GAUGE
2026 REPORT

AN ANNUAL ROADMAP FOR GOVCON
10
YEARS OF GAUGE
2017–26

IN IT TO WIN IT:
OUTTHINK, OUTBID, OUTLAST

AN ANNUAL INDUSTRY ROADMAP OF BENCHMARKS AND TRENDS

Guiding Government Contractors into 2027 and Beyond

Unanet

10TH ANNIVERSARY COMMEMORATIVE EDITION

CohnReznick

GAUGE
2026 REPORT

DON'T MISS: *10 YEARS OF GAUGE INSIGHTS*

Each GAUGE section concludes with insights, tips, and best practices from the last decade of the GAUGE Report to accelerate your firm's compliance, efficiency, and profitability.

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FOREWORD

10 YEARS OF INSIGHT

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The last decade has seen significant change, both globally and within the government contracting industry.

The pace of technological advancement has changed the way we live and work. Uncontrollable events, shifting administrative priorities, and rapid regulatory changes mean that government contractors working in the federal space have had to navigate a business environment in rapid flux.

Surviving the seas of change has demanded resourcefulness, creativity, and grit. Now, in a market defined by increasing competition, the government contractors that thrive and keep winning will be ones that work smarter, not just harder.

To outthink, outbid, and outlast the competition is not a function of luck—it is the result of operational maturity, data discipline, and strategic agility.

The Big G of Growth is the emphasis of this special 10th anniversary edition of the GAUGE Report, which draws on the wisdom of the past decade to find more efficient, effective ways to win.

Government contracting plays a critical role in preserving our nation's economic growth, defense and security, and public services. For the last 10 years, Unanet and CohnReznick's annual GAUGE Report has been a trusted resource for benchmarks, trends, and best practices in GovCon.

We are very proud of our joint contributions to the industry, and look forward to providing the data and insights needed to guide government contractors for another 10 years.

It is our hope that you find the 2026 GAUGE Report a valuable addition to your winning toolbox.

G GOVERNMENT CONTRACT COMPLIANCE

A ACCOUNTING

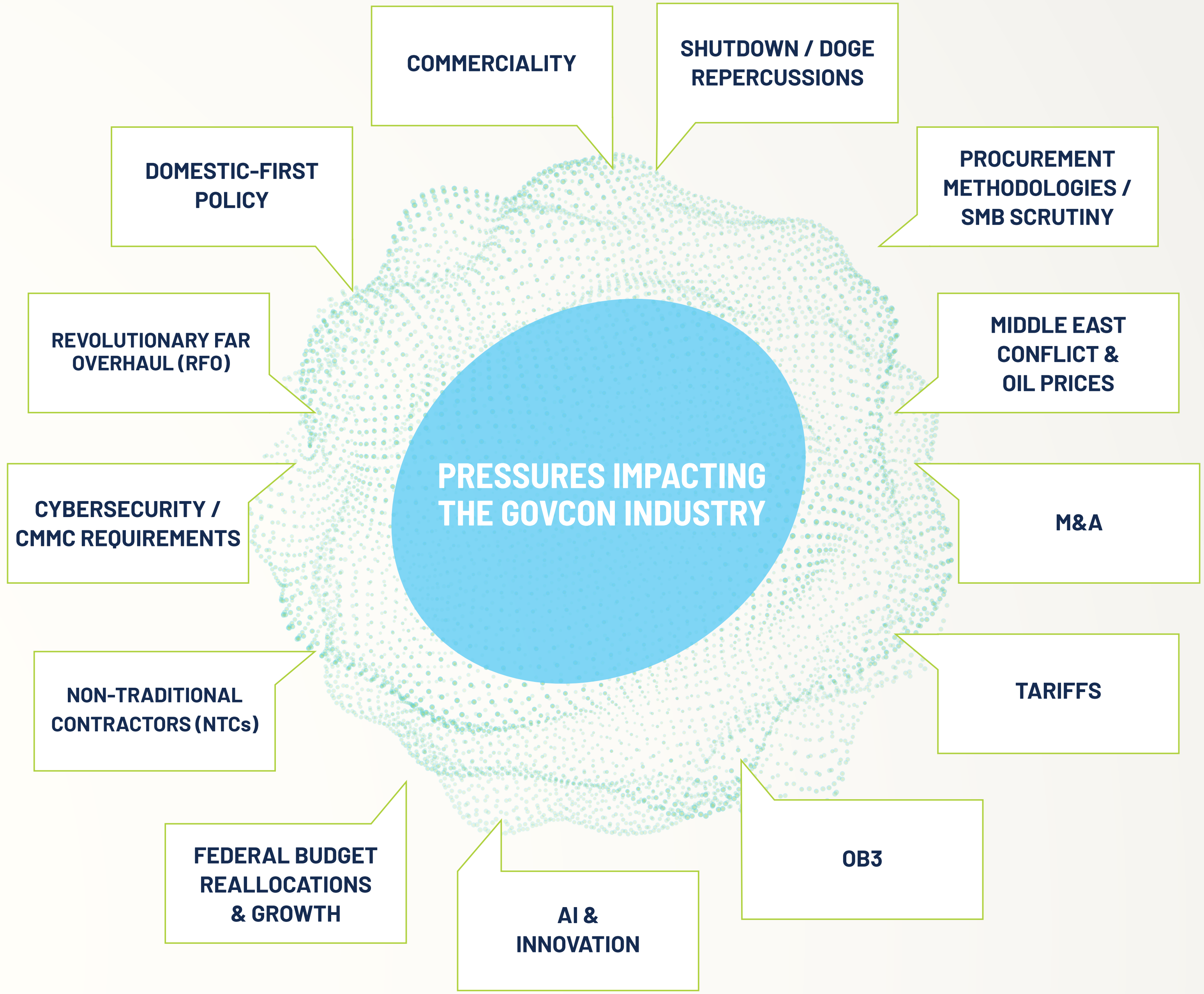
U UTILIZATION

G GROWTH

E EFFICIENCIES

THE 2026 GAUGE REPORT CONTAINS BENCHMARKS, INSIGHTS, AND ANALYSIS ON:

- Market dynamics, key organizational issues, opportunities, and challenges.
- Business outlook, performance, and operations metrics.
- Project management approach, performance, opportunities, and challenges.
- Compliance and audit experiences, costs, and key metrics.
- Strategic and regulatory considerations.
- Noteworthy trends and actionable steps for addressing industry issues, with a focus on winning, profit margins, and AI maturity.



OVERVIEW

ABOUT THE GAUGE REPORT

For 10 years, Unanet and CohnReznick have worked together to publish the annual GAUGE Report. Our goal is to provide government contracting professionals with trusted benchmarks to gauge the pulse of the industry. By highlighting industry trends, the competitor landscape, best practices, and actionable insights, we aim to help firm leaders confidently make data-informed decisions.

Each section of this report dives into greater detail for specific knowledge areas. This year, we're also showing you how to put together a winning toolkit with fresh insights from industry winners and top tips from past editions of the GAUGE Report.

WHAT WINNING MEANS IN TODAY'S GOVCON ENVIRONMENT

For many years, federal government contracting offered a stable, secure alternative to the private sector. But the last decade has added complexity and challenge to the GovCon industry. Amidst political and economic uncertainty, growing government scrutiny, and trickle-down pressure from burdened federal agencies, optimism did drop. Procurement has slowed and competition has never felt quite so tight, especially with the threat of nontraditional contractors (NTCs) entering the competitive landscape.

But one thing has not changed, and that is the grit that has always characterized the GovCon industry.

Over the years, the firms that have risen to the top are those that adapt fast, sharpen discipline, and make smart strategic decisions. Today's winning firms boast high win rates, strong profit margins, and, frequently, more mature organizational AI practices—a factor that has quickly become a key differentiator in an industry that rewards efficiency.

7.6%
are reporting average net profit

88%
are confident in their ability to handle an unexpected audit

74%
believe AI and process automation will transform GovCon

70%
are using AI technology to achieve gains
(Up 16% pt. from 2025)

65%
say 10% or less of contracts have been canceled or modified

KEY TAKEAWAYS: FIRMS THAT ARE "WINNING"

Attribute from 2026 Report	Win rates over 50%	Profit margins over 10%	AI usage maturity
BUSINESS ENVIRONMENT			
More diversified revenue streams	✓	✓	✓
More optimistic about the current state of GovCon	✓		✓
Less procurement activity slowdown in 2025	✓		
GOVERNMENT CONTRACT COMPLIANCE			
Less challenged by indirect rates	✓	✓	
More likely to identify as CMMC applicable	✓	✓	✓
Undergo more external audits	✓		
Require business systems in contract solicitations	✓	✓	
Fewer contract awards delayed due to compliance requirements		✓	✓
Leverage outside experts for compliance requirements	✓	✓	
ACCOUNTING			
Conduct more internal audits			✓
Feel more prepared for unexpected audits	✓	✓	✓
Higher profit margins		✓	✓

✓ *= attributes of companies performing above survey average*

KEY TAKEAWAYS: FIRMS THAT ARE "WINNING"

Attribute from 2026 Report	Win rates over 50%	Profit margins over 10%	AI usage maturity
UTILIZATION			
Fewer struggles with efficiency and budget constraints	✓	✓	
More mature PMO/project controls	✓		✓
Can forecast staffing requirements further ahead of time	✓		
GROWTH			
More mature capture processes	✓	✓	
Win a higher percentage of contracts	✓		
Expect higher EBITDA multiples if sold	✓	✓	
EFFICIENCIES			
Restructure indirect rates less frequently	✓	✓	
More integrated software environment (ERP, CRM, PM platforms)			✓
More AI in BD/Marketing, Ops, IT, and PM functions		✓	✓
More utilization of M&H rate	✓	✓	
More efficient wrap rates		✓	✓

✓ *= attributes of companies performing above survey average*

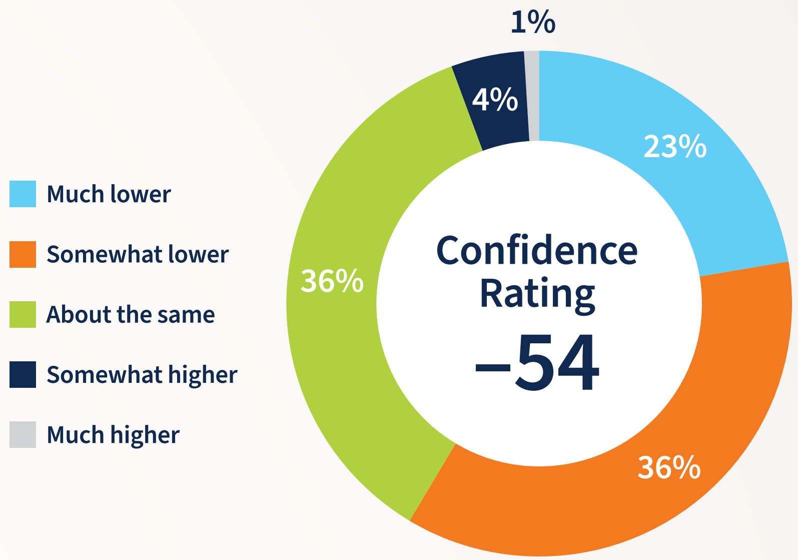
WHAT'S CHANGED

Change is never easy. And GovCon has changed. Feelings about the business environment are mixed, with nearly as many pessimists as optimists. Small firms, AI non-users, and low-win firms are feeling particularly pessimistic. And nearly 60% say their confidence in federal contracting has dropped, with low-profit, low-win firms being most doubtful.

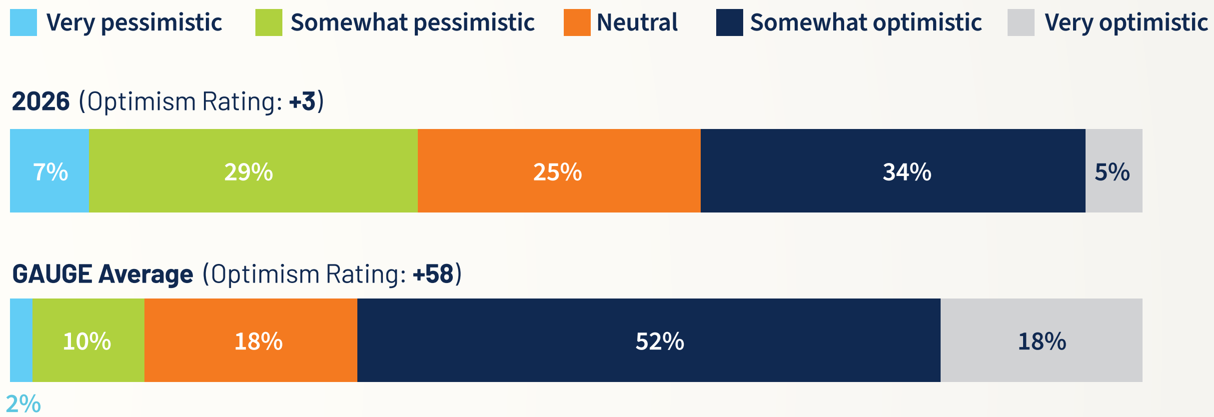
But there are winners and losers in every transition. Winning firms continue to look ahead with optimism; even more so than profits, win rates correlate strongly with optimism about today's business environment. And among AI adopters, those with more formalized governance indicate more confidence in federal government contracting.

Not all change is bad. Profits, for example, are recovering well and are, on average, leveling out. The painful adjustment period is an opportunity for reflection, innovation, transformation—and, ultimately, growth.

Over the past year, how has your confidence in federal government contracting changed?
(select one)

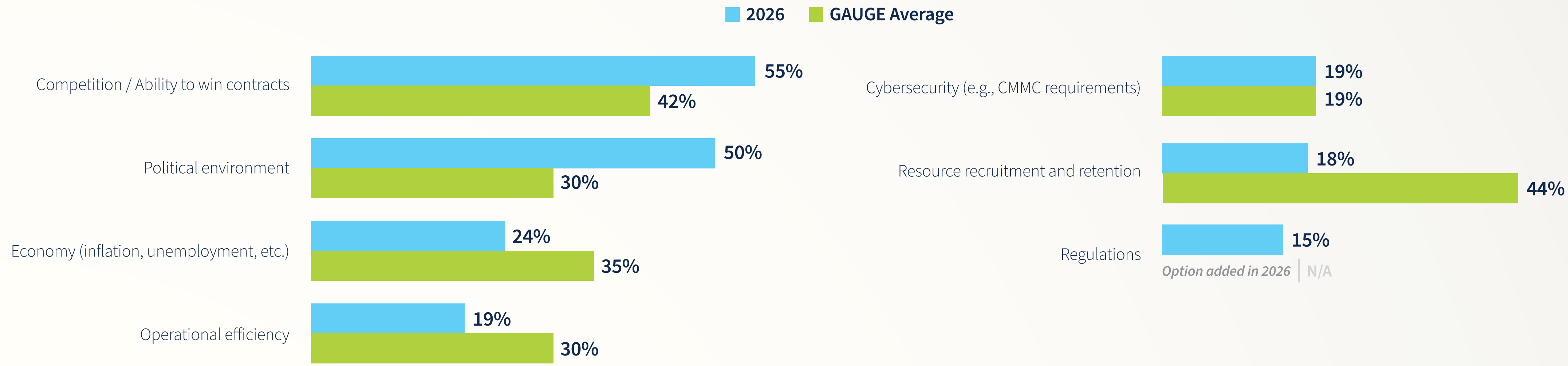


How do you feel about the current business environment for government contracting?
(select one)



Which issues about your company's future most keep you up at night?

(% ranked first & second shown)



In what ways did changes made by the federal government in 2025 affect your business?

(select all that apply)

	2026	WIN RATE <25%	WIN RATE 25-50%	WIN RATE 51%+
Slowdown of procurement activity	70%	73%	72%	62%
Reduction in contracts/work orders	54%	66%	51%	46%
Loss or retirement of government relationships/contacts	45%	47%	44%	44%
Delay or cancellation of payment of invoice/billings	43%	45%	39%	44%
Layoffs or furloughs of employees	41%	57%	43%	31%
Elimination or reduction of subcontractors	30%	38%	33%	17%
Pause or cancellation of indirect expense spending	24%	27%	21%	25%
Increase in contracts/work orders	5%	3%	6%	8%

ABOUT THIS YEAR'S THEME:

THE BIG G: GROWTH (AND WINNING)

THE NEW COMPETITIVE EQUATION: SPEED + PROOF = WINNING

The rigor and agility of winning firms has paid clear dividends. Generally speaking, high performers feel more optimistic about the current GovCon environment. They achieve better compliance outcomes: they struggle less with indirect rates, more often rank themselves at higher CMMC levels, and feel more audit-ready. They have an easier time gaining efficiencies and managing budget constraints, rely less on teaming partners to fill their pipelines, and expect higher EBITDA multiples if their businesses were to be sold.

How do these winning firms distinguish themselves? Besides procedural excellence—more mature project controls and more integrated software stacks—they innovate and take smart risks. **Winning firms have more diverse portfolios, making them less reliant on a single stream of revenue.** They are unafraid to turn to external expertise, outsourcing many key roles or even entire departments across Accounting, Legal, and Business Development, as well as hiring external compliance experts more frequently. And they innovate eagerly, with higher levels of AI adoption and optimization.

There is a certain measure of suffering with success—more audits, more pressure to attract talent, more concern over regulatory changes—but by and large, these winners are exceptionally well-positioned to weather GovCon's many unexpected changes.

WHAT'S CHANGED OVER A DECADE OF THE GAUGE REPORT

In the last 10 years alone, government contractors have experienced a veritable laundry list of historic events: a global pandemic that reshaped the GovCon landscape, dizzying leaps in technological evolution, a major FAR overhaul, the introduction of DOGE as an overseeing body, the flood of private equity ownership, and general economic and political volatility. Not to mention the perennial challenges of operations management, prospective M&As, recruiting skilled talent, shifts in work culture, and so on.

Compared to those with lower win rates, firms with win rates over 50% are:

15% LESS
affected by procurement slowdowns

OVER 3x
more likely to rate themselves CMMC Level 3

27% LESS
worried about operational budget and funding constraints

24% MORE
likely to expect EBITDA multiples over 11x from a sale

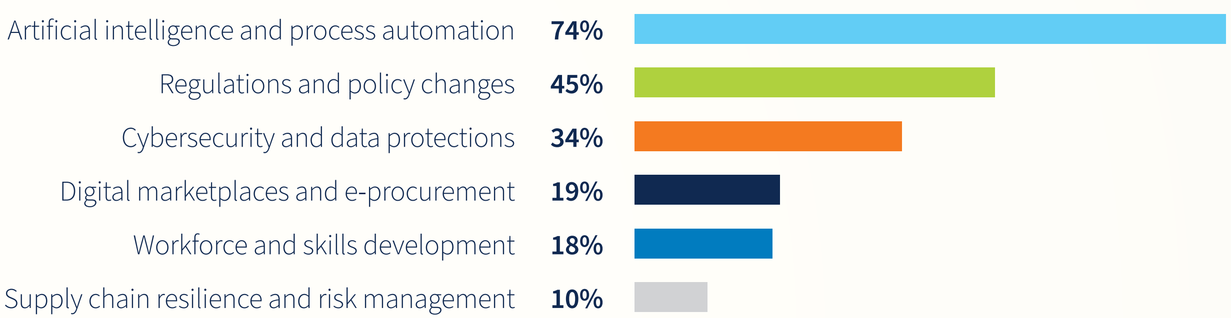
Much has changed—and much hasn't. For example, compliance has evolved with CMMC 2.0. But these requirements are largely derived from standards that have existed for years; this latest step simply codifies them as enforceable conditions for defense work. Similarly, Small or Midsize Businesses (SMBs) are facing incredible pressure from Small Business Administration (SBA) changes and some disallowance of grants and financial assistance drawdowns. But SMBs have always faced hurdles from tighter budgets and fewer resources. And with the advent of AI, these firms have a valuable tool in their arsenal to help ensure their continued survival and success.

