



GTSC

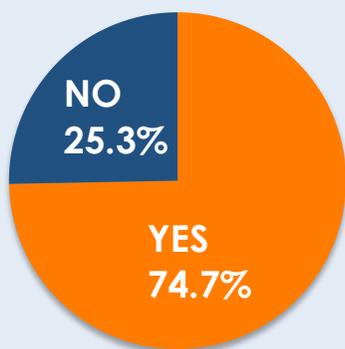
Government
Technology &
Services Coalition



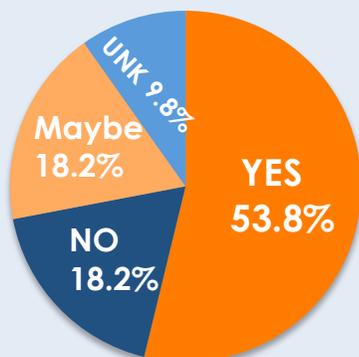
MARKET PULSE

IMPACTS OF REDUCTION IN GOVERNMENT SPENDING ON HOMELAND & NATIONAL SECURITY

Prepared For
Sequestration?



Will Your Clients' Mission be
Impacted by Sequestration
and/or Budget Cuts?



The Government Technology & Services Coalition, the leading organization for small and mid-sized companies in homeland and national security, conducted a survey on the implications of recent government spending cuts. GTSC asked respondents about actual and planned impacts to the contracting community engaged in mission-critical activities. GTSC received over 220 responses and found:

Summary Findings:

- Nearly 75% of respondents are preparing for sequestration
- Companies are preparing by reducing their marketing budgets (29.8%), reducing public relations budgets (22.7%), laying off staff (26.7%), cutting services (19.6%), leaving the Federal market (18.7%) and bringing services in-house (15.6%)
- “Other” preparations include reducing salary and benefits, raising prices, decreasing recruiting, and moving into commercial markets
- Almost 30% of respondents – for the most part emerging and small companies - think they **may not** or **definitely will not** survive sequestration
- Fifty-four percent of respondents believe sequestration will materially impact the ability of their Federal clients to conduct their stated missions
- Respondents believe the long-term effects include: weakening of national security and preparedness, uncertainty about the Federal market, loss of skills and experience in vital missions, and increased efficiency
- Respondents believe the short-term effects include: uncertainty, distraction from the mission, loss of jobs, and decreased morale

IMPACTS OF REDUCTION IN GOVERNMENT SPENDING ON HOMELAND & NATIONAL SECURITY

Prepared by Mitch Muhlheim for the Government Technology & Services Coalition

The threat of sequestration has significantly impacted confidence in business survival, especially in the emerging and small-sized business space. This report presents findings from the recent **Survey on Sequestration and Budget Cuts** conducted by the Government Technology & Services Coalition (GTSC). GTSC surveyed companies generating a wide range of annual revenues, including emerging/micro (under \$1 million), small (\$1 to \$15 million), mid- (\$15 million to \$1 billion), and large (over \$1 billion) businesses.

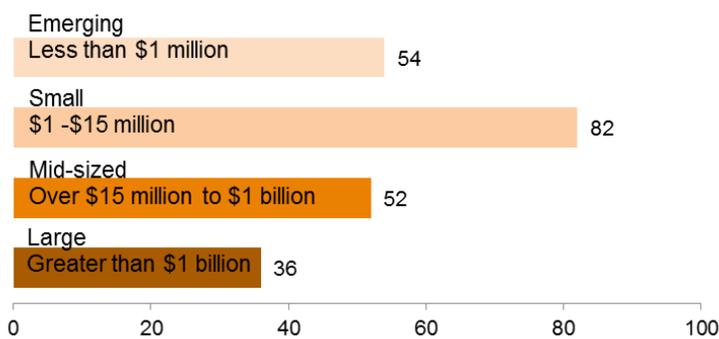
Respondents include 224 companies with varying revenue. A majority of companies surveyed fell into the mid-tier category, earning between \$15 million and \$1 billion in revenue. Large companies are least represented in this survey with 36 reporting.

Of all the respondents, 74% are actively making preparations for sequestration. Stratifying answers by company size yields no significant change from the aggregated answers. A similar proportion of companies in each size category are actively preparing for sequestration.

