integrity is doing the right thing, knowing that nobody's going to know whether you did or not."

Oprah Winfrey

VIRGINIA CONTRACTORS ONLY!

This article was provided to us by the Greater Reston Chamber of Commerce Government Contacting Alliance & Interest Group.

Virginia's government contracting and consulting firms face a problem unique to this state. If Virginia's Department of Taxation decides that the "true object" of their overall arrangement with the contracting government entity is providing a service, the contractor owes sales and use tax on all the tangible personal property it buys for the job - including goods bought specifically for and delivered to the government client.

Goods purchased by the government itself are tax exempt. Goods purchased for resale as part of a purchasing contract are tax-exempt. But the same items purchased for delivery to the government as part of an overall service contract...are taxable. No other state subjects its government contracting firms to this interpretation of the "true object test." It is not required by law - it's an interpretation by the state Department of Taxation.

- Adding the five percent sales and use tax to goods purchased for delivery to the government puts Virginia-based contractors at a competitive disadvantage.

- In recent years more federal contracts have been a mix of goods and services to save costs and provide more flexibility to the government, adding to this problem.

- Figuring out in advance whether the "true object" is services or goods is complicated. The nature of the contract can change. The Tax Department can and has audited companies long after the fact, reject your interpretation, and impose the tax with interest and penalties that in most cases cannot be recovered from the customer. A federal assurance of tax exemption is no protection.

- Some larger contractors are moving projects or parts of their projects out of Virginia to avoid this unfair and unpredictable tax treatment.

- The growing trend at all levels of government to outsource or privatize functions will lead to more cases where the government is increasing its own costs, or contractors end up with a surprise tax bill despite their efforts to comply.

It's time to end this practice. Join the Coalition to Keep statewide coalition of Virginia-based government contractors is working to reverse the administrative and regulatory rulings that support this tax - by legislation at the 2006 General Assembly, if necessary.

Concerned government contractors should contact Stephen D. Haner the administrator of the Coalition to Keep Contractors Competitive at northchase@earthlink.com. The Coalition is a growing statewide Contractors Competitive. This growing coalition of Virginia-based government contractors, Chambers and organizations working to reverse the administrative and regulatory rulings that support a sales and use tax for government contract goods. The coalition now includes Chamber of Commerce or Technology Councils in Prince William, Charlottesville, Richmond, Hampton Roads along with those in Northern Virginia and the more individual companies willing to express their concerns, the better chance we have of success.

CURRENT AUDIT ISSUES

A review of recent news articles has revealed the following audit issues:

- Unexplained auto lease (e.g. Porsche Boxster)
- Hiring of relatives of the customer (e.g. wife of agency head)
- 65% of billed subcontractor costs unsupported (e.g. $3.7M unsupported out of $5.7M)
- Renting equipment for costs significantly greater than the purchase price
- Charging higher per-hour labor rates than justified for the lower-level personnel utilized (based on established parameters of education, work experience and etc.)
- Billing subcontractor hours at rates higher than those actually being paid to the subcontractor (DCAA audit guidance)
- Adjusting timesheets to change job and labor categories without adequate explanation
- Significant internal control weaknesses regarding the reliability of recorded labor hours
- Adding job categories beyond the scope of the contract
- Charging for overtime not permitted under the contract
- Excessive or unreasonable compensation amounts (both executive and non-executive level)
- Inclusion of unallowable expenses in billing and pricing rates

If any of these issues sound a familiar note it may be time for a thorough self-assessment of your policies and practices before they are cited by the DCAA or the applicable OIG.

FAR CORNER //

Proposed Acquisition Thresholds Increases

The Civilian Agency Acquisition Council and the Defense Acquisition Council have issued a proposed rule (Federal Register, December 12, 2005, Volume 70, Number 237, Pages 73415-73423) adjusting acquisition-related thresholds for escalation. This proposed rule does not apply to thresholds established by the Davis-Bacon Act, the Service Contract Act, or trade agreements that are based statute.

Acquisition-related dollar thresholds are dollar thresholds specified in law as a factor in defining the scope of the applicability of a policy, procedure, requirement, or restriction provided in that law to the procurement of supplies or services by an executive agency, as determined by the FAR Council.

Acquisition-related thresholds in statutes that were in effect on October 1, 2000 are subject to five years of Consumer Price Index (CPI) for all-urban consumers (December 1999 to December 2004) escalation that computes at 1.1307.

The rounding criteria of the calculated thresholds are as follows:

< \$10,000	Nearest \$500
\$10,000 < \$100,000	Nearest \$5,000
\$100,000 < \$1,000,000	Nearest \$50,000
\$1,000,000 or more	Nearest \$500,000

Utilizing the rounding criteria above and the calculated escalation factor of 1.1307 the "heavily used" FAR acquisition thresholds to be revised are as follows:

Purpose	From	To
Micro-purchase threshold – FAR 2.101	\$2,500	\$3,000
Federal Procurement Data System (FPDS) reporting threshold – FAR 4.602(c)	\$2,500	\$3,000
Simplified acquisition threshold – FAR 2.101	\$100,000	\$100,000
Commercial items test program ceiling – FAR 13.500	\$5,000,000	\$5,500,000
Cost and pricing data threshold – FAR 15.403-4	\$550,000	\$600,000
Prime contractor subcontracting plan floor (except for construction contracts which remain at \$1,000,000) – FAR 19.702	\$500,000	\$550,000

The full text of this proposed rule can be found at: http://a257.g.akamaitech.net/7/257/2422/01jan20051800/edocket.access.gpo.gov/2005/05-16971.htm

Comments on this proposed rule must be received by February 10, 2006, in writing, and sent to www.regulations.gov or by facsimile to 202-395-5105. Reference FAR Case 2004-033.