From 2024-2026, attitudes toward AI have grown from fearful to cautious to curious to outright enthusiastic. Today, early AI adopters are reaping big benefits, navigating procurement slowdowns and regulatory demands with greater ease. AI maturity has become a key pillar of winning—an intimidating prospect for those still grappling with cost and implementation. But AI is just the latest (and, admittedly, most impactful) in a line of transformative technologies. Cloud-based tools and cloud-first policies also, in their time, represented a significant change.

Regardless of how the GovCon industry will evolve in the next 10 years, it remains true that informed, knowledgeable leaders are better **equipped to guide** their firms safely through unforeseen risks—and **keep their wins** going where others might fumble.

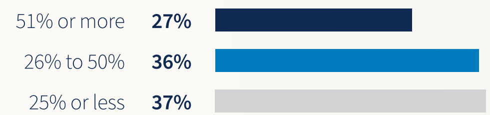
Within the next five years, which factors do you think will most transform GovCon?

(% ranked first & second shown)



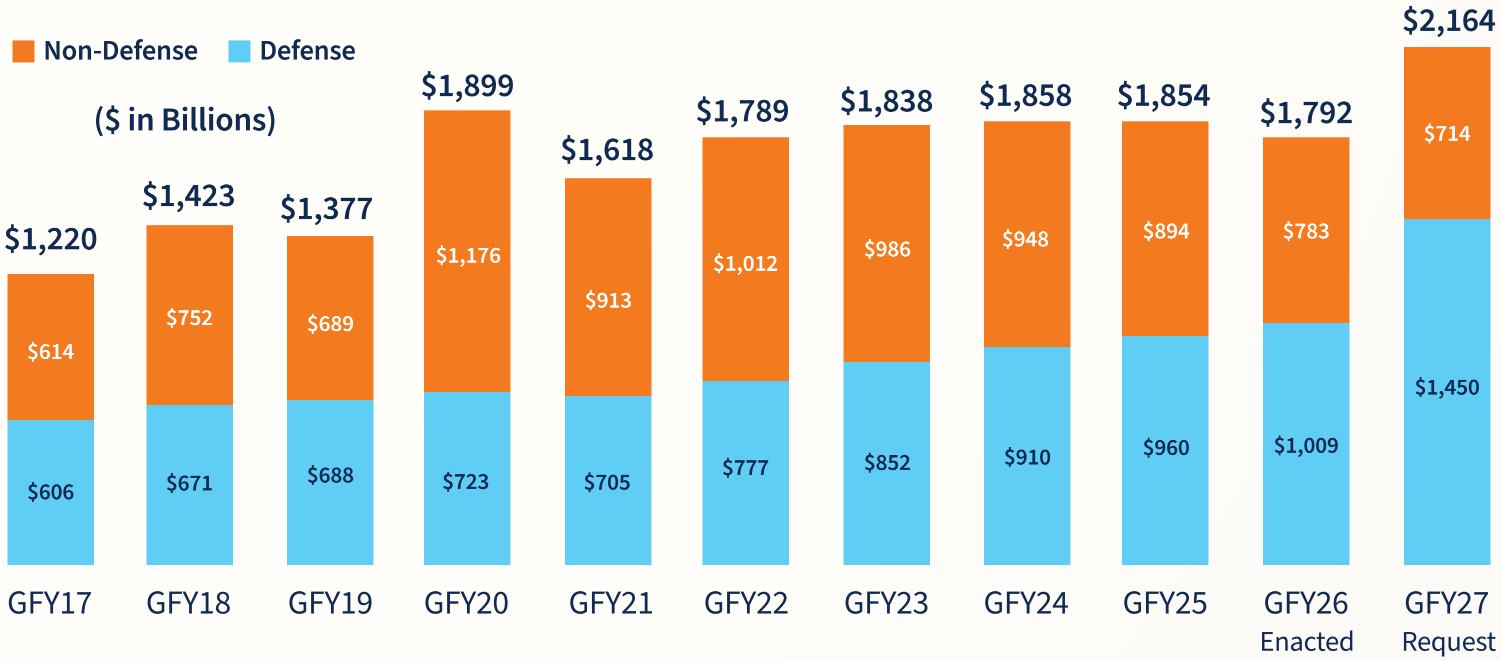
Respondents by AI maturity

Respondents by win rate



Respondents by net profit

2017-2026 FEDERAL DISCRETIONARY SPENDING GROWTH OVER A DECADE 47% INCREASE



10 YR. Growth All

$572B / 47%

10 YR. Non-Defense Growth

$169B / 28%

10 YR. Defense Growth

$403B / 67%

GFY27 Request +/-

Defense **+44%**

Non-Defense **-9%**

Sources FY 2016- FY 2025 based on OMB Historical Tables, 2026-2027 based on the FY 2027 President's Budget Request

NAVIGATE THE UNIVERSE OF RISKS LIKE A WINNER

Part of winning is knowing how to maneuver around risks. Generally, risks fall within a certain category, though some risks can span multiple. Below are a few considerations to keep in mind when designing, implementing, or enhancing your system of internal controls.

STRATEGIC RISKS

Economic and political landscape; competitive environment

- Market environment
- Mergers and acquisitions
- Research and development
- Product development
- Restructuring
- Market or geographic expansion
- Political environment
- Economic environment
- Natural or man-made disasters
- Demographic fluctuations
- Industry trends
- IT governance
- Strategic planning

OPERATIONAL RISKS

People, systems, processes, controls

- Third-party & vendor relationships
- Network and system app security
- Cybersecurity
- Regulatory & legislative compliance
- Segregation of duties
- Corruption and bribery
- Social media sentiment
- Policies and procedures
- Business continuity and disaster recovery
- Change management
- Supply chain management
- AI optimization

FINANCIAL RISKS

Market, credit, liquidity or operational failures

- Financial close & reporting process
- Data reliability and integrity
- Credit
- Liquidity
- Controls over management override
- Interest rates
- Pension liability
- Fraud prevention and detection
- People, processes, and systems
- Market volatility

BUSINESS RISKS

Governance, policies, procedures or practices

- Board structure and oversight
- Management oversight
- Succession planning
- Tone from the top
- Governance, risk, and compliance
- Internal & external communications
- Whistleblower hotline
- Reputational
- Employee Retention

Content adapted from the 3rd edition of the GAUGE Report

ABOUT THE SURVEY

RESEARCH METHODOLOGY AND CRITERIA

The GAUGE Report aims to capture a representative cross-section of the government contracting industry in its responses.

Findings are based on **1,204 contributors** gathered from a wide range and variety of self-identified government contracting professionals and related communities. Survey responses were collected in January and February of 2026. The survey, which took 15-20 minutes to complete, consisted of closed-ended questions.

ABOUT OUR CONTRIBUTORS

In examining detailed findings, the GAUGE Report will occasionally, for ease of discussion, employ specific terms to describe respondents according to a specific characteristic. To the right is a list of the most common descriptors that will be used throughout the report.

Government Contractor(s):

Any organization that contracts with federal government entities to provide goods or services. The terms **GovCon(s)**, **firm(s)**, **organization(s)**, **company/companies**, **business(es)** and **contractor(s)** may all also be used interchangeably.

Small or Midsize Business (SMB):

Any firm with an annual revenue at or below $25M.

Other Than Small Business (OTSB):

Any firm that does not classify as SMB.

Mature:

Having a well-developed operational practice or business area; most commonly used to describe AI/technology, project management, and resource management practices.

High-profit:

Used in this edition to describe firms with profit rates over 10%.

Low-profit:

Used in this edition to describe firms with profit rates at or below 10%.

High-win:

Used in this edition to describe firms with win rates over 50%.

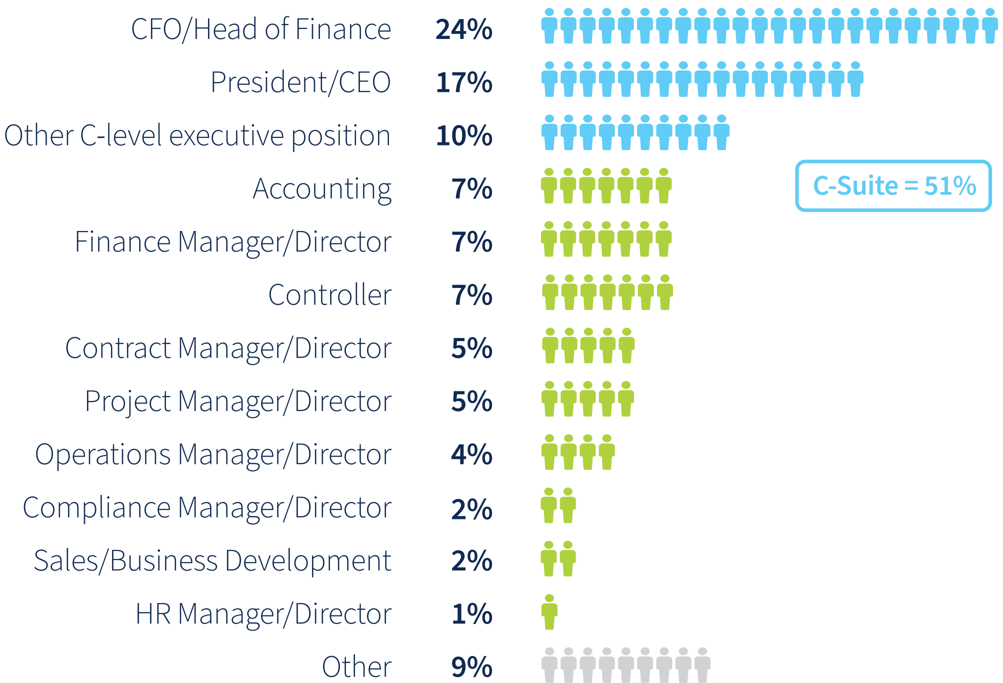
Low-win:

Used in this edition to describe firms with win rates at or below 50%.

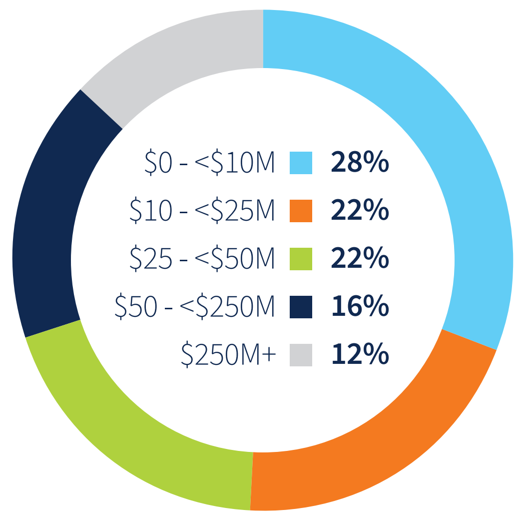
GAUGE Average:

Used in this edition to describe the average of all available data from the past 10 years, excluding 2026 data.

Respondents by Job Title

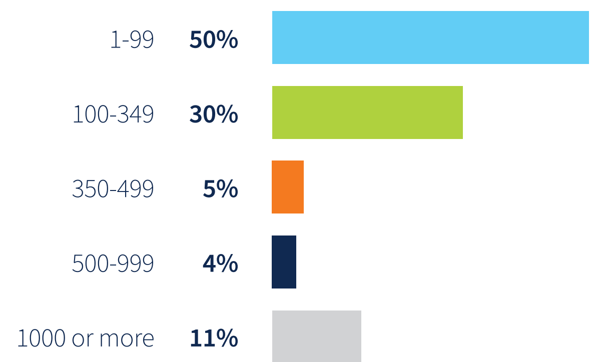


Respondents by Annual Revenue



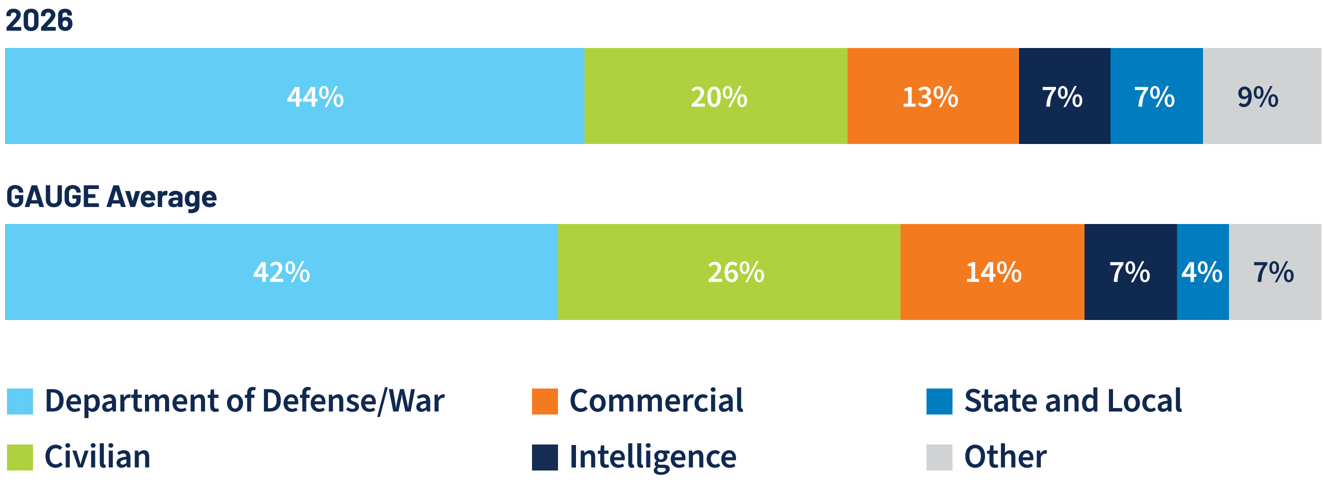
Just over half of this year's contributors are C-level executives, meaning that our findings reflect the views, concerns and priorities of **industry leaders and decision-makers.**

Respondents by Full-Time Employees



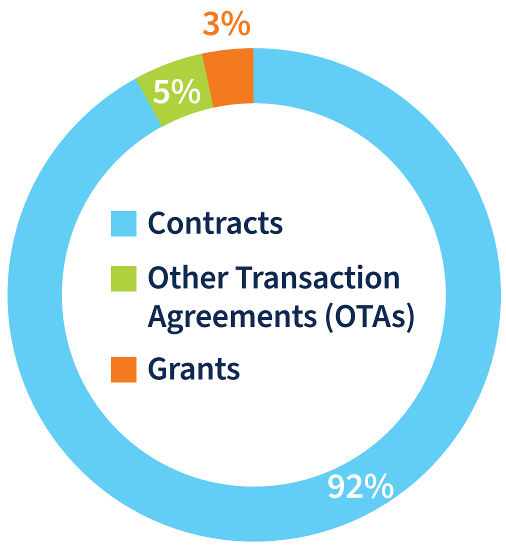
From your last fiscal year, what percent of your company's revenue came from the following type of clients?

(Provide % for each that apply)



Percent of revenue earned by source

(Mean percent)



When it comes to revenue, our respondents are almost evenly split, with 50% hailing from SMBs earning under $25M per year and 50% from higher-revenue OTSBs, making this report a meaningful representation of perspectives across **businesses of all sizes.**

The **largest source of revenue is still the U.S. Department of Defense (DOD)**, also known as the Department of War (DOW), accounting for 44% of all derived revenue. This percentage is the highest seen since 2023.

The vast **majority of income comes from contracts.** The share of revenue earned from other transaction agreements (OTAs) this year has risen to 5%, continuing a six-year trend of this percentage cycling between 3% and 5%. By contrast, grant revenue has dropped to 3% this year from 6% last year.

Civilian agencies remain the second biggest customer group, followed by commercial business, though both these sources have shrunk slightly from last year.

GAUGE

GOVERNMENT CONTRACT COMPLIANCE

Achieving compliance in government contracting requires an understanding of policy and regulatory changes. This section examines key elements of compliance, including CMMC and business system requirements on solicitations, top audit challenges, AI usage for compliance, and other compliance considerations.

COMPLIANCE KEY TAKEAWAYS FOR 2026

CMMC for DOD contracts is now live.

DOD contracts may now include Level 1 or Level 2 CMMC certification as a prerequisite for award. In the first phase of implementation, contractors may self-assess to satisfy Level 1 or Level 2 requirements. But with Phase 2 launching in November 2026 and CMMC Third-Party Assessor Organization (C3PAO) lead times stretching up to a year, contractors pursuing final Level 2 certification must act now. The good news? 48% assign themselves Level 2—an increase from last year, meaning more companies understand and can confidently assign themselves a CMMC level.

Business systems requirements on solicitations have changed.

Though accounting system requirements have risen in the last year, all other business systems requirements have dropped—especially CPSR and MMAS. The highest-revenue firms are the most likely to have all six systems.

Compliance-related contract delays affect half of firms.

Half of firms experience occasional setbacks to contract awards or payments due to compliance issues; almost 13% say this happens "frequently" or "always." AI-mature firms and high-profit firms less frequently experience delays; conversely, top-revenue firms tend to face more delays and complications.

AI usage for compliance has risen.

Most firms rely on internal policies to safeguard compliance; about half engage outside experts, mostly high-win, high-profit firms. The proportion of firms using AI for compliance has risen sharply from 14% last year to 36% this year.

Indirect rates and CAS compliance are the top audit challenges.

The proportion of firms citing indirect rates and CAS compliance as audit challenges is at a six-year high, while timekeeping and billing pose fewer issues. High-win, high-profit firms struggle less with rates but more with unallowables. OTSBs face more issues with CAS compliance and business systems; SMBs grapple more with billing and executive compensation.

Incurred Cost Submissions and provisional billing rates are audited most.

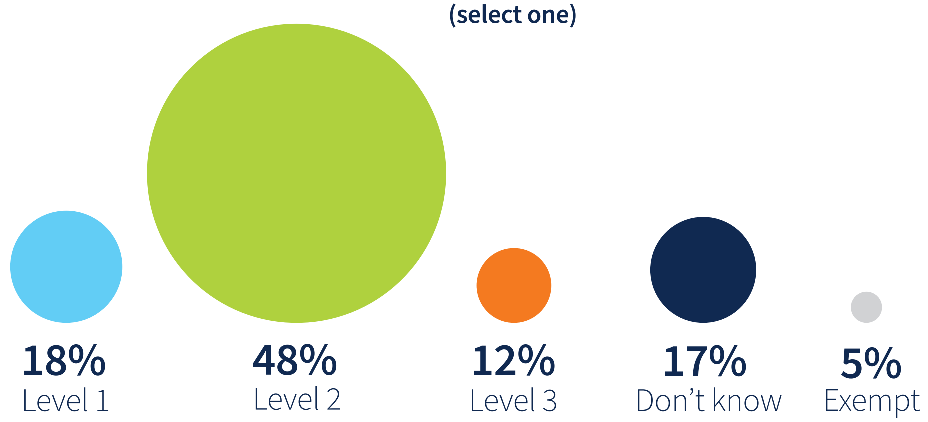
ICS remains the most common DCAA audit, and the frequency of PBR audits has risen steadily since 2022. On average, firms undergo 1.3 audits a year, though larger, more profitable firms experience more.

Claimed costs between $10K and $50K are questioned more often.

The average value of questioned costs is $31K, up from $25.2K last year. High-profit firms, the smallest SMBs, and the largest OTSBs have more frequently questioned costs exceeding $10K.

Which CMMC level would you assign your company?

