



Success comes from reloading, not rebuilding

Small firms can build value by playing toward their strengths -- flexibility, culture and innovation

By Bob Kipps

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As summer heads towards a close, the start of football season brings new light and excitement to hard core sports fans. Unfortunately, many teams — especially my favorites, the Redskins and my college alma mater, the University of Virginia — continue to struggle and could be headed towards another “rebuilding” year.

Teams having less talent, a shallower bench and less of a clear execution strategy typically end up in the middle of the pack, at best.

But not all teams are that way.

One of my best friends — unfortunately, a Virginia Tech Hokie -- constantly reminds me that Virginia Tech “reloads” versus “rebuilds,” always being opportunistic and ready for the vagaries of college football — such as injuries, suspensions and early departures.

In some ways, owners and leaders of federal services companies are experiencing similar twists in the road. Changes to the Defense Department's spending landscape, an end to the glory days of supplemental defense budgets and huge budget deficits are expected to squeeze discretionary federal IT and defense spending.

Not only are the discretionary funds under pressure, but the Obama Administration's new management agenda — focused much more on

energy, education, the environment and health care -- is shifting the prioritization and allocation of government spending. Compound that with President Barack Obama's in-sourcing rhetoric and some defense and civilian agencies making preemptive and renegade attempts to institute their perception of Obama's desires in this area, and you can understand why business as usual remains a risky strategy for contractors.

As investment bankers, we like that the larger firms use mergers and acquisitions to reposition themselves, fill gaps in their technology or capability portfolios and/or gain critical mass in the fast lanes.

But for small and mid-size firms, M&A is often more risky. What options are available to these firms?

The good news for small and mid-size firms is that federal clients -- irrespective of small business credit -- still often prefer the innovation, responsiveness, flexibility and cost smaller firms can provide.

Secondly, with all the transaction activity over the past few years, the available talent pool is as robust as ever. Whether it is former entrepreneurs who have completed their exit and are available as mentors or advisory board members, or senior operational talent, consolidation has created opportunities to supplement internal resources.

Although larger buyers have done an increasingly better job of finding ways to retain key talent following acquisitions and some professionals in today's weaker economic climate prefer the perceived stability of larger organizations, many federal IT, engineering and other technical professionals still prefer working with small and mid-sized firms.

In particular, some of those professionals with cyber or IT security credentials and relationships as well as those professionals serving national security/intelligence community customers — arguably two of the best growth areas for the near-medium term -- are definitely not beyond approach. In both of those cases, those highly coveted resources have

become accustomed to smaller firms' culture and to generous employee benefits which are harder for larger firms to replicate.

How do firms attract those superstar free-agents?

First of all, you need to have your own house in order. Firms do not become preferred employers by happenstance or when their senior leadership does not make human capital a strong culture priority. Having a culture of both caring and respect for employees -- at all levels -- and performance are critical to landing strong performers.

Second, superstars want to be part of a winning team that has a clear and credible strategy for success. Third, as a former client in Massachusetts used to say, it takes an "A" player to attract "A" players. So if that current "A" player is in the executive suite, the senior folks need to be involved in recruiting.

Lastly, companies need to be familiar with the competitive employment for market top talent.

Hopefully, if you do all the above correctly, you will not need the richest offer, but you will need to be in the market range that could include equity participation in some form.

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