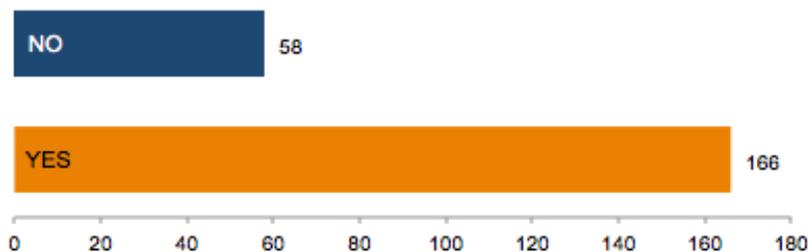
Despite preparations, a significant number of companies are still not confident of their ability to continue as a business in the foreseeable future. Of those surveyed, 27% answered either MAYBE or NO when asked if they believe they will be able to survive sequestration. Categorizing answers by revenue shows emerging and small companies with the least confidence answering MAYBE or NO for 48% and 31% of responses, respectively.

Companies that answered MAYBE and NO indicate a high level of uncertainty and pessimism with regard to their going concern. Larger companies are more confident in their ability to weather sequestration, whereas emerging and small companies relying on fewer contracts show a high level of uncertainty in their ability to survive pending cuts.

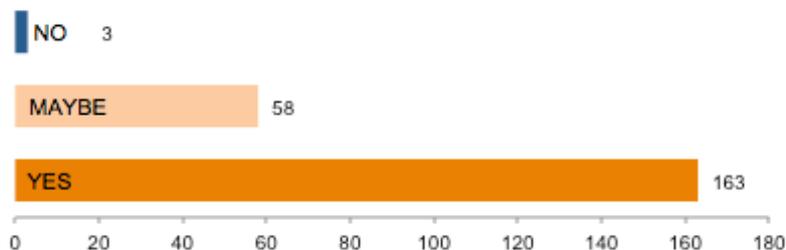
Q1. Company Size



Q2. Are You Preparing for Sequestration?



Q3. Do You Believe Your Company Will Survive Sequestration?



Q3: Do you believe your company will survive sequestration?

Revenue	YES	Maybe	No	Maybe & No
Emerging: Under \$1M	28	23	3	48.1%
Small: \$1 M - \$15M	57	25	0	30.5%
Mid-size: Over \$15 M - \$1B	45	7	0	13.5%
Large: Over \$1 B	33	3	0	8.3%
Total	163	58	3	27.2%

PREPARATIONS FOR CUTS

Of the companies preparing for sequestration and budget cuts, the most common step is to reduce their marketing and public relations budgets. Fifty one percent of all companies say they are cutting these two areas. Twenty-six percent are laying off staff, and 19% are cutting services. Small and emerging companies are also leaving certain Federal markets, or as the free responses show, are leaving the Federal space entirely. Mid-sized companies are laying off staff at a higher rate than other revenue categories as a reaction to proposed cuts. Large companies are not, for the most part, leaving the Federal markets, but are cutting marketing, existing services and laying off up to 20% of staff.

Q4: How are you preparing for Federal budget cuts, if sequestration is triggered, and even if it is not?

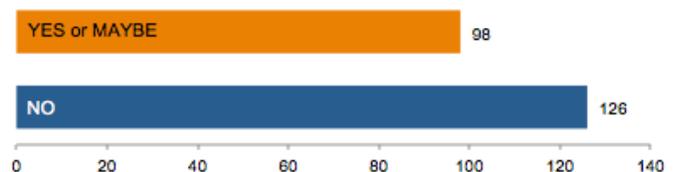
Size	Emerging	Small	Mid	Large	% of total
Laying off staff	4 (7%)	24 (29%)	19 (37%)	12 (33%)	26%
Cutting services	8 (15%)	15 (18%)	11 (21%)	9 (25%)	19%
Bringing outsources services in-house	7 (13%)	13 (16%)	9 (17%)	6 (17%)	16%
Cutting marketing budget	13 (24%)	27 (33%)	15 (29%)	11 (31%)	29%
Cutting public relations budget	9 (17%)	21 (26%)	12 (23%)	8 (22%)	22%
Leaving certain Federal markets	13 (24%)	15 (18%)	9 (17%)	4 (11%)	18%
All of the above	8 (15%)	8 (10%)	2 (4%)	5 (14%)	10%
Other	30 (56%)	28 (34%)	27 (52%)	14 (29%)	44%
Total Respondents	54	82	52	36	224

The "OTHER" response includes companies preparing for cuts by reducing overhead, raising prices, or decreasing recruiting. This category also includes companies that did not believe they would be affected by Federal cuts.