(select one)

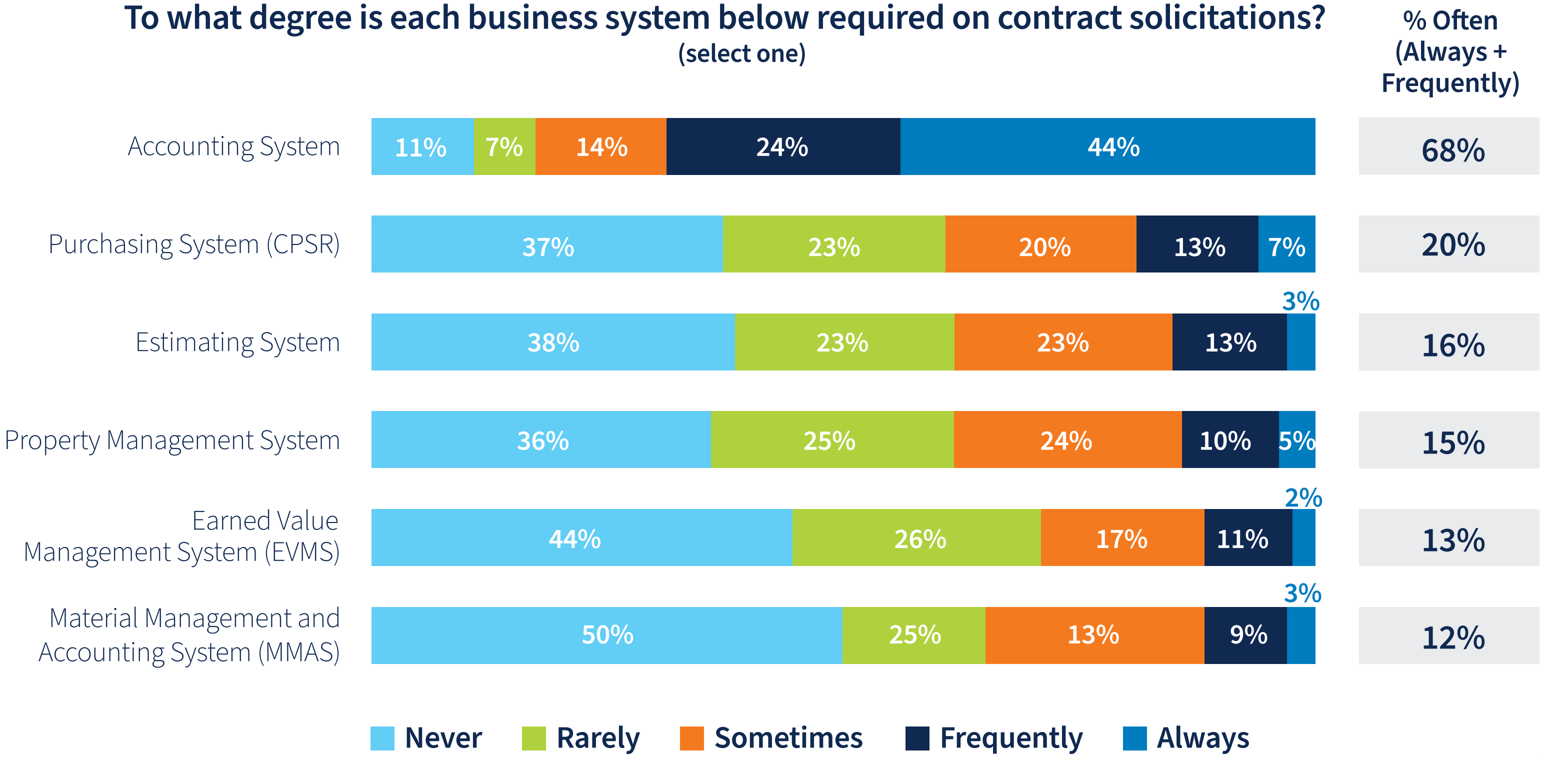


How often do compliance requirements delay or complicate contract awards or payments?

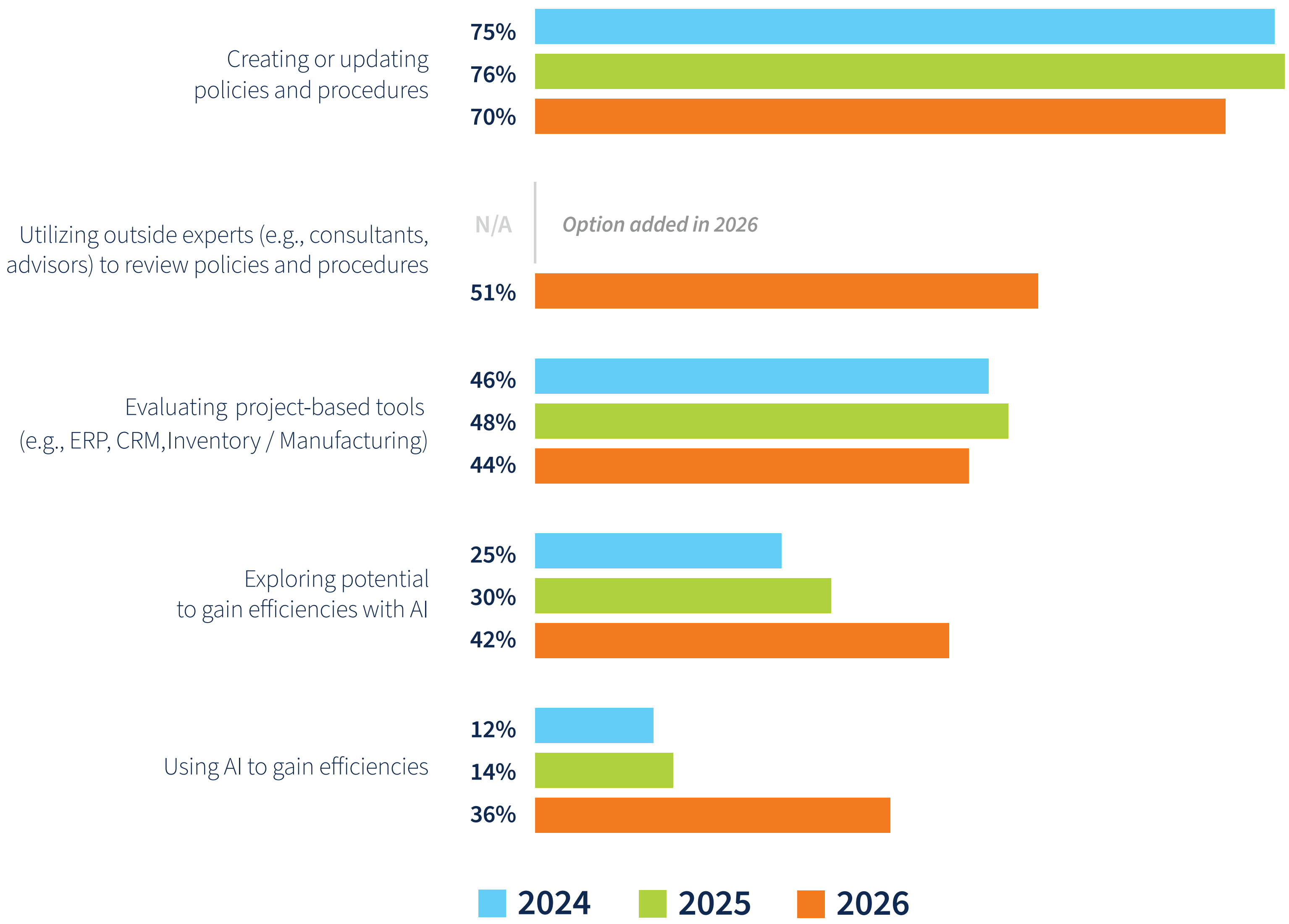
(select one)

To what degree is each business system below required on contract solicitations?

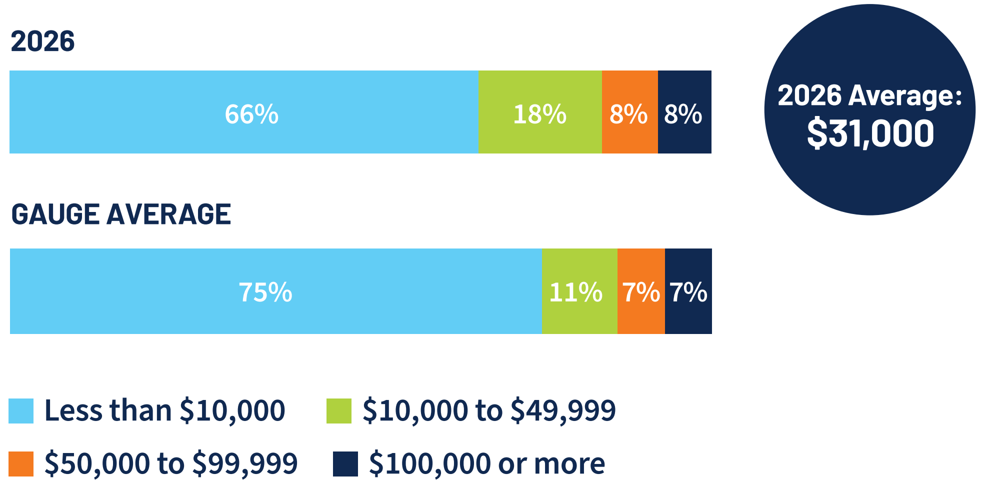
(select one)



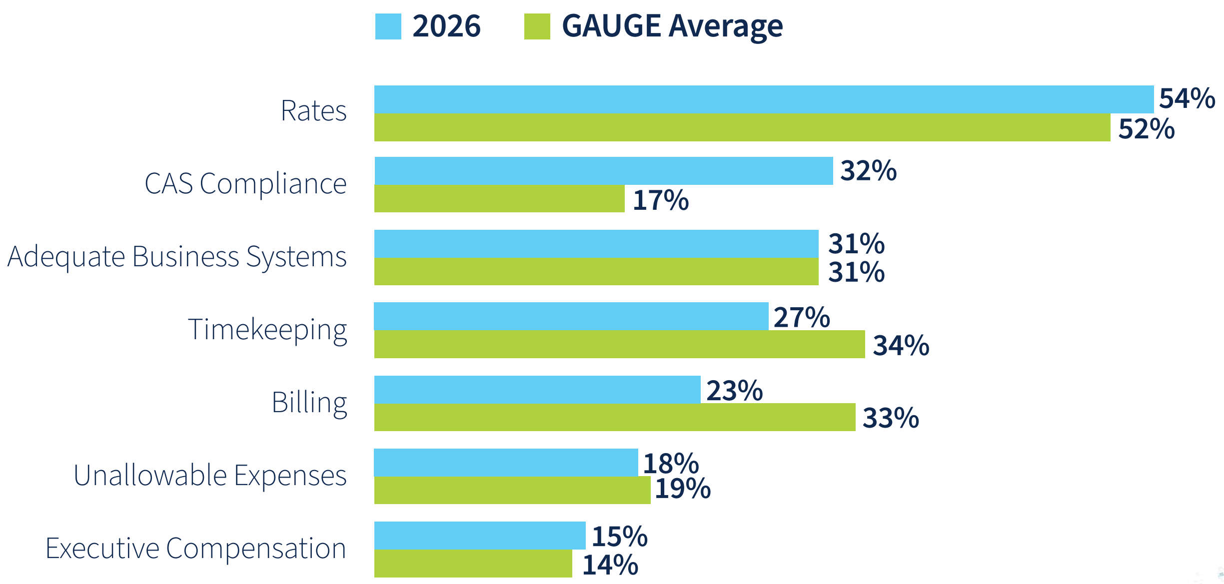
What steps is your company taking to satisfy compliance requirements more efficiently?
(select all that apply)



From your company's last Incurred Cost Submission, what was the approximate amount of questioned costs?



Which audit challenges are most significant for your business?
(% ranked first & second)



Within the last year, which types of audits has your company undergone?

				Revenue				FTE count	
TYPES OF AUDITS	2026		GAUGE AVG.	$0 - <$10M	$10 - <$25M	$25 - <$50M	$50M+	1-99	100+
Incurred Cost Submission	28%	▲	24%	7%	29%	40%	41%	16%	42%
Provisional Billing Rate	26%	▲	12%	7%	25%	33%	41%	15%	38%
Accounting System/ 1408	22%	▲	20%	12%	23%	24%	29%	17%	27%
Uniform Guidance	12%	■	n/a	10%	4%	15%	19%	9%	17%
Labor Floor Check	10%	▲	8%	2%	10%	9%	21%	5%	17%
Proposal	9%	■	9%	7%	10%	7%	12%	6%	13%
CAS Disclosure	8%	▲	5%	3%	2%	4%	19%	3%	13%
Purchasing System (e.g., CPSR)	8%	▲	7%	2%	8%	0%	19%	5%	11%
Material Mgt. and Accounting System (MMAS)	4%	▲	2%	5%	2%	0%	7%	4%	4%
Estimating System	3%	▲	2%	2%	2%	2%	7%	1%	6%
Earned Value Mgt. System (EVMS)	1%	▼	2%	0%	0%	0%	3%	0%	2%
Defective Pricing	0%	▼	2%	0%	0%	0%	2%	0%	1%
None	46%	▼	50%	73%	46%	33%	29%	61%	31%
Average number of audits	1.3		1.0	0.6	1.2	1.4	2.2	0.8	1.9

WHAT BUSINESS SYSTEM(S) WILL YOU NEED TO WIN?

A compliant business system can be the deciding factor to a winning proposal. There are six business systems that can appear in solicitation requirements, as mandated by the Federal Acquisition Regulation or—for contractors specifically working for the DOD/DOW—by the Defense Federal Acquisition Regulation Supplement (DFARS). The table shows the probable differences in system requirements between novice* and experienced prime contractors including subcontractors; experienced primes will have a higher level of project management responsibility that includes implementing a larger number of DFARS business systems based on solicitation requirements and the type and complexity of the associated contract.

	PROVISIONS AND CLAUSES		CONTRACTOR TYPE		
System	**FAR (all agencies)**	**DFARS (DOD)**	**Experienced prime**	**Novice* prime**	**Subcontractor**
Accounting System (AS)	16.301-3	242.7502(a) 252.242-7006	✓	✓	✓
Earned Value Management System (EVMS)	34.201 52.234-4	234.201 252.234-7002	✓		
Estimating System (ES)	15.407-5	215.407-5 252.215-7002	✓	✓	
Material Management and Accounting System (MMAS)	N/A	242.7203 252.242-7004	✓		
Property Management System (PM)	45.105 52.245-1	242.7000 252.245-7003	✓	✓	
Purchasing System (CPSR)	44.302 52.244-2	242.7005 252.244-7001	✓	✓	

*Novice = less than 3 years with the federal government and/or who has experienced uncomplicated regulatory type contracts.

Content adapted from the 2nd edition of the GAUGE Report

UNLOCK A BIG COMPLIANCE WIN WITH CMMC

CMMC is the DOD/DOW certification for ensuring contractors have adequate cybersecurity safeguards to handle sensitive information including FCI and CUI. Higher levels are more stringent, but no need for undue stress—for many, the requirements align with NIST standards that were first published in 2016 and have governed the industry for the past 10 years. CMMC simply represents an extension of those standards.

CMMC

	1 FOUNDATIONAL	2 ADVANCED	3 EXPERT
SCOPE	Basic safeguarding of FCI	Broad protection of CUI	Higher-level protection of CUI against advanced persistent threats (APTs)
SECURITY REQUIREMENTS	15 requirements outlined by FAR clause 52.204-21	110 requirements outlined by NIST SP 800-171 Revision 2	110+24 requirements outlined by NIST SP 800-172 Revision 2
ASSESSMENT REQUIREMENTS †	Annual self-assessment	Triennial assessment by a CMMC Third Party Assessment Organization (C3PAO) ††	Triennial assessment by the DCMA Defense Industrial Base Cybersecurity Assessment Center (DIBCAC): must have Level 2 status first

Content adapted from the 4th edition of the GAUGE Report

† In all cases, contractors must attest every year that controls are still present and functioning; any major changes—a merger, an acquisition, an IT overhaul—will require recertification.

†† Some organizations may be eligible to self-assess based on the type of information processed, transmitted, or stored on the contractor or subcontractor information systems.

CYBER RISK: CALCULATE YOUR SCORE

Cyber Quant is a Software-as-a-Service (SaaS) platform utilized by CohnReznick Advisory LLC to facilitate cybersecurity risk assessment that helps discover and quantify the financial impact of cyber risk and provides an understanding of organization's cybersecurity risk score and maturity.

INPUTS

Security Indicators
- questionnaires
- security controls from technical validation scripts

Business Assets

Demographic Information Contextual

Threat Landscape

IBM Cost of a Data Breach Report Data

Technology used by organizations

CYBER QUANT

Powered By

CohnReznick

OUTPUTS

Financial Impact: ($)

Cyber Risk Score: (# / 5.0)

Control Importance: (%)

Scan the QR code to find out how CohnReznick can help you begin your cyber assessment journey

Quantifies cyber risk in financial terms

Identifies security gaps across systems

Prioritizes mitigation based on impact and importance

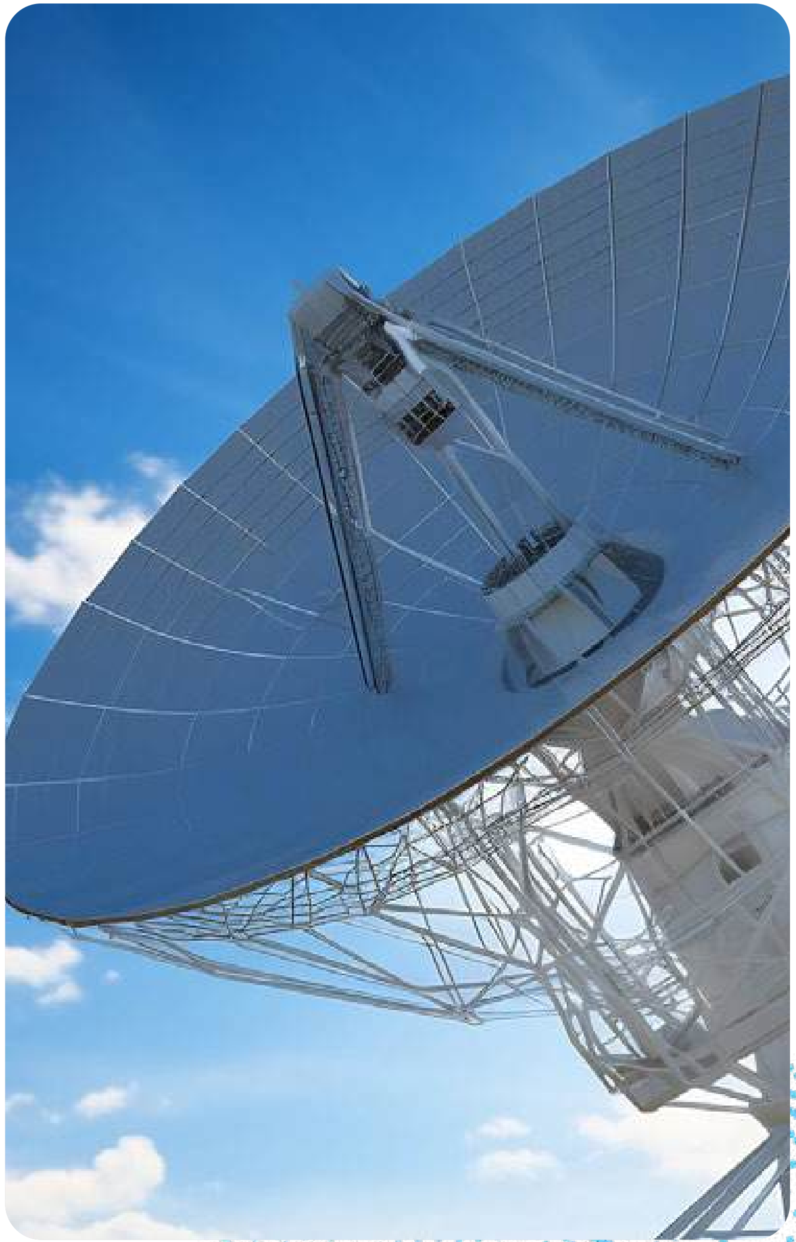
Strengthens IT and cybersecurity programs

10 YEARS OF GAUGE: COMPLIANCE THAT WINS

Compliance has always been the linchpin to success in government contracting. Over the last 10 years, a few key insights have emerged.