For further information contact Michael Jackson, Procurement Analyst at 202-208-4949.

Final Rule – Contract Period for Task and Delivery Order Contracts

The Defense Federal Acquisition Regulation Supplement (DFARS) has been amended to implement Section 843 of the National Defense Authorization Act for Fiscal Year 2004 and Section 813 of the National Defense Authorization Act for Fiscal Year 2005. Section 843 placed a 5-year limit on the period of task or delivery order contracts awarded under 10 U.S.C. 2304a. Section 813 further amended 10 U.S.C. 2304a to permit a total period of 10 years, which may be exceeded if the head of the agency determines in writing that exceptional circumstances require a longer period.

The full text of this final rule can be found at http://a257.g.akamaitech.net/7/257/2422/01jan20051800/edocket.access.gpo.gov/2005/05-23732.htm.

COST ACCOUNTING STANDARDS //
Proposed CAS Application and Coverage Threshold Increases

The Cost Accounting Standards Board has issued a proposed rule (Federal Register, December 12, 2005, Volume 70, Number 237, Pages 73423-73426) revising the CAS application and full coverage thresholds for inflation. The full text of this proposed rule can be found at:
http://a257.g.akamaitech.net/7/257/2422/01jan20051800/edocket.access.gpo.gov/2005/05-23647.htm.

Acquisition-related thresholds in statutes that were in effect on October 1, 2000 are subject to five years of Consumer Price Index (CPI) for all-urban consumers (December 1999 to December 2004) which computes at 1.1307.

The rounding criteria of the calculated thresholds are as follows:

< $10,000	Nearest $500
$10,000 < $100,000	Nearest $5,000
$100,000 < $1,000,000	Nearest $50,000
$1,000,000 or more	Nearest $500,000

Utilizing the rounding criteria above and the calculated escalation factor of 1.1307 the CAS thresholds are to be revised as follows:

Purpose	**From**	**To**
Contract applicability	$500,000	$550,000
Applicability to business unit	$7,500,000	$8,500,000
Waiver authority	$15,000,000	$17,000,000
Full coverage	$50,000,000	$56,500,000
Disclosure statement submission by a company (other than an educational institution)	$50,000,000	$56,500,000
Disclosure statement submission by segment of a company	$10,000,000	$11,500,000
Disclosure statement submission by an educational institution	$25,000,000	$28,300,000

Comments on this proposed rule must be in writing and received by February 10, 2006 to www.casb2@omb.eop.gov or by facsimile to 202-395-5105. For further information contact David J. Capitano of the Cost Accounting Standards Board at 703-847-7486.

DEPARTMENT OF TRANSPORTATION // *Crack Down on Fraud*

In November 2004 the Department of Transportation (DOT) Office of Inspector General (OIG) announced an audit of engineering and design firms working on state DOT contracts funded by federal-aid grants. The goal of these audits was to review the accuracy and adequacy of design firms overhead statements prepared by the design firms CPA. The OIG was to also look at executive compensation to establish that it falls within the FAR guidelines and to assess its reasonableness. Initially there were six states participating on a voluntary basis, presently there are forty states involved. Onsite visits by the OIG will include a visit to the firms CPA firm. Up to 100 design and engineering firms are to be selected and are to receive questionnaire letters requesting information and records about overhead rates and senior executive compensation.

OIG's preliminary work with nine firms suggested multiple issues with unallowable expenses being included in the overhead calculations and a pattern of unreasonable compensation allocations. As pointed out in our September 2005 GCNewsletter, just because an individuals compensation may be below the government's FAR guideline amount or the amount capped by the state does not mean that it is reasonable and therefore allowable.

Exactly one year later on November 17, 2005, the DOT announced a major crackdown on fraudulent contractors in a meeting with the Acting Deputy Attorney General Paul McNulty. McNulty is head of the Procurement Fraud Working Group (See "As the Pendulum Swings - Ethics and Business Conduct" in the November GCNewsletter at www.gaffeycpa.com). Since June of this year the DOT has permanently debarred one company, referred twenty-two others for debarment or suspension and placed four contractors under review.

If you receive DOT grants or contracts it may be time for an assessment of your pricing and costing policies and practices to ensure compliance with the appropriate Federal Acquisition Regulation (FAR) and Transportation Acquisition Regulation (TAR) requirements.

UPCOMING EVENTS //

IMA GovCon Breakfast Meeting

Don't miss the Government Contractor Breakfasts presented by the Potomac Area Chapter of the Institute of Management Accountants. Starting in January they will be held **every other month** on the **second Tuesday** of the month.

Breakfast is served at 7:00AM, the speaker starts at 8:00AM and ends at 9:00AM.
They are held at the Tyson's West Park Hotel, 8401 West Park Drive, McLean, VA.
Cost is $20. One CPE credit is awarded.

The January 11, 2006 Breakfast will feature Maria Davey, DCAA Reston Branch Manager.
March 14 will feature Contract Closeouts presented by Sam Davidson of Gaffey & Associates.

To make reservations you can either call the 24-hotline at 202-462-6227,
Option 2, or send an email to William Maxwell, Chapter President, at williamomaxwell@yahoo.com.

Hope to see you there!

The CGP 2006 Winter Seminar

The Coalition for Government Procurement is presenting it's 2006 winter seminar entitled
"The Politics of Government Business: Making Sure All of Your Bases Are Covered"
on February 7, 2006 at the Sheraton Crystal City, Arlington, VA.

The Keynote Speaker will be The Honorable Tom Davis, Chairman, House Government Reform Committee speaking on the topic "Congress Sets the Legislative Agenda - What it Means to Contractors".

THIS IS A NO MISS SEMINAR!
For more information and to sign up, go to: www.thecgp.org.

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Confidence · Direction · Capability

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