

2018 Government Contracting Market Trends [Overview]

GovCon Market Outlook: Ten Emerging Trends Identified by Jim McCarthy, Founder, AOC Key Solutions

The Consolidated Appropriations Act (“The Act”), signed into law in March of 2018, provides \$500 billion in new federal spending for defense and domestic programs over two years. Perhaps of equal importance to the Government Contracting sector is the apparent return of a semblance of budget process stability on the Hill—as evidenced by the Act’s consolidation of 12 separate funding measures into a consolidated [omnibus package](#). For now, the need for stopgap funding in the form Continuing Resolutions has been rectified, no doubt increasing industry’s comfort levels and ability to plan ahead.

By examining many of the provisions of the omnibus spending bill, and close observations about what the government contracting industry is currently facing, a number of new and emerging trends can be discerned.

Trend 1. Increased National Defense Spending –The Act provides \$654.6 billion in both base and Global War on Terror/Overseas Contingency Operations funding – the biggest year-to-year increase since the beginning of the War on Terror. The bill represents largest investment in national defense in 15 years. As is usually the case, increased defense spending will flow down to Government contractors providing them new opportunities to offer national defense products and services to the Federal Government.

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Trend 2. Uptick for Homeland Security – The Act includes \$47.8 billion for the Department of Homeland Security, an increase of \$5.4 billion over the last fiscal year. Many of these dollars will be spent in the form of contracts to bolster border infrastructure, add more “boots on the ground,” and improve surveillance technology. Arguably, this is progress for government contractors, even if none of the funds is available for the actual construction of the President’s border wall.

Trend 3. New Emphasis on Infrastructure Projects– The Act includes more than \$21 billion for infrastructure projects across the country, including transportation, energy, water and certain critical facilities. The President’s campaign promise to modernize infrastructure is beginning to gain traction.

Trend 4. High Priority Focus on School Safety – Recent high profile tragedies have riveted the nation’s attention on helping protect children and to promote safe learning environments. The Act provides more than \$2.3 billion in new funding for threat identification, mental health, training, and school safety programs at the Departments of Justice, Education, and Health and Human Services.

Trend 5. Heightened Efforts to Achieve IT Modernization – Several billion dollars are devoted to information technologies to address pervasive and cross-cutting challenges for all of Government. Cybersecurity, shared services, agile development, commercial off-the-shelf software, cloud migration, data-center consolidation, big

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data, block chain, artificial intelligence, and the Internet of Things are opening new business opportunities for Government contractors.

Trend 6. Increased Use of Innovative Contracting Mechanisms – The Defense Department is experimenting with a type of simplified acquisition process known as Other Transactional Authority (OTA). An underlying purpose of OTA is to encourage nontraditional defense contractors to develop innovative technologies, though more traditional defense contractors also participate. Observers expect OTAs to gain footholds in other agencies as DoD fine tunes processes to expedite acquisition of contracts for products and services.

Trend 7. Further GovCon Market Consolidations – Look for the heightened pace of M&A activity to continue in the GovCon sector for at least the next 12-18 months. Market leaders seek entry into new market sectors and hope to gain economies of scale through consolidation and reduction in overhead accounts.

Trend 8. Continued Elimination of Regulations That Are Onerous, Duplicative, or Outdated – The passage of The Act has—perhaps indirectly—validated many of the regulatory reforms sought by the Trump Administration from its inception. Stated another way, there is little supporting evidence found in The Act warranting an increase in red tape and regulatory obstacles. This is good news for the private sector, generally more familiar with commercial models for doing business.

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Trend 9. More Equitable Distribution of the Federal Procurement “Pie” – It seems that those drafting the Act in its early stages were keenly aware of the need to maximize the participation of small and socio-economically diverse companies. It is even conceivable that years of targeted lobbying efforts by industry groups and others are finally opening up more contracting opportunities to mid-sized firms as well.

Trend 10. New Opportunities for Industry in Combatting the Opioid Crisis – The Act includes nearly \$4 billion in resources to combat the opioid crisis that President Trump has declared as a national emergency. This will open new opportunities for contractors to assist in in treatment, prevention, and law enforcement efforts to stop the spread of these dangerous drugs and help families and communities get the assistance they need. R&D firms are expected to increase their involvement in the battle against opioid addiction.

About the Author:

James K. (Jim) McCarthy has 35+ years of GovCon experience and leadership—first on Capitol Hill, then as founder of AOC Key Solutions, a leading proposal development consulting firm which has helped clients win over \$175 billion dollars in government contracts.

About AOC Key Solutions

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