- **DCAA audit priorities are always evolving.** Incurred Cost Submissions have long been the DCAA's top audit focus. But over the past decade, the DCAA has aimed to cut time spent on ICS audits—hiring independent public accountants to clear backlogs, capping review timelines, prioritizing high-risk contractors, adopting new audit software and AI tools, and restructuring the agency. Business system audits surged after 2022, and the DCAA is likely to shift more attention to audits that will return a larger ROI for the federal government. The key takeaway? The best way to stay audit-ready is to maintain general compliance.
- **Trust wins contracts.** The introduction of the CMMC program in 2020 reflects the government's zero-trust approach to cybersecurity. The evolution of CMMC—its change from five to three levels in 2021, the publication of its final rule in FAR in 2024 and in DFARS in 2025, with full implementation slated for 2028—is a clear signal that CMMC compliance will be not only a key competitive differentiator, but also a cornerstone of national security.
- **AI is a key driver of compliance efficiency.** AI is accelerating compliance efficiency, with AI usage for compliance purposes among GAUGE contributors more than doubling in the past year. While AI can improve compliance efficiency, human oversight is indispensable. Strong policies and human-in-the-loop controls can mitigate risks such as bias, hallucination, and security breaches, particularly in light of the government's position of zero trust.

When it comes to compliance, forewarned is forearmed. Contractors with documented compliance systems see faster awards, fewer contract delays, and are better placed to pursue more complex—meaning more lucrative—opportunities.



GAUGE

ACCOUNTING

Maintaining a viable GovCon business requires transparent, rigorous processes for tracking, managing, and reporting on finance activities. This section explores industry trends about financial concerns, audit preparedness, profitability, and EBITDA.

ACCOUNTING KEY TAKEAWAYS FOR 2026

Finding new revenue sources is the top financial challenge.

Sourcing new revenue is a particular challenge for small, low-win, and low-profit firms; high-win firms, by contrast, are less concerned. Cash flow management and executive alignment issues are less pressing overall this year, though OTSBs and high-win firms are still concerned over the latter.

On average, firms perform internal audits once every eight months.

Midsize firms, navigating the uncertain space between “small” businesses and “enterprise” outfits, tend to conduct more internal audits per year.

Audit readiness is high across the industry.

40% of firms feel “very” confident that their systems and data could stand up to an unexpected audit, with midsize firms boasting the highest overall confidence ratings. Unsurprisingly, high-win, high-profit, AI-mature firms edge out their less successful counterparts in terms of readiness.

Net profit rates dropped but back to consistency over a decade.

Following a plunge in 2023 and a peak in 2025, the average net profit rate has settled at 7.6% this year. Almost 1 in 10 cite profits over 20% and the proportion of firms reporting losses is at an all-time low. AI-mature companies are particularly profitable, citing average margins almost double those of less advanced peers.

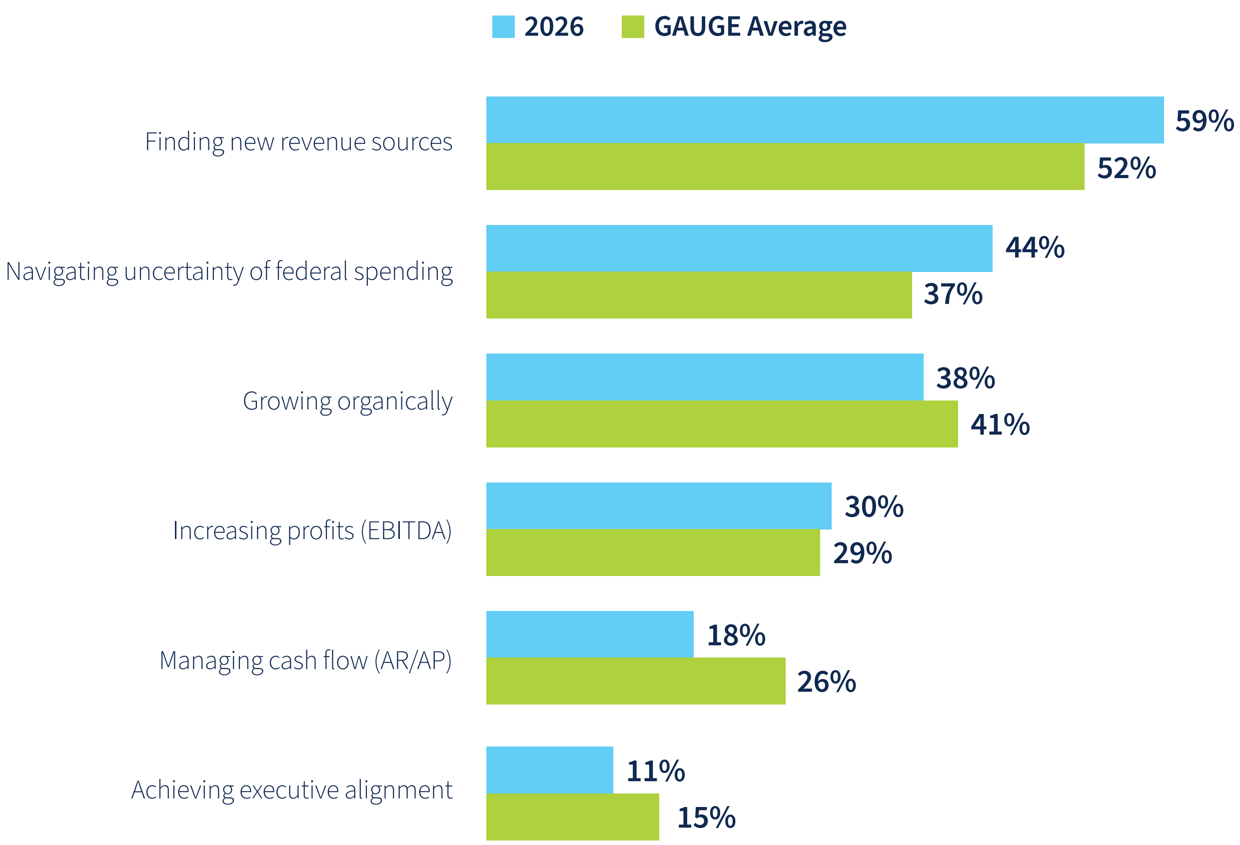
The average firm expects a 6x or 7x EBITDA multiple if sold.

About half of firms expect 5x to 10x EBITDA multiples. The largest businesses more often estimate multiples over 15x, while small businesses overwhelmingly anticipate multiples of 4x or lower.

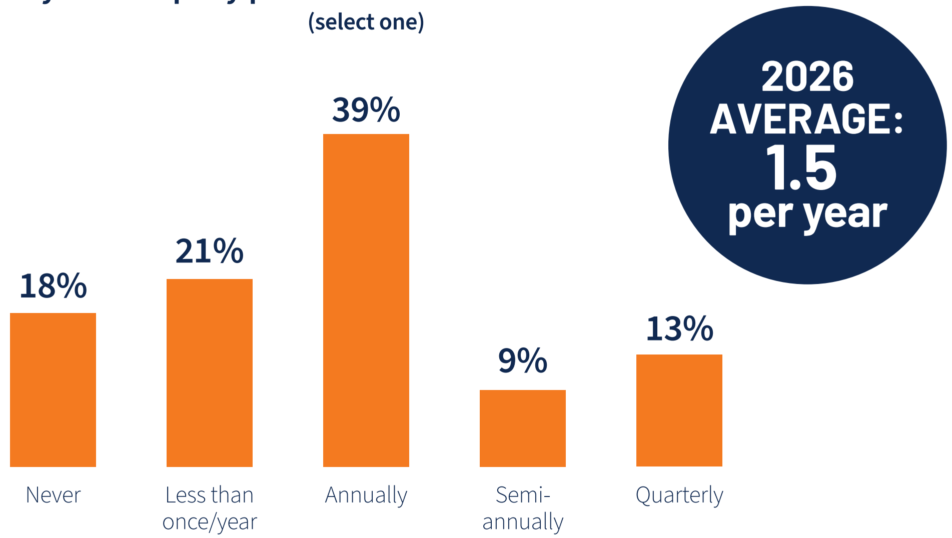
Spreadsheet use for forecasting remains common.

Nearly 60% of firms use spreadsheets for forecasting, particularly midsize firms. Alarmingly, 16% of firms have no forecasting software at all.

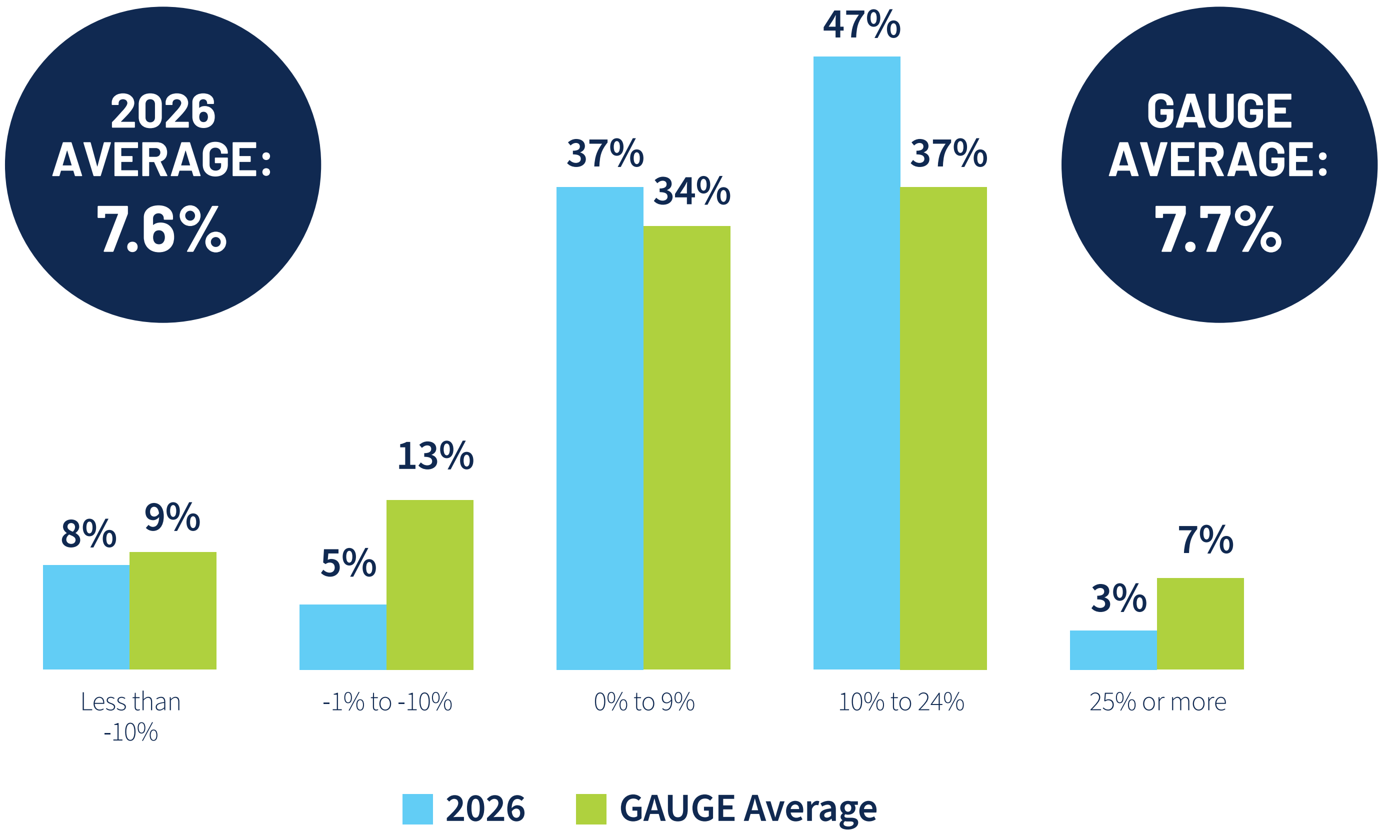
Which financial challenges are most significant to your company?
(% ranked first & second shown)



Beyond any required external audits, about how often does your company perform internal audit reviews?
(select one)

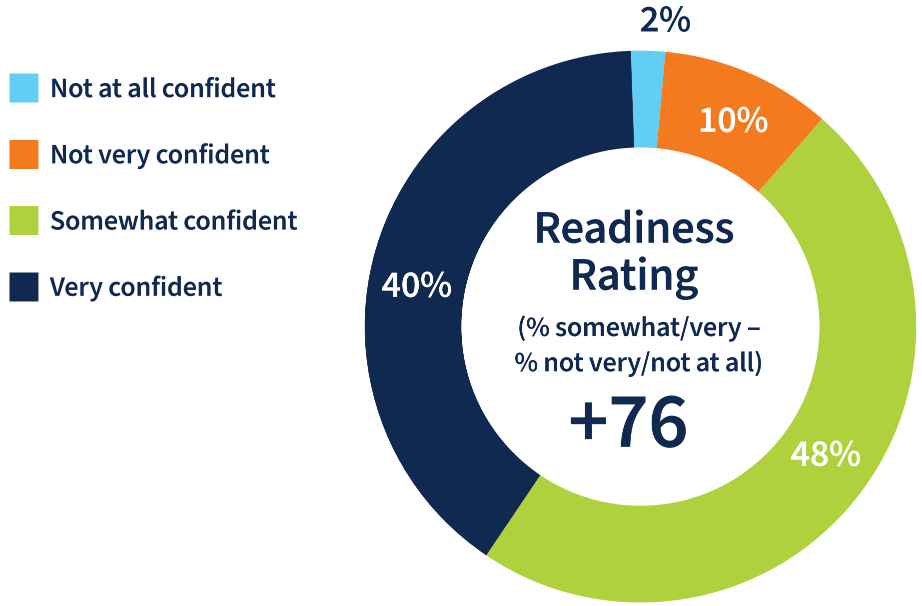


What is your company's net profit margin?
(select one)



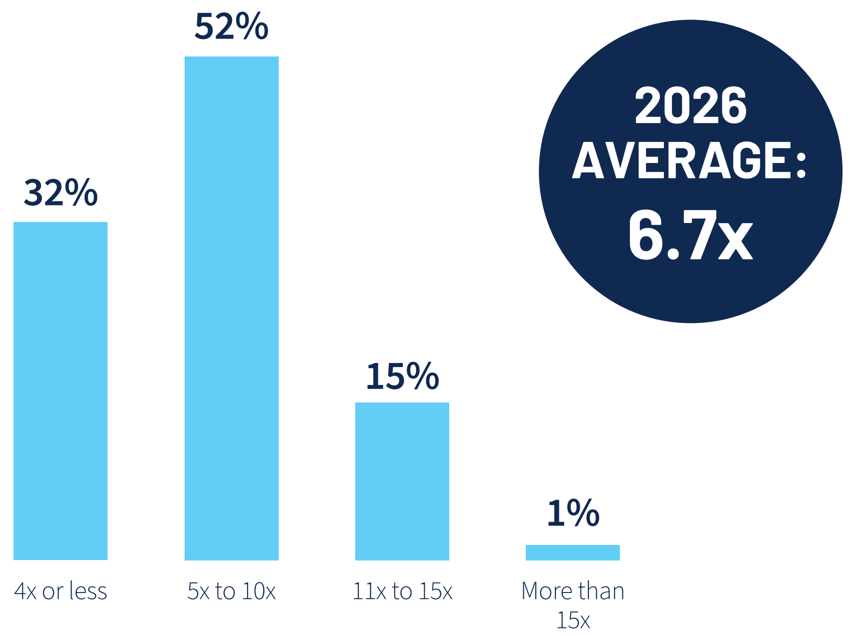
If your company was faced with an unexpected major audit or review tomorrow, how confident would you be that your systems and data would stand up without a scramble?

(select one)



If your company was sold today, about what EBITDA multiple do you think it would receive?

(select one)



FORECAST LIKE A WINNER

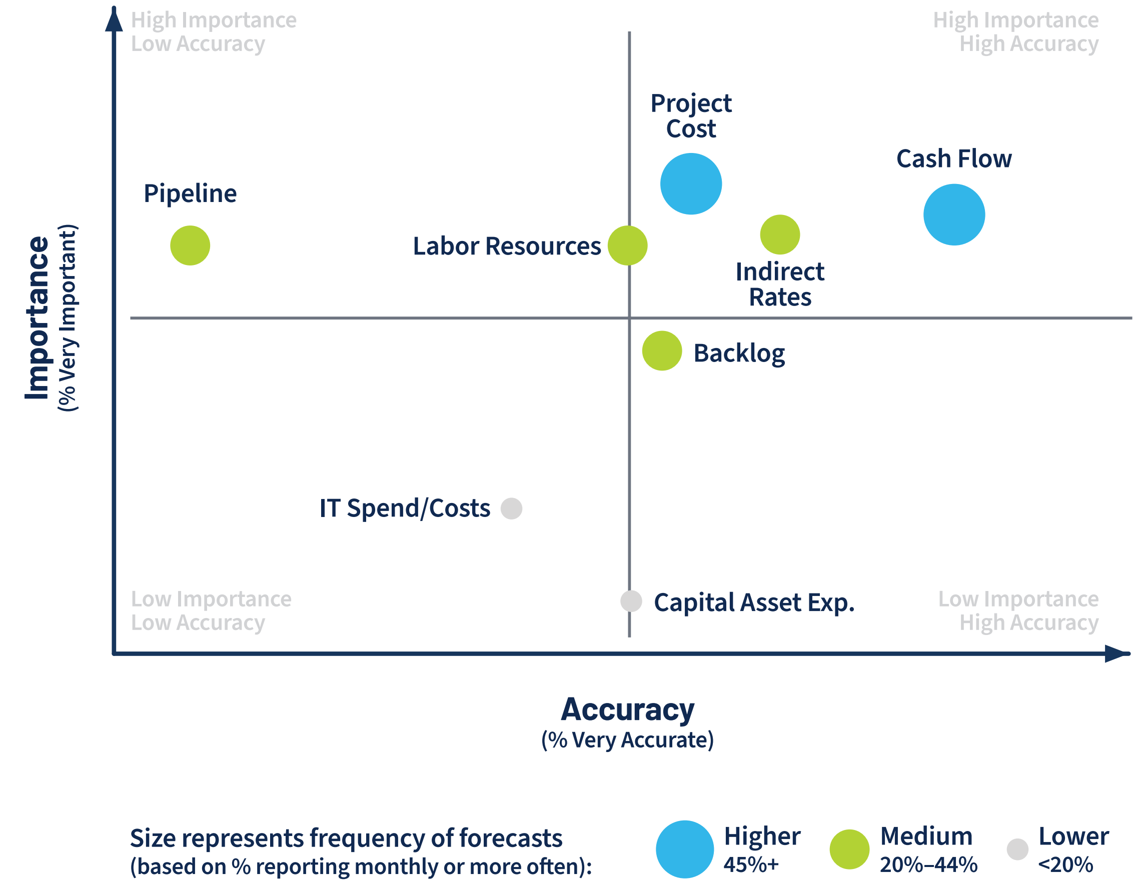
Pipeline is seen as an important forecast, but frequency and accuracy are low.

THREE STEPS FOR MORE ACCURATE FORECASTING

1 **Establish comprehensive forecasting policies.** Competition for projects and talent is fierce. Government contractors that are proficient at managing people, processes, and tools have the winning edge—and having clear, standardized policies for forecasting is critical to gaining that edge.

2 **Choose your planning approach.** Some firms rely on top-down inputs while others go bottom-up. Many use both. Each approach has its benefits and drawbacks, and both have their place in decision-making. Consider what works best for your firm.

3 **Gather your information.** Top-down planning needs clear business strategies, objectives, and plans from leadership. Bottom-up planning means gathering data on resource needs, risks, opportunities, and constraints from implementation teams.



Content adapted from the 7th edition of the GAUGE Report

WHY IMPROVING CASH FLOW FORECASTING IS A WINNING MOVE

Forecasting cash flow is more than just a financial exercise; it's the cornerstone of responsible decision-making. Understanding your firm's cash flow means having the stability and capability to deliver successful projects, hire and retain quality talent, plan business expenditures, and fund compliance, R&D, and Marketing.

Investing the time, effort, and spend into developing accurate forecasts pays off. Here's why.

SIX REASONS TO SHARPEN YOUR CASH FLOW FORECASTING

1. **Improved cash management.** A clear line of sight into the timing and amount of cash inflows and outflows allows firms to better plan expenditures, manage working capital, and maintain necessary liquidity.