IMPACTS OF CUTS

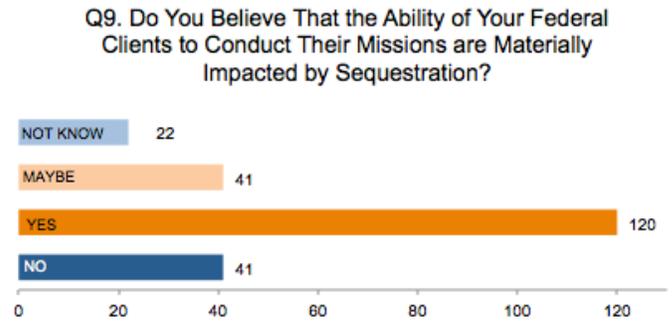
A slight majority, 56% of respondents, believes that nothing positive will come from budget cuts in the area of their business. Splitting responses by category shows that emerging companies are most pessimistic with 61% answering NO, and mid-sized companies are the least pessimistic with 52% answering NO. Interestingly, many noted variations on "decreasing morale" and loss of expertise and "historical knowledge" due to early retirement among Federal employees and contractors as significant impacts of the cuts.

Q8. Do You See Anything Positive Coming From Sequestration in Your Area of Business?



Of the respondents who indicate that something positive will result from sequestration, most cite a balanced or more controlled Federal budget. Many also indicate that sequestration could force a re-examination of current spending habits and reduce waste and inefficiency. Similarly, many believe that the decreasing budgets will push both Federal agencies and companies to become leaner and create more value for customers.

A large majority believes sequestration will materially impact the ability of Federal clients to conduct their stated missions. Fifty four percent answered yes, regardless of company size. Combining MAYBE with YES results yields 72% of responses and is indicative of uncertainty and pessimism, respectively. Additionally, in the free answers, many note "decreased morale," loss of significant experience and understanding among Federal employees and increased early retirement as significant impacts of sequestration and budget cuts.

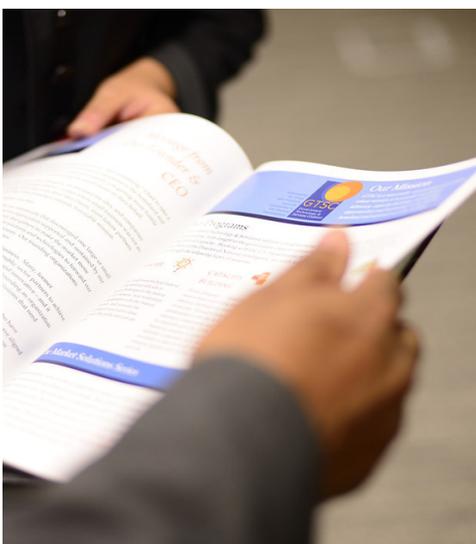


The most common "free" responses when asked about the short and long-term impacts of sequestration on homeland security and national security are listed below in order of frequency:

Short-term impacts	Long-term impacts
Distraction from mission	Weakens national security and preparedness
Loss of jobs	Adds uncertainty to the Federal market
Confusion among both the contractor community and Federal partners	Loss of skills and experience in vital missions
No impact	No impact
Decreased morale	Increased efficiency

CONCLUSION

For Federal contractors working in homeland and national security, sequestration poses significant uncertainty and concern for their client's ability to conduct mission critical work. Regardless of the size of the company, the uncertainty of the market has prompted a variety of cost-cutting measures including laying off staff, reducing marketing and public relations budgets, and cutting services. The full effects of sequestration and budget reductions have not yet materialized, but early indications are that short-term steps to adjust to such cuts may have significant long-term impacts on both industry and government.



GTSC: It's About the Mission.

The GTSC is a nonprofit, nonpartisan association of companies that create, develop and implement solutions for the Federal homeland and national security sector. Our vision is to provide an ethical, effective platform for information exchange between the public and private sector on homeland and national security ideas, technologies and innovations. Our mission is twofold: first, to provide exceptional advocacy, capacity building, partnership opportunities and marketing in the Federal security space for small and mid-sized companies. The second, equally-important part of our mission is to support and assist our government partners achieve their critical missions with the highest integrity; best and most innovative technologies; and results-based, quality products and services to prevent, protect against, mitigate, respond to and recover from any terrorist attack or natural disaster.

For more information, contact:

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