



Cost simplification and restructuring for competitive advantage

Government Contract Services

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Cost simplification and restructuring activities

In a market environment where the Government is increasingly concerned with enhancing the acquisition process to achieve cost savings, Government contractors face the growing need to diversify offerings, streamline operations and cut costs to maintain a competitive advantage without compromising performance and margins. The result is an almost unprecedented increase in restructuring activities within the Government contract industry. Manufacturers and service contractors alike are turning to restructuring solutions to meet the needs of the evolving market. Whether the restructuring is internal – a reorganization or realignment of business units or segments – or external (an acquisition, merger or spin-off), operational decisions are made to either augment service offerings or achieve cost savings. Too often, however, the focus on how best to achieve the expected benefits is lost during the execution of the restructuring.

Well-planned and thoughtful execution of restructuring activities can help contractors avoid unintended consequences and costly mistakes, and better position an enterprise to maximize the intended results. For example, with decisions to consolidate or eliminate departments, segments or indirect cost pools, analyzing the quality and composition of the backlog portfolio and the upcoming bid pipeline can provide meaningful insight into what actions to take. Such an analysis can provide insight into impacts on existing and forecast program performance and allow your restructuring changes to enable your business to go to market efficiently and effectively.

Meaningful areas to consider as part of restructuring activities include:

- ▶ Assigning knowledgeable, dedicated resources to the coordination and execution of restructuring efforts
- ▶ Developing a communication plan that provides consistent and frequent messaging on restructuring efforts to internal and external stakeholders – including leadership, program teams, external auditors and contracting officers
- ▶ Assessing cost accounting practices and indirect rate structures to determine whether the rate structure is consistent with the industry and customer expectations
- ▶ Evaluating support functions, including home office, shared services and business functions for possible redundancies and opportunities for cost saving
- ▶ Maximizing cost recovery through the use of external restructuring contract provisions
- ▶ Understanding the impacts of changes to cost accumulations and allocations to manage administrative requirements associated with changes to cost accounting practice
- ▶ Planning, implementing and validating the use and interface of process automation and system changes for the future state structure(s)
- ▶ Assessing the impact of potential process, system and control changes on approved business systems
- ▶ Evaluating the overall negotiation position of the new enterprise as it relates to its vendors and supply chain
- ▶ Measuring the impact of any existing or planned transition support agreements on cost recovery
- ▶ Verifying that planned changes are understood by estimators, pricers and others responsible for developing price proposals

When properly assessed, these and other considerations can provide companies with an operational- and regulatory-based pathway to achieve the broader objectives of the organization. They also enable a company to position itself to go to market with a leading-class business model and a cost structure that will allow for more competitive proposals, a growth in market share, enhanced margins and improved operational efficiencies consistent with its strategic plans.

Taking advantage of opportunities to acquire synergistic additions to a company is often part of such plans. Companies considering the acquisition or sale of an entity need to understand the operational implementation of an acquisition and be prepared to comply with the Government's rules to fully evaluate and transact these deals.

While the operational considerations will drive the ultimate decision on how best to proceed with a restructuring initiative, the program and regulatory limitations must be considered to assess whether those objectives can realistically be met.

As such, restructuring efforts should involve individuals who are knowledgeable about business operations, have experience with restructuring activities and understand the regulatory environment in which it operates. These individuals should provide a dedicated focus during the execution of restructuring activities to both advise on key decisions and analyze the results of the decisions.

Practical experience

Ernst & Young LLP's Government Contract Services (GCS) team has nationally recognized professionals experienced in Government contract regulations. By serving contractors in a variety of capacities, our professionals have insight into operational leading practices within the industry. In addition to providing core cost accounting, regulatory compliance and business system services to our clients, our professionals serve as subject-matter resources to EY financial audit and internal audit teams. This provides us with insight into both the operational and regulatory impact of critical decisions within the restructuring process, as well as potential challenges.

GCS offers you practical experience, bolstered by a thorough knowledge of Cost Accounting Standards, Federal Acquisition Regulation, Defense Federal Acquisition Regulation Supplement and Office of Management and Budget Circulars.

Our professionals can help a contractor navigate through a restructuring by:

- ▶ Coordinating a comprehensive restructuring risk and benefit analysis
- ▶ Conducting assessments of existing structures, and cost allocation methodologies in light of anticipated operating model and priorities and providing recommendations for future state
- ▶ Evaluating impact of restructuring/integration on business systems, processes and controls and defining requirements for future state
- ▶ Performing validations of changes to systems, process and controls necessary to implement changes
- ▶ Assessing pre- and post-restructuring cost accounting practices and advising on opportunities to enhance practices
- ▶ Analyzing the allowable restructuring cost and identification for deferral and allocation methodology and preparing external restructuring proposals
- ▶ Preparing Cost Accounting Standards Board disclosure statements for the new structure as well as calculating the cost impact of cost accounting practices
- ▶ Assisting with disclosure, walk-throughs and negotiation of cost impacts with the Government
- ▶ Supporting efforts to resolve issues raised by Government officials or higher-tier contractors with respect to the new structure
- ▶ Assisting with implementing advanced or novation agreements



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