2. **Fulfilling financial obligations.** Government contracts often involve complex payment terms, including progress billing, milestone payments, and reimbursement for incurred costs. Understanding upcoming payments enables firms to meet financial obligations to suppliers, employees, and subcontractors in a timely way while also informing operational planning.

3. **Meeting working capital needs.** Most government contracts require contractors to fund project costs upfront before receiving payment; accurate cash forecasting lets contractors better manage working capital requirements. Plus, GovCons can make data-driven funding decisions about borrowing, managing credit, and financing options to maintain uninterrupted project execution.

4. **Improve strategic planning.** With accurate cash flow forecasts, contractors can assess how well resourced they will be, and determine the financial feasibility of pursuing new contracts, expanding operations, upgrading equipment or technology, or investing in research and development.

5. **Stronger risk management.** Better cash flow visibility makes identifying potential cash flow gaps more straightforward. Firms can anticipate potential shortfalls or periods of reduced liquidity, and take proactive measures such as cost-cutting, negotiating supplier payment terms, and securing additional funding to mitigate these risks.

6. **Streamlined compliance and reporting.** Accurate cash flow forecasting is essential to fulfilling GovCon compliance and reporting requirements, and to demonstrating the strong financial accountability needed to win over government agencies.

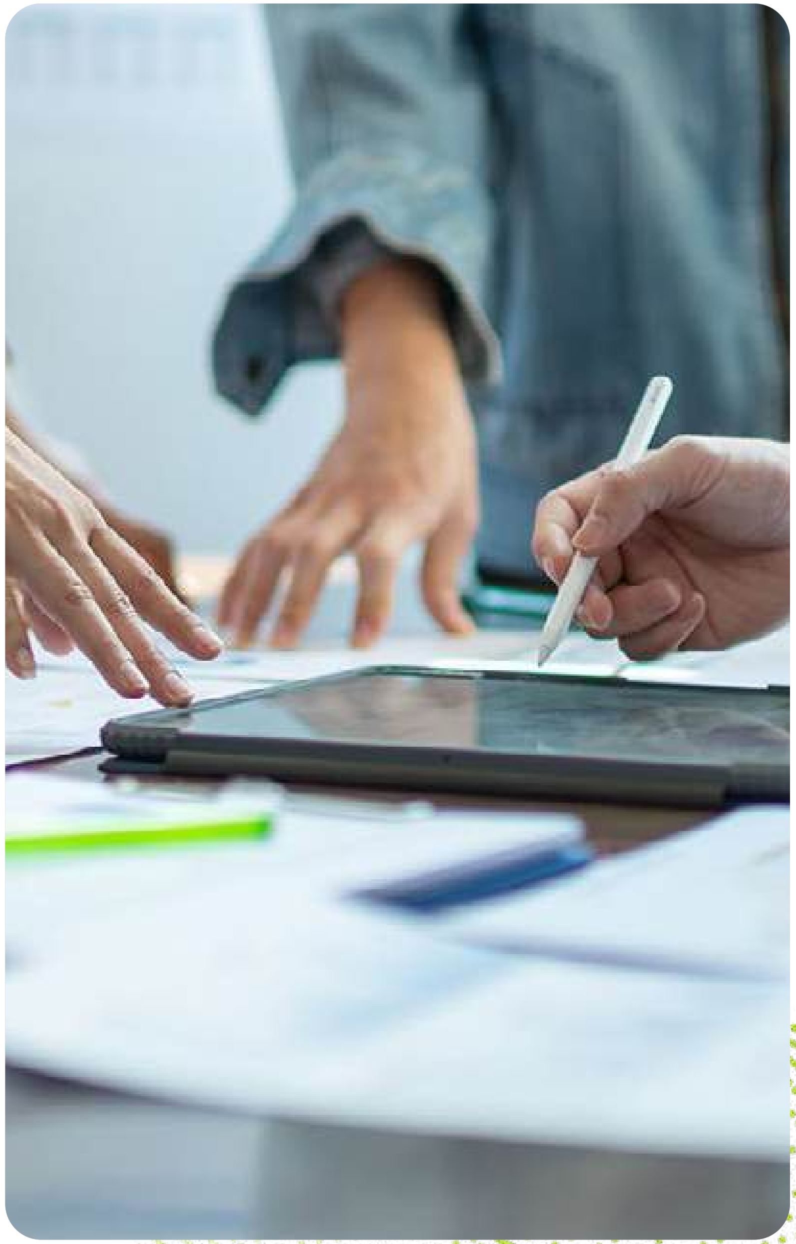
Content adapted from the 7th edition of the GAUGE Report

10 YEARS OF GAUGE: ACCOUNTING THAT WINS

In the last 10 years, the government's scrutiny of firms' profits, contracts, overhead and spending has intensified. The GovCon accounting landscape has evolved.

- **Economic pressures demand more budgetary rigor.** The global pandemic in 2020 drove a sharp rise in inflation, and the prevalence of Fixed Price contracts meant many unexpected risks for contractors. Interest rates have affected firms' ability to mobilize projects, and profit margins have only recently begun to recover. With policy changes favoring Fixed Price contracts and an increasingly crowded contractor landscape, firms must carefully balance competitiveness against profitability when pricing and budgeting.
- **Automation is improving financial efficiency.** The industry has steadily modernized accounting practices, shifting away from manual processes and toward automation of AR/PR/AP functions like delivery and tracking, payment acceptance, and posting and reconciliation. This measured progress has led to improved financial efficiency metrics, with DSO and account cycle times dropping over the lifetime of the GAUGE Report.
- **Resilience hinges on strong cash flow analytics.** Continuing Resolutions (CR) spell slowdowns for the GovCon market. The past three years have seen three CRs, with the latest in 2025 directly affecting the FY26 defense budget. For GovCons navigating extended periods of uncertainty, having predictive AI-enabled forecasts means being able to prepare for delays, model different scenarios, and manage staffing requirements and burn rates.

Contracting officers value reliable billing, low DSO, and clean audits as markers of financial discipline and health. Exceptional accounting hygiene and strong fiscal acumen—supported by reliable AI-enabled forecasting—can help GovCons secure finance wins.



GAUGE

UTILIZATION

Effective utilization is the cornerstone of GovCon. This section dives into key trends for project management maturity, resource forecasting, headcount changes, outsourcing behavior, and software usage.

UTILIZATION KEY TAKEAWAYS FOR 2026

PMO maturity has significant room for improvement.
This year, respondents were asked to describe their Project Management Office (PMO) practices instead of self-identifying by maturity level. As a result, a smaller proportion of respondents cite optimized, fully mature PM practices while a larger proportion admit to ad hoc, immature practices. High-win, high-profit, high-revenue companies are more likely to be more optimized—as are midsize firms preparing to scale into OTSBs.

Winning new contracts is the top operational challenge.
Nearly 75% of firms struggle to win new work, while over 50% cite pricing challenges. SMBs struggle more with compliance costs, while top earners grapple more with pricing and efficiency challenges. High-win, high-profit firms face fewer challenges overall—though top winners are markedly more worried about the lack of qualified talent.

Resource visibility rarely extends beyond six months.
The average forecasting horizon is just over four months. The vast majority—85%—can only forecast staffing and skills needs for up to six months, though high-revenue, high-win firms more frequently forecast further.

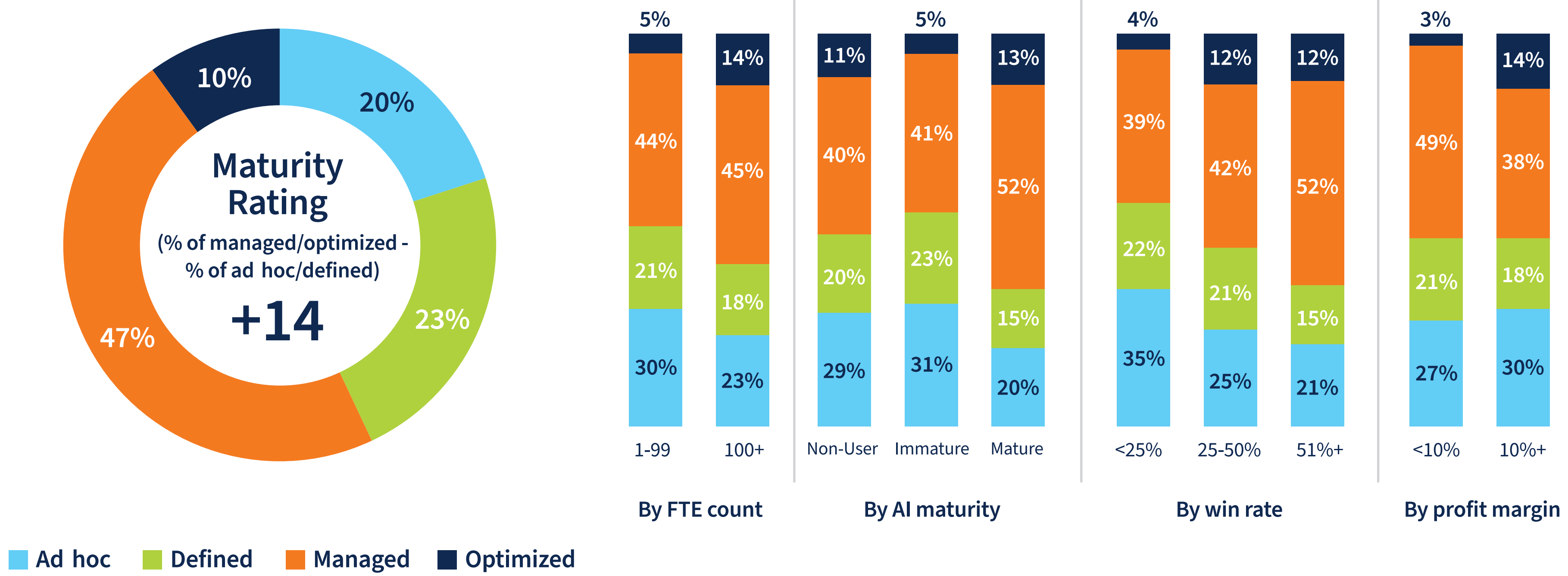
FTE count has dropped across nearly every function.
Staffing cuts have hit nearly all backoffice business areas; only BD and executive FTE counts have grown. Project roles remain the most heavily staffed. High-revenue, high-profit, high-win firms prioritize staffing for Accounting, HR, Recruiting, and Legal roles, highlighting the significance of both talent and compliance.

Core project and business roles are rarely outsourced.
About 90% of firms keep executive leadership, project, and resource management roles internal—a clear illustration of the importance of these functions. Conversely, most firms leverage external legal expertise, with 3 in 5 outsourcing entirely, likely due to the high cost of in-house counsel.

Manual resource management remains a bottleneck.
Spreadsheets are still widely used for Resource Management (RM), even among top-revenue, high-win firms—though these firms are more likely to pair spreadsheets with dedicated ERP and RM tools.

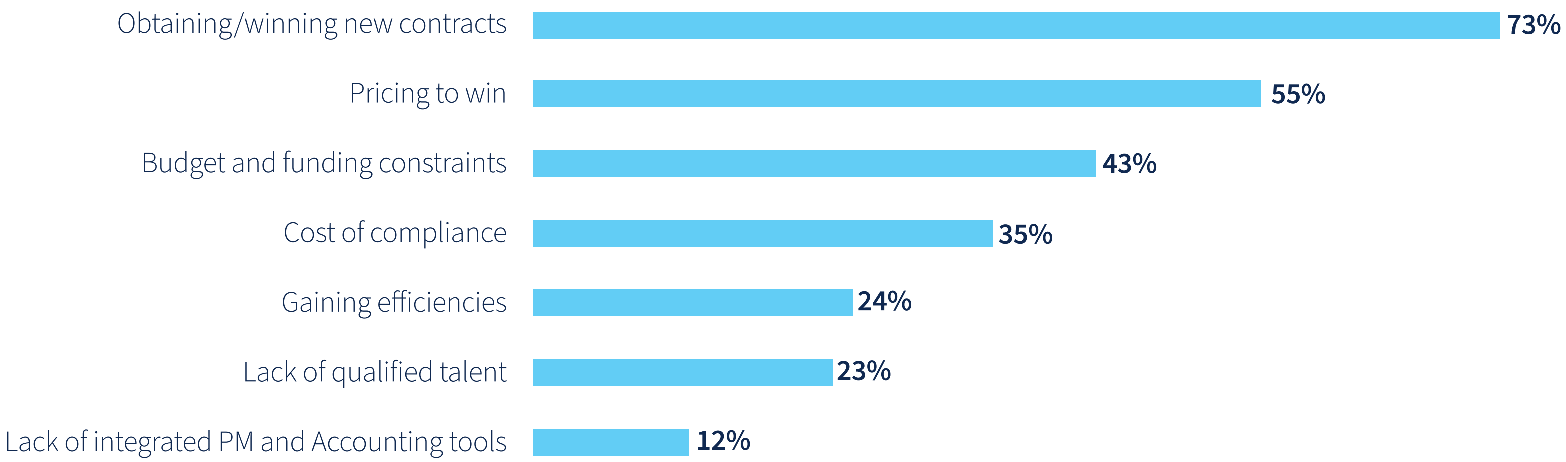
Which best describes your company's project management office (PMO) or project control function?

(select one)



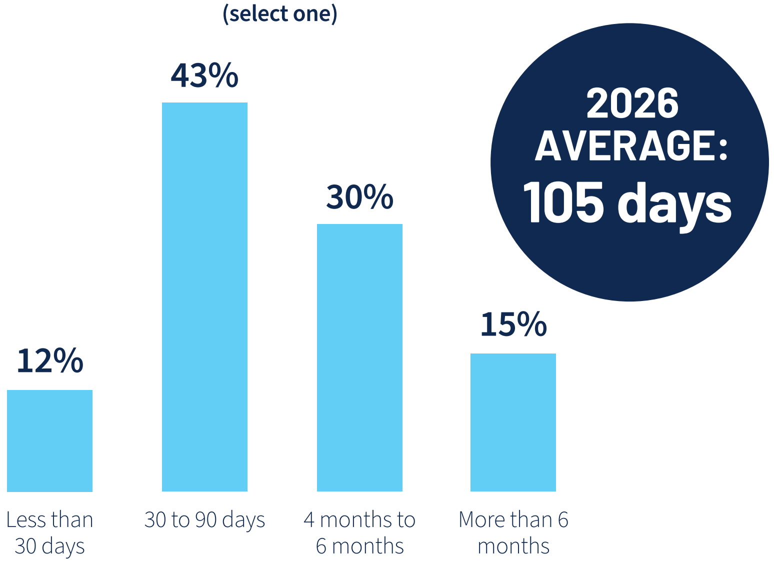
Which operational issues are most concerning to your GovCon organization?

(% ranked first & second)



About how far in advance can your company accurately forecast your staffing and skill requirements?

(select one)



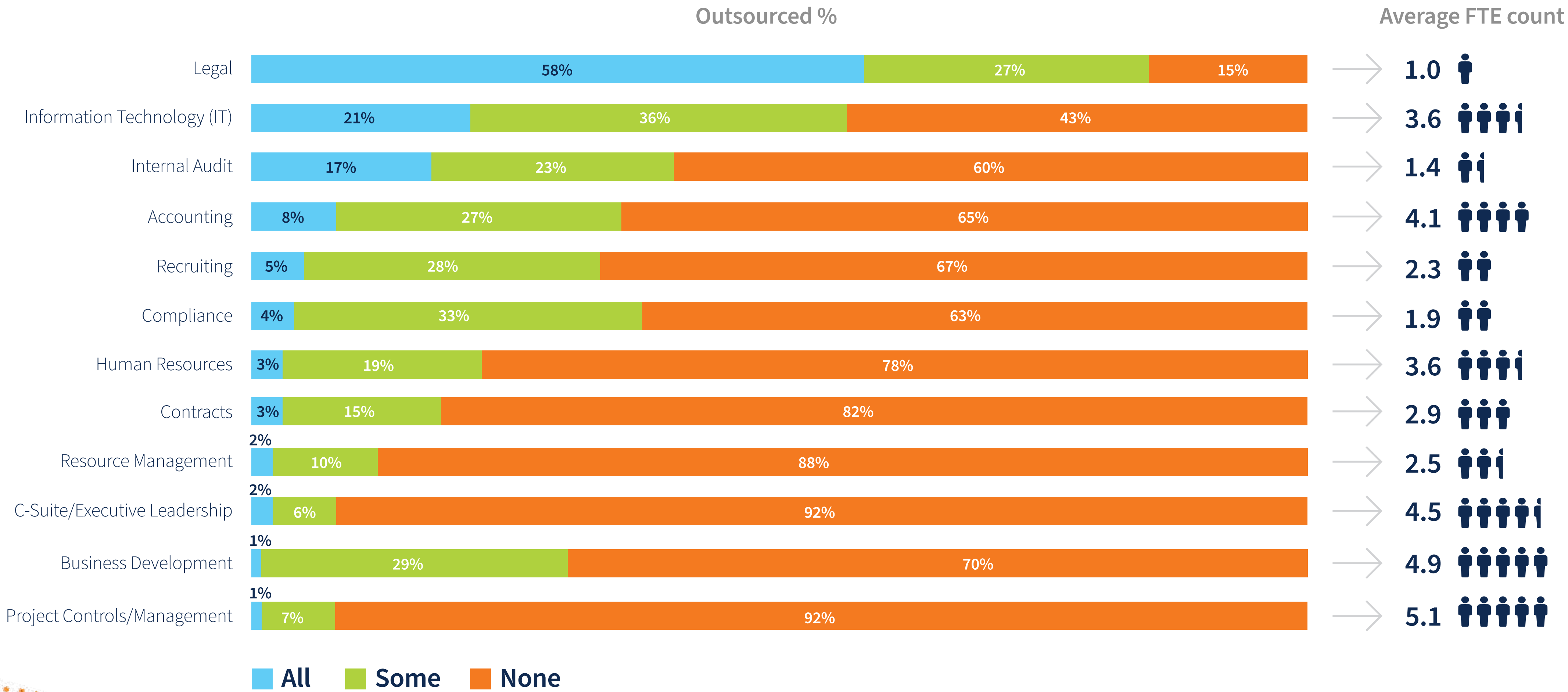
For each function, indicate the number of full-time equivalent (FTE) employees in your company

(Mean number of employees shown)

			By previous years					Revenue				FTE Count	
Professional Function	2026		2025	2024	2023	2022	2021	$0 - <$10M	$10 - <$25M	$25 - <$50M	$50M+	1-99	100+
Project Controls/Management	5.1*	▲	3.4	4.1	3.5	2.3	3.3	2.5	3.7	4.1	9.6	2.7	7.4
Business Development/Sales	4.9	▲	4.6	4.7	4.2	3.3	4.4	2.2	3.3	3.8	9.5	2.3	7.4
C-Suite/Executive Leadership	4.5	▲	3.9	–	–	–	–	2.3	3.7	4.6	7.4	2.8	6.3
Accounting	4.1	▼	4.9	4.8	4.7	3.4	4.3	1.7	2.5	3.7	8.1	1.7	6.5
Information Technology (IT)	3.6	▼	4.5	5.0	4.3	2.8	3.7	1.0	1.9	3.1	7.7	1.4	5.6
Human Resources	3.6	▼	3.9	4.1	3.5	2.5	2.9	1.0	2.3	2.7	7.6	1.2	5.7
Contracts	2.9	▼	3.7	3.8	3.3	2.5	2.8	1.7	2.1	2.2	5.3	1.5	4.3
Resource Management	2.5	▼	3.1	–	–	–	–	1.0	3.0	2.1	3.7	1.7	3.3
Recruiting	2.3	▼	3.0	3.5	2.8	1.9	2.3	1.1	1.9	1.9	4.2	1.2	3.4
Compliance	1.9	▼	2.6	2.7	2.0	1.4	1.8	1.3	1.6	2.0	2.5	1.1	2.6
Internal Audit	1.4	▼	1.9	2.1	1.5	0.8	1.1	0.7	1.7	1.3	1.7	0.7	1.9
Legal	1.0	▼	2.0	1.9	1.3	0.8	1.3	0.5	0.8	0.6	1.7	0.4	1.5

* Asked for Project Controls/Management combined in 2026

For each function below, does your company outsource any personnel?
(select one)



HOW TO BUDGET YOUR WAY TO MORE WINS

Budgeting and forecasting is always a challenge for organizations. Here are 10 tips to help you create and meet your annual budget.

SET AND MEET YOUR BUDGET WITH THESE 10 TIPS

1. **Team kickoffs.** Bring key stakeholders into a budgeting cycle kickoff to define timelines, parameters, and goals.
2. **Guidelines.** Define clear guidelines for methodology, timelines, tools, and scope.
3. **Access and control.** Provide the right stakeholders with the visibility and control they need over the budget.
4. **Flexible reporting intervals.** Choose a tool that can present information by month, quarter, and year.
5. **Calibration.** Align your budget to the scope and timing of your projects.
6. **Scenario modeling.** Choose a tool that can model your best, worst, and most likely cases.
7. **Manage variances.** Account for Fringe, OH, M&H and G&A rate variances with a tool that can handle project-specific rates, ceilings, and forecasts.
8. **Review and iterate.** Review your budget actuals against your forecasts every month and recast as necessary.
9. **Maintain.** Update the budget to incorporate any significant changes in your business environment.
10. **Benchmark.** Compare benchmarks like revenue per FTE, wrap rates, and G&A against others in the industry.

Content adapted from the 1st edition of the GAUGE Report

FIND YOUR FIRM'S WINNING FINANCIAL PLANNING STRATEGY

There are two approaches to financial planning: top-down and bottom-up. Understanding the benefits and drawbacks can help determine which approach might work best for your firm—or whether you need a blend of both.

WHAT IS TOP-DOWN PLANNING?

In top-down planning, corporate strategy and business objectives set by leadership drive the creation of high-level plans, including financial plans. These plans are then cascaded down to the rest of the organization to develop and execute a detailed course of action for achieving the desired goals.

THE BENEFITS OF TOP-DOWN PLANNING

- Buy-in from C-suite leaders is typically assured
- Forecasts are quicker to generate and cycle time is shorter
- Better alignment with corporate strategy

THE RISKS OF TOP-DOWN PLANNING

- C-suite may not fully understand project-level risks
- Resistance from project managers due to sense of limited ownership
- Can limit agility at operational level

WHAT IS BOTTOM-UP PLANNING?

Bottom-up planning, sometimes known as grassroots planning, is driven by data gathered from stakeholders directly involved with operations and project delivery. Feedback about resourcing needs, pain points, and risks is used to develop estimates that roll up into high-level financial plans.

THE BENEFITS OF BOTTOM-UP PLANNING

- Project teams work to establish a cost and schedule forecast
- Fosters better employee-level buy-in and engagement
- Higher level of accuracy

THE RISKS OF BOTTOM-UP PLANNING

- Lack of alignment with corporate strategy and goals
- Longer cycle time due to more granular level of detail needed
- Risk of siloing or discontinuity

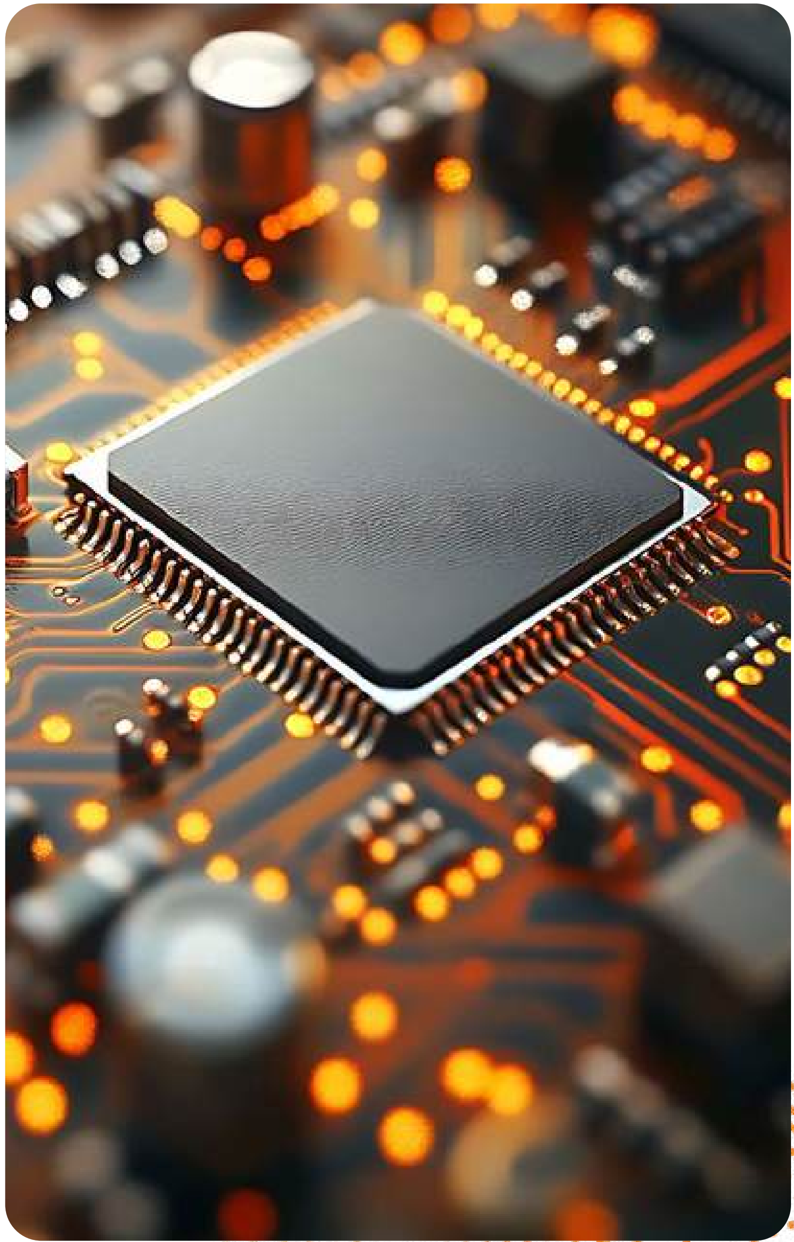
Content adapted from the 7th edition of the GAUGE Report

10 YEARS OF GAUGE: UTILIZATION THAT WINS

Firms that deliver on time, on budget, and within scope earn repeat business, yet PMO utilization remains less than optimal. The past decade has revealed areas of opportunity for firms to double down on rigor.

- **PM and RM are steadily maturing.** Government contracting is, at its core, a project-based industry. External pressures like rising costs and stricter compliance requirements have demanded sharper PM and RM discipline. Over the lifetime of the GAUGE Report, firms have increased efforts to mature and centralize PMOs through improvements in tech. But there is still room for improvement: RM is a top challenge year after year, and the industry continues to rely heavily on spreadsheets.
- **Resource challenges persist.** Following a broad surge from 2022 to 2024, and more targeted growth in 2025, indirect FTE count has dropped across most functional areas except for BD and executive leadership. Resourcing, retention, and compensation are perennial hurdles exacerbated by constant budget constraints. Concerns over aging workforces are also rising as industry veterans begin to exit, taking valuable institutional knowledge—and relationships—with them.
- **AI is a critical enabler of PMO.** Amidst leaner workforces and budgets, AI can both amplify the efficiency of existing staff and facilitate data-driven PM and RM. Historically, firms have lacked real-time visibility into allocation and forecasting. But predictive AI-enabled tools allow firms to more easily monitor project health without driving up G&A costs, provided there is clean, centralized data to use—something AI can also streamline.

For 10 years, the GAUGE Report has shown that winning is one half of the GovCon success equation. Delivering is the other. Firms with stronger utilization practices deliver better outcomes—and delivering today means winning tomorrow.



GAUGE

THIS YEAR'S THEME: **GROWTH**

Growth means winning, and winning empowers growth. This section highlights benchmarks and behaviors across the industry, including sentiments about the current business environment, win rate changes, challenges, and how procurement changes in federal government contracting are affecting GovCons.

GROWTH KEY TAKEAWAYS FOR 2026

Confidence in federal contracting has declined.
Nearly 60% of all respondents report feeling less confident; small businesses, lower-profit, lower-win firms are especially doubtful. Midsize firms are the one exception; 1 in 10 feel “somewhat” or “much” more confident than last year.

After a five-year rise, average win rate has dipped.
A higher proportion of firms win below 25% of bids, while the portion winning over 75% of bids is at its lowest since 2021. AI-mature firms are more than two times more likely than less advanced peers to achieve top win rates, underscoring the importance of tech and innovation.

Procurement slowdowns have affected 70% of firms.
Over half say contracts and work orders have shrunk, though AI-mature firms are far less affected. The largest enterprises are more often impacted by layoffs, lost relationships, and in response have curtailed indirect spending.

On average, 10% of contracts are canceled or descoped.
Cancellations and descoping correlate with lower win rates and profit margins. Luckily, nearly half of firms say only 5% of contracts are affected. Small businesses are especially vulnerable: over a quarter see higher-than-average disruptions.

Capture processes are consistent, but rarely optimized.
Just over half of firms follow a consistent capture process; a quarter do so inconsistently. Midsize firms, in particular, excel: over 70% boast consistent processes, and AI-mature, high-win, high-profit firms lead less advanced peers.

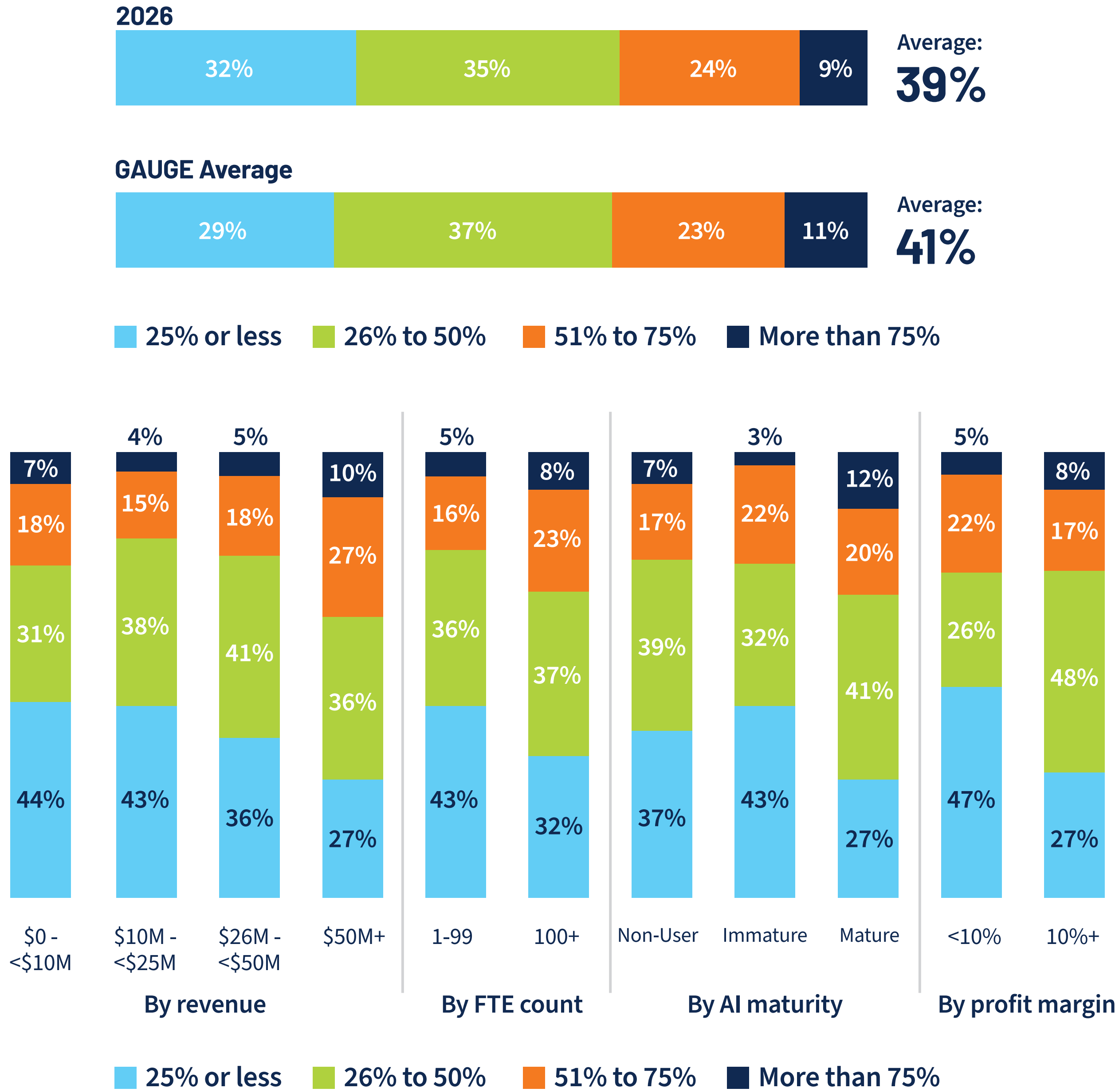
Spreadsheet use for CRM and federal opportunity management persists.
Over a third of respondents use spreadsheets for CRM, while an alarming 16% have no CRM at all. About 1 in 5 use spreadsheets for federal opportunity management, and 17% have no market intelligence tools. Small businesses are particularly laggard—nearly 30% have no software at all for CRM and federal opportunity management.

On average, 42% of pipeline opportunities come from teaming partners.
About 2 in 5 firms credit over half their opportunities to teaming partners. SMBs rely more heavily on teaming partners, while high-win, high-profit firms do so slightly less.

Industry perspectives on federal contracting's future vary widely.
Almost a third foresee more NTCs entering the market. 28% predict less regulation, especially given the FAR overhaul, and just over a quarter say contracting will be more outcome-based. OTSBs more often predict faster procurement times and slacker regulations.

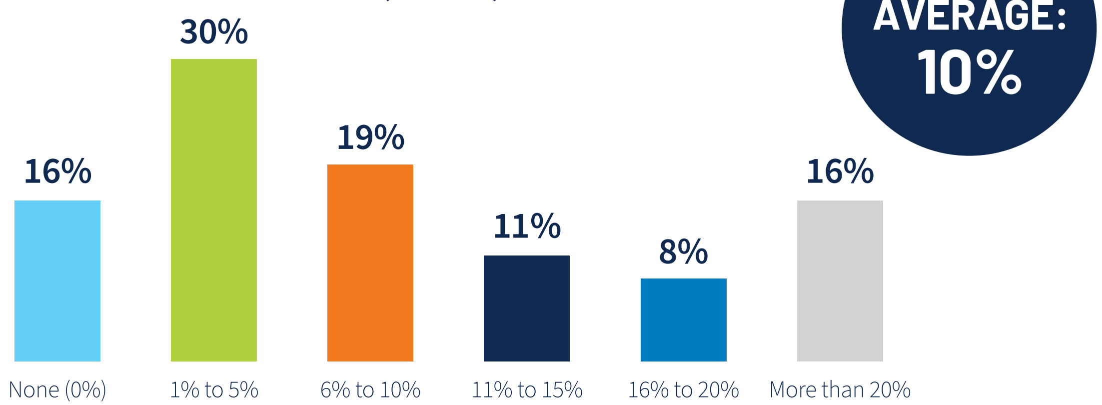
What is your company’s win rate?

(select one)



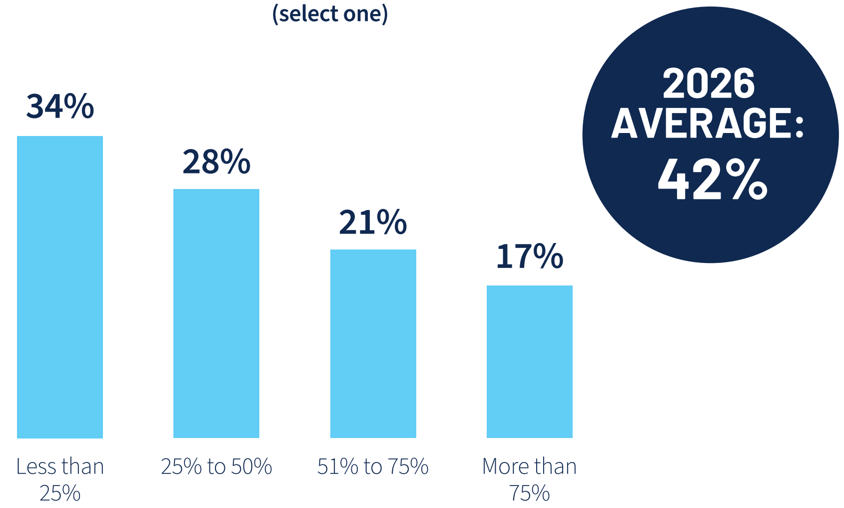
Over the past year, about what percent of your contracts were canceled or modified with a reduction of scope?

(select one)



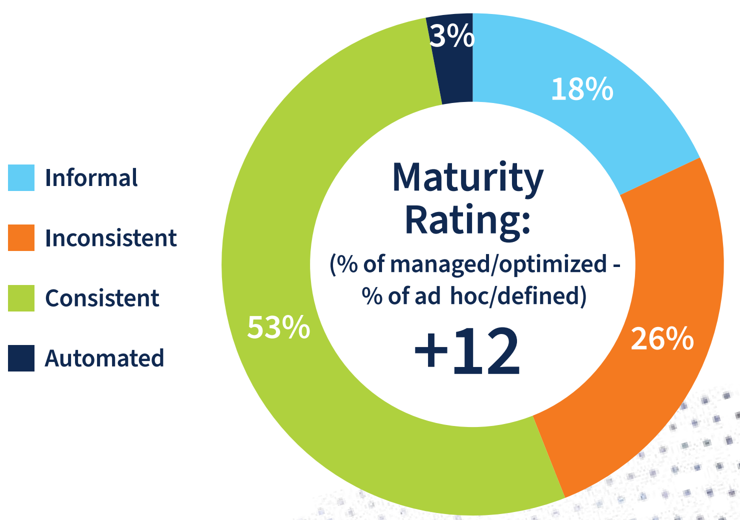
What portion of your company's pipeline opportunities come from teaming or partner relationships?

(select one)



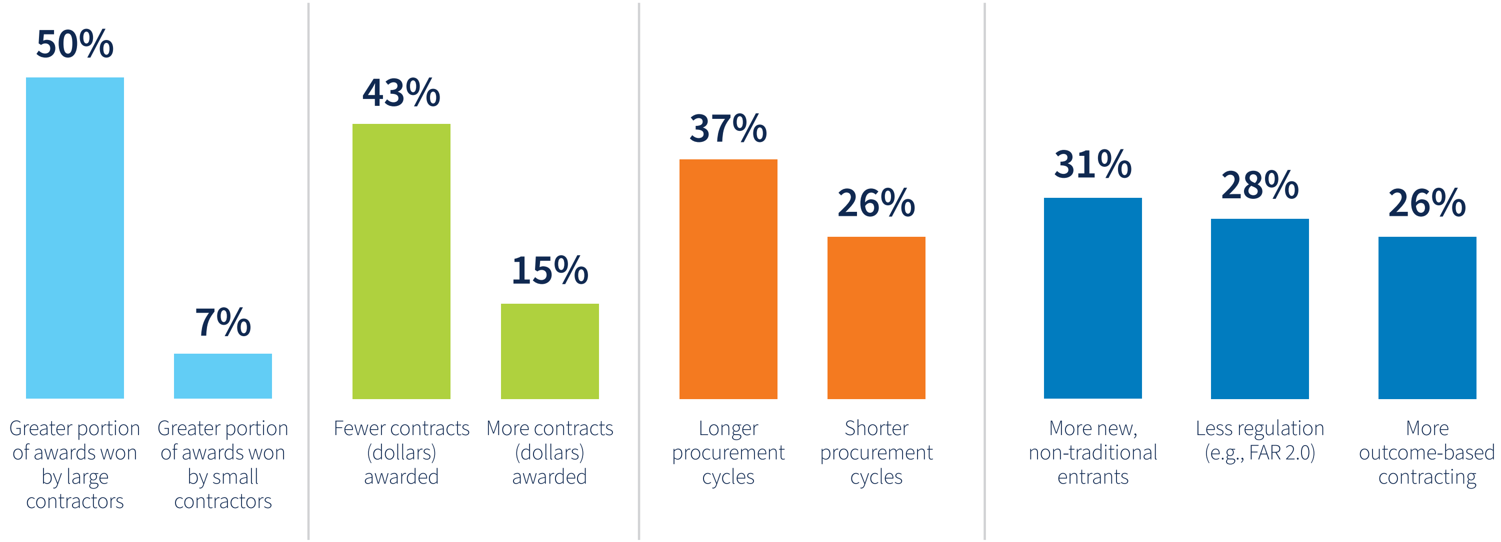
Which best describes the degree of discipline regarding your company's capture process?

(select one)



In the next year, how do you think federal procurements will change?
(select all that apply)

		Revenue				FTE count	
	2026	$0 - <$10M	$10 - <$25M	$25 - <$50M	$50M+	1-99	100+
Greater % won by large contractors	50%	53%	55%	49%	43%	52%	48%
Greater % won by small contractors	7%	9%	10%	4%	5%	9%	5%
Fewer contracts/dollars awarded	43%	53%	41%	41%	37%	51%	35%
More contracts/dollars awarded	15%	12%	20%	12%	16%	14%	16%
Longer procurement cycles	37%	33%	45%	33%	40%	40%	35%
Shorter procurement cycles	26%	18%	18%	31%	35%	18%	33%
More new, non-traditional entrants	31%	18%	39%	35%	35%	27%	35%
Less regulation (e.g., FAR 2.0)	28%	15%	29%	37%	35%	22%	35%
More outcome-based contracting	26%	20%	20%	20%	40%	19%	32%



HOW TO IMPROVE YOUR WIN RATE

Close more of the right business with our top tips for sharpening your win rate.

EIGHT TIPS FOR IMPROVING WIN RATE

1. **Watch your pipeline.** Establish a pipeline review cadence to keep opportunities up to date, and follow a standardized methodology for qualification and pursuit.

2. **Focus on high Pwin opportunities.** Time is money. Chasing unprofitable or hard-to-win leads is a waste of both. Invest bid and procurement dollars where you're most likely to win.

3. **Know your customer.** Put in the time to really understand your customer's needs, wants, and pain points, even if it takes several in-person visits.

4. **Talk to your customer.** Stop focusing on what you can do and listen to what your customer is saying. Ask smart questions and adjust your approach accordingly.

5. **Identify your company's unique value proposition.** What do you have that others don't? Technology? Patents? Methodologies? Skills? Find a differentiator and highlight it.

6. **Consider a teaming partner.** Strengthen your team and mitigate risks to your clients with teaming partners. Be sure to have your agreements in place before you bid.

7. **Have a documented capture process.** Follow your documented capture process and maintain team continuity across all phases, from capture to planning to proposal and beyond.

8. **Use technology to improve RFPs.** AI-enabled solutions can help estimate wins, identify risks, interpret contracts, and streamline proposal writing based on past data.

Content adapted from the 2nd edition of the GAUGE Report

CRAFTING A WINNING PROPOSAL

The key to winning is an effective proposal. Our seven-step process can help you navigate the RFP process to get ahead of the competition.

SEVEN STEPS FOR CREATING EFFECTIVE PROPOSALS

1. **Use a SWOT analysis to guide pursuit decisions.** Analyze your strengths, weaknesses, opportunities and threats and let your findings guide your efforts. Establish goals, evaluation criteria, scoring systems, and not be afraid to pass on an opportunity if it isn't right.

STRENGTHS	WEAKNESSES
Where do we outperform competitors? What do we do that no one else does? What resources do we possess? Which of our processes work well?	What do our competitors do better? What things do our clients complain about? What gaps in resources and skills do we have? What are the pain points in our processes?
OPPORTUNITIES	**THREATS**
What new trends can we take advantage of? What services can we extend or expand? What tools can we use to increase productivity? What changes can we make to boost profitability?	What is our competition doing to unseat us? What relationships of ours are at risk? What obstacles are hurting our Win rate? What other threats exist? (economic, financial, regulatory, etc.)

2. **Research and influence the opportunity.** Research your customer. Understand the RFP and use thoughtful questions and comments to influence the opportunity. Negotiate requirements that don't fit within your SWOT.

3. **Run a competitive analysis.** Scope out your competitors' partnerships, past award amounts, pricing, and performance. Find areas that your customer values most where you can outperform your competitors.

4. **Develop your win strategy.** Understand why your solution and your organization are the best fit for your customer's needs. Review your proposal with multiple teams to make sure you've covered all the RFP areas.

5. **Choose your partners wisely.** Only select subcontractors and teaming partners that you trust and that add value to your offer. Consider new NTC entrants—they often bring unique approaches to the table.

6. **Perform a price-to-win analysis.** Consider your competition, your solutions and costs, and the basis on which the award is made (LPTA, best value, technical, something else). Determine the price you expect to win.

7. **Support the proposal team.** Ensure team members understand their responsibilities and have the bandwidth and tools to complete their tasks. Keep key stakeholders informed and be ready to clear any roadblocks. Get buy-in from management on review timelines.

Content adapted from the 5th edition of the GAUGE Report

10 YEARS OF GAUGE: GROWTH THAT WINS

Winning consistent growth has become harder in a more competitive, constrained GovCon market. Revolutionary FAR changes, procurement slowdowns, and performance-based evaluations have raised the stakes. Here's what firms need to know from this 10th Edition GAUGE Report to keep win streaks going.

- **Competition for new contracts is increasing.** Worries over finding and winning new contracts, always high, have soared in recent years. With the rise of NTCs and recent Executive Orders pushing commercial-first procurement, the pressure to win has never been so intense. SMBs face a particularly challenging landscape due to decreased small-business spending, high compliance costs, and talent shortages, but firms of all sizes are feeling pressure to refine Business Development and translate effort into wins.
- **Market intelligence is diversifying.** GovCon has historically been an industry founded on relationships. While relationships still do matter, smart contractors are leaning into AI to supercharge purpose-built market intelligence tools. The accelerating pace of procurements also means companies need to vet opportunities faster—something that AI can also help accelerate.
- **Capture and pursuit benefit from discipline.** Data-driven, targeted pursuit strategies are replacing "spray and pray" approaches. AI tools are making it easier for firms to track industry and competitor trends and streamline BD activities like analyzing large datasets, scoring opportunities, and generating smart recommendations. The caveat? AI is only as good as the data it's fed. Rigorous data governance will be critical for keeping up with the pace of pursuit.

Win rates improve when firms are selective and disciplined in pursuit. Future winning is no longer about chasing more opportunities, but pursuing the right opportunities.

GAUGE

EFFICIENCIES

In today's GovCon environment, contractors need to prioritize getting the most out of existing resources. This section examines efficiency and profitability trends in the industry, including wrap rate changes, indirect rate restructuring behaviors, overhead allocations, and shifts in software usage.

EFFICIENCIES KEY TAKEAWAYS FOR 2026

Wrap rates are the highest seen since 2018.
Wrap rates are a composite of cost, making them a key efficiency indicator; lower rates generally mean better efficiency and competitiveness. Average wrap rates have risen, with company site rates nearing the 2.0 mark. AI users and high-profit firms hold the edge, highlighting the value of advanced tools for efficiency gains.

On average, firms restructure their indirect rate every 2.3 years.
About a third of firms changed their indirect rates within the last year, most often top-earning OTSBs. AI non-users lag the most; a quarter have never restructured. Interestingly, high-profit, high-win firms average longer between restructures by about 6 to 8 months.

Most indirect rates have gone up.
G&A and material/sub handling rates are at an all-time high, and company site overhead rates have reached a 5-year peak. High-win firms cite higher material and subcontractor handling rates but lower company site overhead rates, while AI maturity correlates with lower customer site overhead rates.

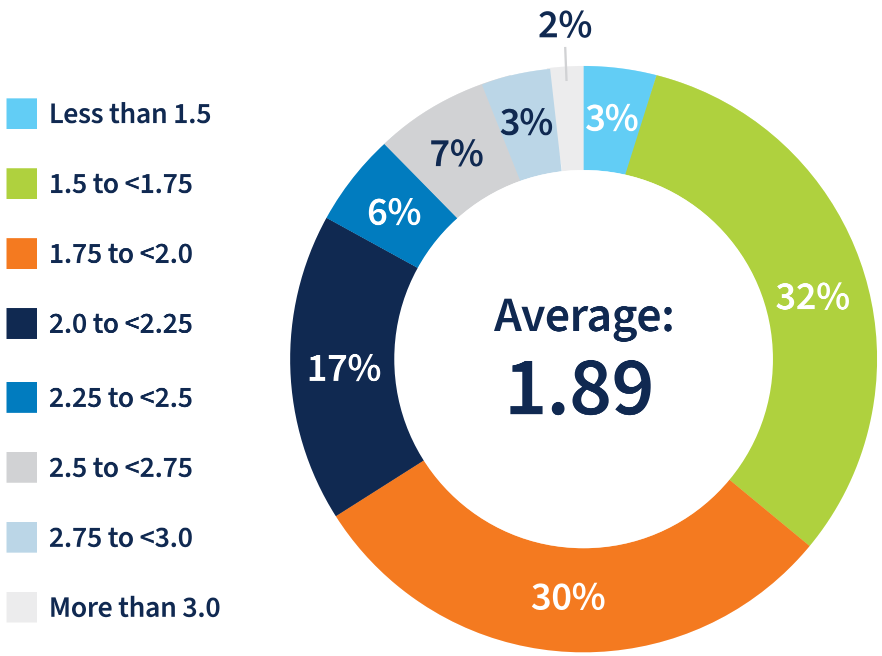
Overhead allocation is diversifying.
49% of firms responding do not distinguish a unique overhead base and generally have one overhead pool—a tactic favored by all but the largest OTSBs. These firms, as well as AI-mature firms, more often split pools by location type, customer type, or function.

Software integration remains suboptimal.
While half of firms say their ERP, CRM, and PM systems are partially integrated, only 14% boast fully integrated systems, while a third remain fully siloed. Midsize firms, always hunting for a competitive edge, are most likely to have fully integrated, AI-enhanced software stacks.

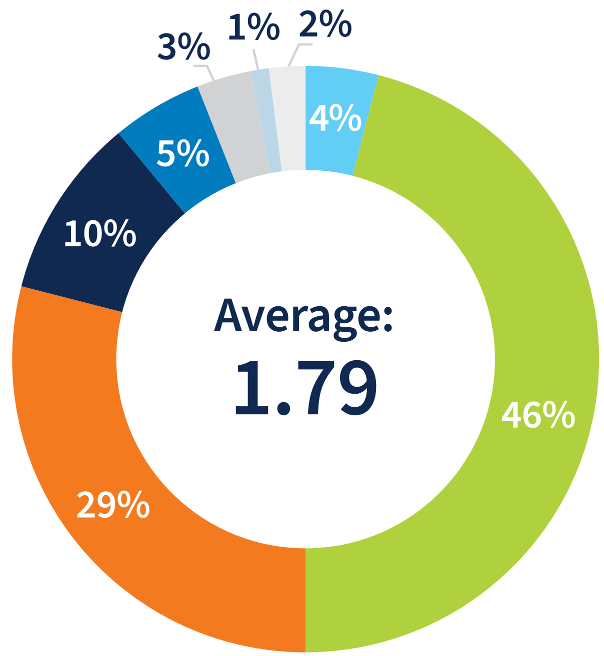
AI usage has surged in the last two years.
AI usage in GovCon has risen, from 33% in 2024 to 70% today, though only half of these AI users have formal governance in place. High-win, high-profit firms are more likely to have organizational policies and procedures for AI usage.

AI is most popular in BD and Marketing.
Though BD and Marketing still leads adoption, AI usage has increased in all business areas, though traditionally risk-averse functions remain cautious, with only 25% using AI tools in Finance and Accounting. High-profit firms are particularly likely to use AI across all areas of their businesses.

What is your company's wrap rate for work at your company's own sites?
(select one)

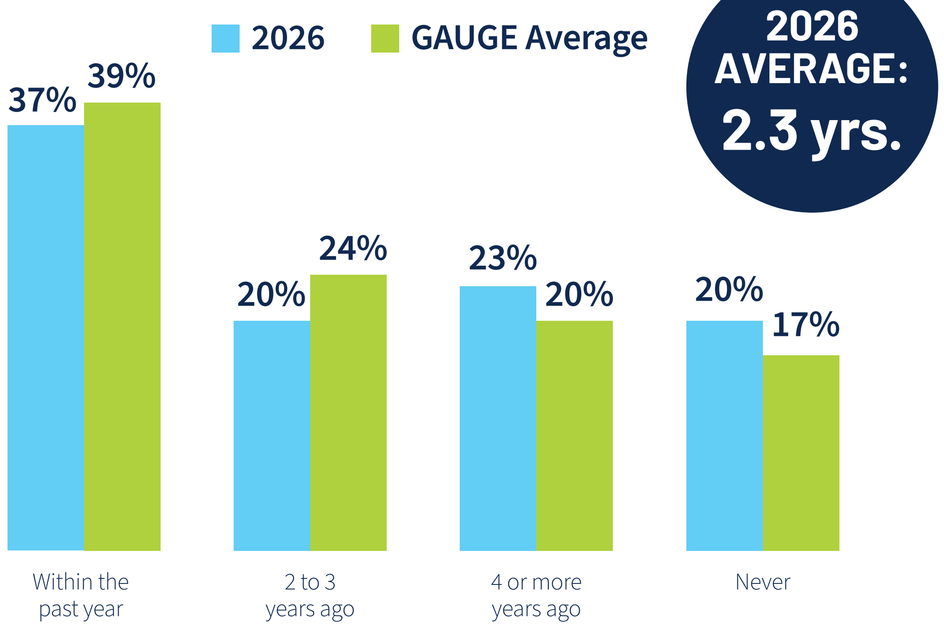


What is your company's wrap rate for work at your customers' sites?
(select one)



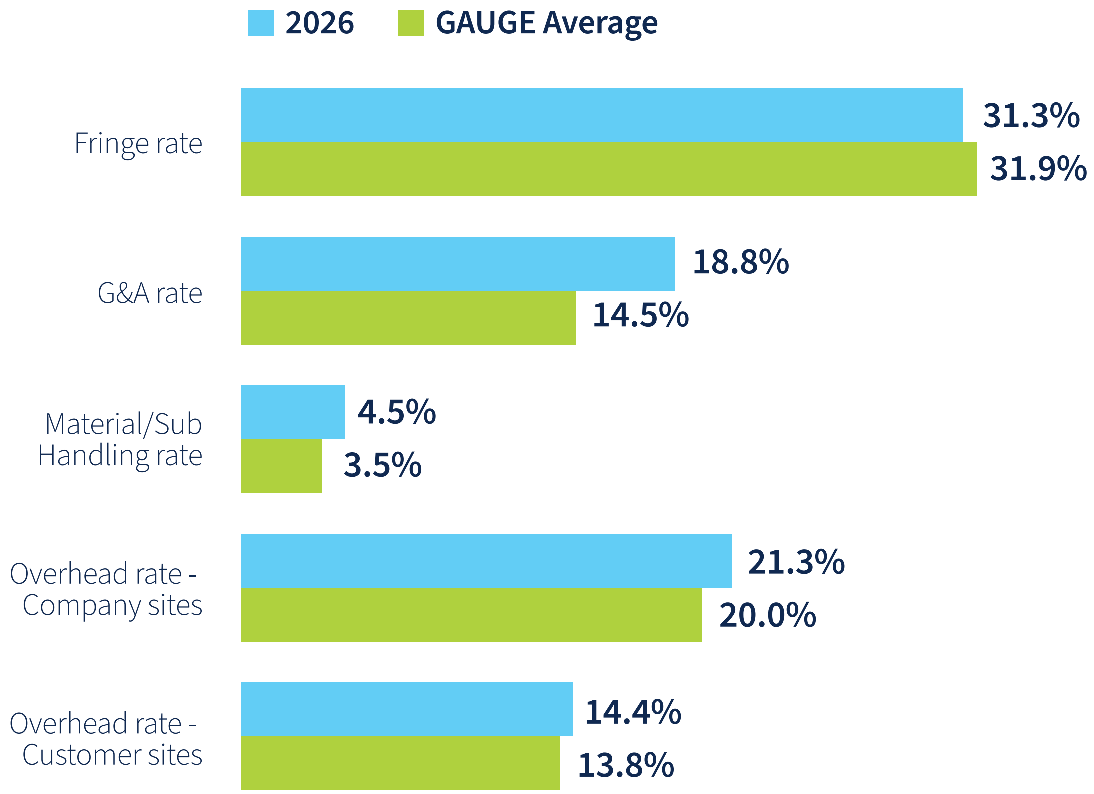
When was the last time your company changed any part of your indirect rate structure?

(select one)



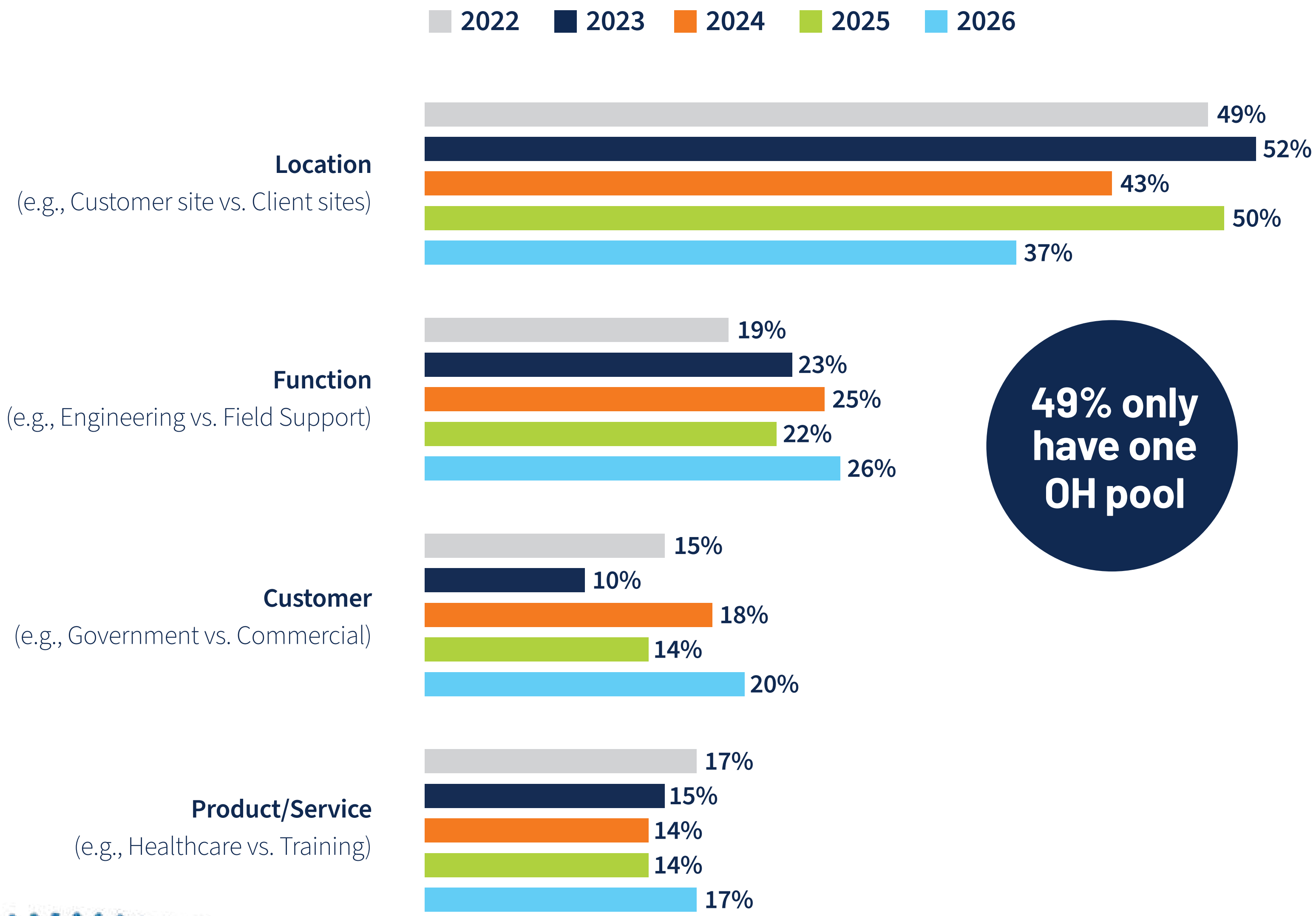
What is your organization's rate for each of the following?

(write in)



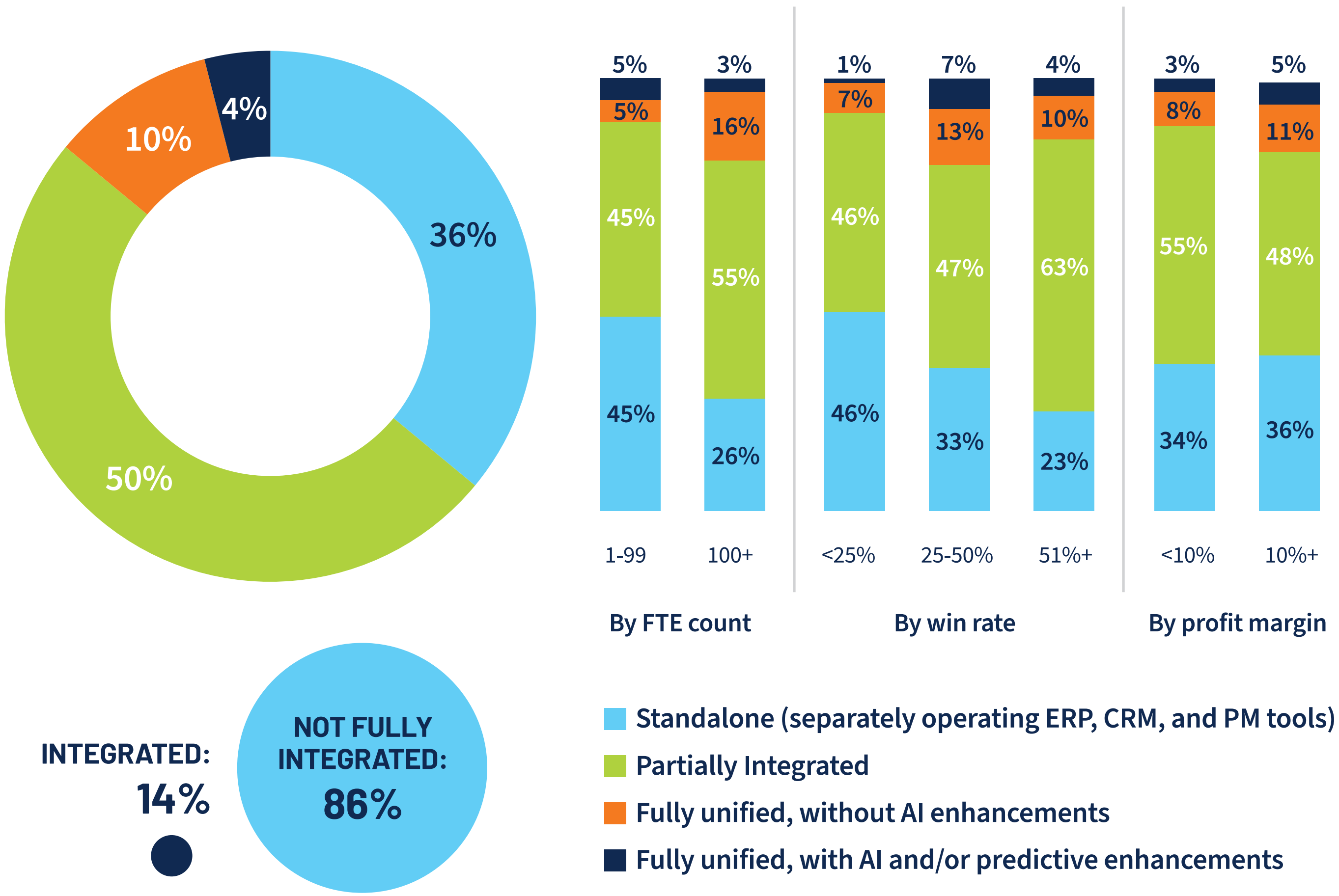
Which of the following does your company use as distinguishing factors between different overhead pools?

(select all that apply)



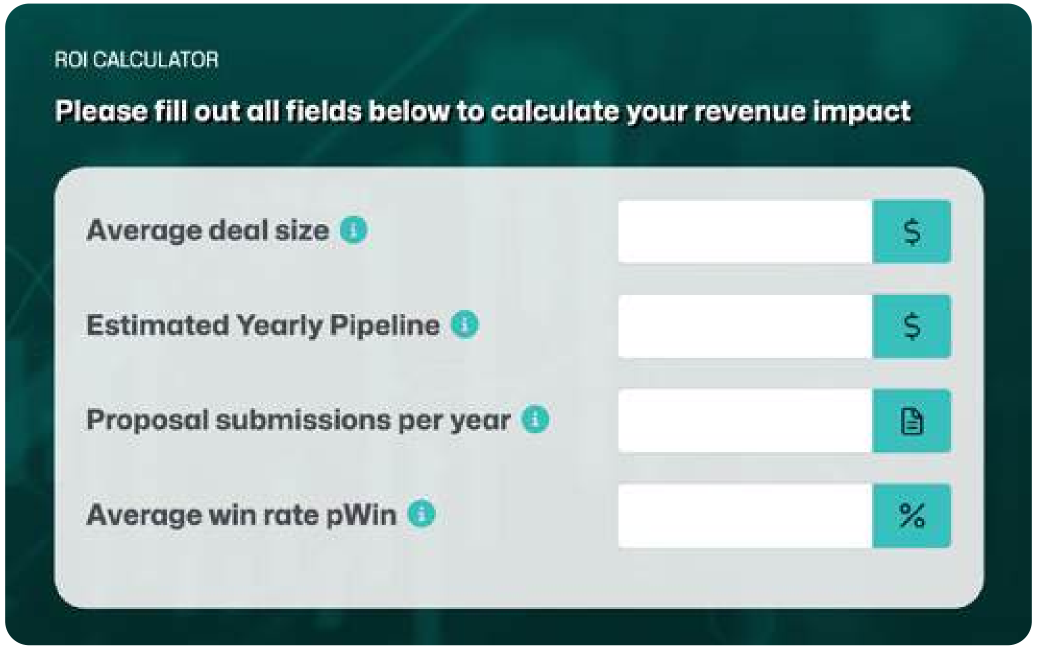
Which best describes your ERP, CRM, and PM system landscape?

(select one)



CALCULATE YOUR ROI FOR THE FUTURE

Unanet GrowthStudio for Government Contractors



AI AND ROI

The new standard
AI is changing how GovCons find and win work, traditional processes can't keep up

Not all AI is the same
Purpose-built solutions for GovCon BD deliver real ROI

Scale profitably
Unlock new revenue without hiring, and open doors to new agencies

The gains compound
See increases in pipeline, proposal speed, and PWin

Scan the QR code to find out how Unanet can help you calculate your capture ROI.

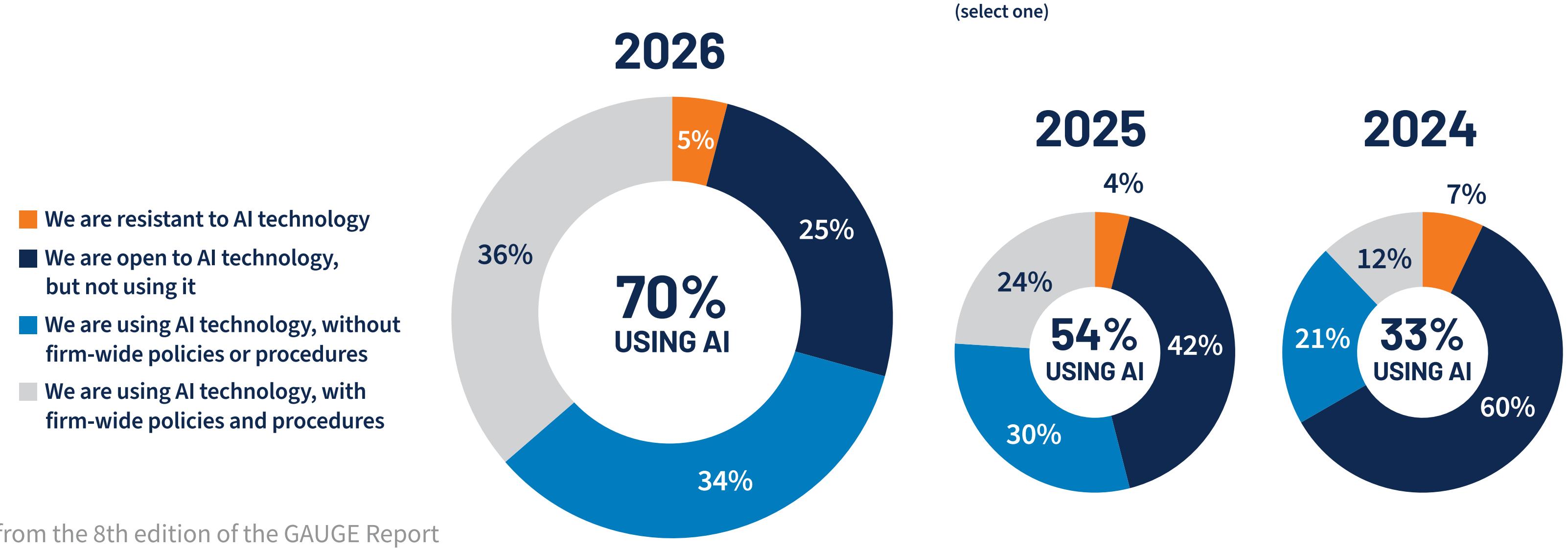
IMPROVING AI USAGE AND GOVERNANCE

Whether you're looking to adopt an AI solution for your firm or looking to sharpen AI governance, our checklist can help you optimize the way AI is used in your current business ecosystem.

ARE YOU OPTIMIZING HOW AI IS USED IN YOUR FIRM?

- ❏ Are our processes auditable, and can we maintain auditability with an AI?
- ❏ Have we centralized our data and eliminated silos?
- ❏ Have we been deliberate in architecting and collecting the right data?
- ❏ Do we have a way of ensuring the quality of incoming data?
- ❏ Will we be able to manage data privacy and confidentiality?
- ❏ Do we understand the cybersecurity, ethical, compliance, and operational risks of AI?
- ❏ What checks and safeguards do we have against bias and/or hallucination?
- ❏ Do we have a recovery plan in case of an AI-related compliance breach?
- ❏ Do we have formal policies and procedures outlining AI use?
- ❏ Do we have internal AI experts at our firm?
- ❏ Will we invest in AI-related training and education?
- ❏ Where are the points of resistance for adoption/use?
- ❏ What is our annual budget for AI-related investments?
- ❏ How many hours are we willing to spend on AI governance activities?
- ❏ What area of our business would benefit from AI the most?
- ❏ Do we know what type of AI tool we want to invest in right now?

Which best describes your company's approach to leveraging AI technology?
(select one)



Content adapted from the 8th edition of the GAUGE Report

10 YEARS OF GAUGE: EFFICIENCY THAT WINS

In many ways, efficiency is the crossroads at which all other dimensions—compliance, utilization, finance, business development—meet. More efficient firms excel at winning across the board.

- **Rate restructuring as an efficiency tactic.**
  Manageable, predictable indirect rates strengthen cost realism, feeding wrap rate calculations and influencing companies' competitiveness and efficiency. And indirect costs have always been challenging for GovCons to manage—over the past few years, indirect costs have fluctuated wildly. Rate restructures that were initially spiked by the seismic changes from the pandemic have dropped in subsequent years. However, this tactic remains popular among larger firms.

- **Changes to overhead allocation.**
  Over the lifetime of the GAUGE, the proportion of firms opting to use one overhead pool to simplify indirect rate structures and drive more agile decision-making has grown steadily. Firms that split overhead pools have traditionally most often done so by location—but this tactic has decreased in popularity over recent years, while other bases like customer type and function are becoming increasingly common.

- **Maximizing efficiency with integration, AI tools.**
  Although GovCons do still rely on spreadsheets as a tool within their software ecosystems, leading firms have placed increasing emphasis on integration and centralization of ERP, CRM, and PM systems. The advent of AI has also accelerated efficiency gains. Generative AI, particularly large language models, immediately distinguished themselves and proved their utility in BD and Marketing applications. Even traditionally conservative business units like Finance and Accounting have seen significant interest and adoption of AI tools. In a GovCon environment that demands excellence and punishes missteps increasingly harshly, winning will only grow more synonymous with AI innovation in the years to come.

Increasing efficiency is all about impact. An initial investment in the right tools can offer significant impact that will help GovCons optimize delivery, compliance, and growth for years to come.

THE EVOLUTION OF THE GAUGE REPORT

THE GAUGE REPORT REPRESENTS 10 YEARS OF BENCHMARKS AND BEST PRACTICES FOR THE GOVERNMENT CONTRACTING INDUSTRY

2017

10 Tips for Creating and Meeting a Budget

2018

7 Tips for Winning a Government Contract

2019

The Universe of Risk Roadmap

2020

Compliance Monitoring Checklist

2021

7 Key Proposal Steps

2022

Top 5 Workforce Trends

2023

Important and Accurate Forecasts

2024

Balancing Efficiencies & Compliance

2025

Mastering Planning and Execution

2026

In It To Win It: Outthink, Outbid, Outlast

AFTERWORD

THE DECADE AHEAD – THE FUTURE OF WINNING

GOVCON IN THE NEXT DECADE AND BEYOND

The past 10 years have shown that **success in government contracting** is shaped by innovation, discipline, transparency, and compliant execution. The next decade will put firms' feet to the fire—and intensifying demands will create an accelerated catalyst for extinguishing the flames.

Firms that can innovate fast, empower compliance and forecasting with predictive AI tools, and maintain transparency will be the ones to win and keep winning.

The rapid proliferation of AI tools introduces new efficiencies and new layers of responsibility. In a government landscape defined by zero-trust principles, digital ethics will differentiate reliable contractors from potential liabilities. As supply chains become more integrated, federal compliance requirements send a clear signal: **contractors must understand and manage cybersecurity risks**. This is not only an operational mandate for clear policies, governance, and transparency—but also an ethical one.

At the same time, it is no longer enough to be merely compliant. **Winning firms must be proactive, agile, and robust**. To build trust with federal clients, firms need to enable outstanding delivery with mature organizational practices. Predictive forecasts built on reliable data will help GovCons anticipate and prepare for risks before they materialize.

The last decade has demonstrated how unpredictable the GovCon market can be. FAR 2.0 places increased pressure on firms' performance at every stage of the GovCon growth lifecycle, from opportunity intelligence, capture and proposal, award and delivery, and, ultimately, recompete. Contractors who cannot move more quickly and prove performance will lose ground.

The future of GovCon will belong to organizations that can deliver confidently, grow with purpose, and turn predictions into profit.

Take advantage of the future and win!

WINNING WITH FAR 2.0 IN THE NEXT DECADE

TAKING ADVANTAGE OF MODERNIZED FEDERAL BUYING TO WIN

From the introduction of the Strategic Acquisition Guidance (SAG) to a heightened emphasis on performance, the new FAR has reshaped evaluator priorities. The GovCons that understand what the government truly values and tailor their pipelines, pricing, and delivery will be the ones to keep winning in 2026 and beyond.

KEY PRINCIPLES OF FAR 2.0

- EVALUATION FOCUS ON OUTCOMES OVER COMPLIANCE
- PROCUREMENT GUIDED BY SAG AND BUYING GUIDES
- PREFERENCE FOR FASTER, MORE AGILE, MISSION-FOCUSED EVALUATIONS
- PROACTIVE RISK MANAGEMENT AND COMMERCIAL-FIRST PRIORITY

THE GOVCON GUIDE TO OUTTHINK, OUTBID, AND OUTLAST

Navigating the industry over the last 10 years has demanded quick thinking and smart decision-making.

To get ahead, stay ahead, and keep winning, here's our guide to survive and thrive for another 10 years of GovCon.

MISSION CRITICAL ITEMS
TO IMPLEMENT IMMEDIATELY

- ❑ **Stay informed.**
  Regularly monitor updates from federal agencies and industry groups to stay up to date on new directives and policies.
- ❑ **Communicate.**
  Maintain open communication with your contracting officers and federal agencies to receive timely updates and guidance.
- ❑ **Review contracts.**
  Carefully review your existing contracts to understand the potential impact of new executive orders and directives.
- ❑ **Evaluate your cash position.**
  Understand and assess your current and projected cash flow to determine the impact of any potential delays, stop work orders, or restrictions.
- ❑ **Update your tools.**
  Create & update constantly your AI tools, policies, and governance.

OPERATIONAL PRIORITIES
AFTER SOLVING IMMEDIATE NEEDS

- ❑ **Audit your compliance.**
  Conduct internal audits to ensure compliance with the latest requirements and identify any areas needing improvement.
- ❑ **Adjust financial plans.**
  Review financial plans and ensure you have contingencies to address risks.
- ❑ **Tighten up AR processes.**
  Monitor your Accounts Receivable closely and monitor DSO.
- ❑ **Legal consultation.**
  Enlist legal experts to navigate the complexities of new regulations and prepare for potential legal challenges.
- ❑ **Manage risks.**
  Create a risk management plan to address potential disruptions and ensure business continuity.

STRATEGIC GROWTH INITIATIVES
TO RESPOND TO FUTURE CONCERNS

- ❑ **Review your supply network.**
  Evaluate the agility of your supply chain and check in with subcontractors often.
- ❑ **Sustain BD efforts.**
  Keep your pipeline active by maintaining and scaling business development.
- ❑ **Keep up with compliance.**
  Maintain your business system compliance, and don't forget CMMC requirements are here.
- ❑ **Update policies.**
  Review and update policies and procedures to comply with new regulations.
- ❑ **Train your employees.**
  Implement training programs to ensure staff understand and can comply with new directives.

Content adapted from the 9th edition of the GAUGE Report

A BIG THANK YOU!

The goal of the GAUGE is to provide the government contracting industry with a reliable, insightful, timely benchmarking resource—one that GovCon execs can trust, reference, and use to guide their decision-making. We're immensely grateful to everyone in the GovCon community who took the time to share the insights, data and experiences that shape every GAUGE Report. Thank you for your continued support. Without you, there is no GAUGE.

ABOUT COHNREZNICK

CohnReznick helps organizations optimize performance, manage risk, and maximize value through associated firms operating under the CohnReznick brand: CohnReznick LLP, a licensed CPA firm providing assurance services; and CohnReznick Advisory LLC (not a licensed firm) providing advisory and tax services. Together, CohnReznick provides leaders with deep industry knowledge and relationships, solutions to address clients' unique business goals and risks, and insight on how emerging market forces can drive opportunity. With offices nationwide, CohnReznick serves organizations around the world as an independent member of Nexia. For more information, visit www.cohnreznick.com.

ABOUT UNANET

Unanet is the leading provider of ERP and Growth solutions purpose-built for project-based businesses. More than 4,200 government contractor, architecture, engineering, construction and professional services organizations depend on Unanet to turn their information into actionable insights, drive smarter decisions, and accelerate business growth. Unanet's AI-first solutions are backed by a people-centered team invested in our customers' success from pursuit to profit. For more information, visit www.unanet.com.

CONTACT US

Have any questions or comments about the GAUGE Report? Want to share your insights by taking part in future surveys? We'd love to hear from you. Let us know how we can make the GAUGE even better.

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GAUGE
2026 REPORT

AN ANNUAL ROADMAP FOR GOVCON
10 YEARS OF GAUGE 2017–26