



Defense Firms Hit Hard by Insourcing

By Joe Cogliano Sunday, May 29, 2011

Two years ago, the U.S. Department of Defense began to reduce its dependence on the contractor workforce. It's a shift that hit Connie Sawdey particularly hard.

The president of Beavercreek-based Sawdey Solutions Services Inc. — which provides professional services such as support for information technology, acquisition, logistics and program management — saw the government take back several of her company's largest contracts.

In a directive commonly referred to as insourcing, the government has been reclaiming work awarded to defense contractors and, in many cases, poaching personnel those companies had invested lots of time and large sums of money to recruit. Insourcing hit especially hard in the Dayton region, which is home to numerous businesses, such as Sawdey Solutions, that serve the Defense Department.

During an 18-month stretch, Sawdey Solutions lost about a third of its workforce, 40 percent of its revenue and half its profit margin.

“We had to really struggle and claw our way back,” Sawdey said. “We were pretty worried.”

However, the tide appears to be turning as the government has made progress in shifting civilian-to-contractor ratios and financial budget pressures have slowed hiring by many branches of the military. The recent slowdown of the insourcing program is a boost for many defense firms.

Sawdey and others in the defense contracting industry are now showing signs of optimism.

Employment at Sawdey Solutions has rebounded — prior to insourcing it had 43 employees, now it is up to 44 — and she expects revenue to fully return within a year. Sawdey said the comeback took hustle, getting out and talking to customers more frequently, and looking for other opportunities, such as subcontract work for larger companies.

“We're staying in business, we're not going anywhere,” she said.

Observers say insourcing has slowed for several reasons:

- The government has hired many of the people it was targeting; and

- Budget cuts, in general, are reducing number of positions the government can fill.

For example, the U.S. Air Force recently instituted service-wide hiring controls to reduce the projected growth of the civilian workforce, meaning only one person can be hired for every two new vacancies in areas affected by hiring controls.

In addition, Air Force Materiel Command — based at Wright-Patterson Air Force Base — is in the process of surveying civilian workers to gauge interest in voluntary early retirement and separation incentive programs. The intent is to reduce the impact of potential layoffs that may become necessary if AFMC has no other alternative to meet its manpower budget requirements.

However, while the latest policies slow the rate of government hires, defense companies say it may not signal an absolute end of insourcing.

For example, it's not clear how the two-for-one hiring directive will be applied, making it difficult to project the impact.

“It just adds to the current lack of clarity,” said Charlie Schwegman, president of Beaver Creek-based MacAulay-Brown Inc. “At this point we really don't know what the impact will be on contractors.”

During the past two years, Schwegman's company lost 250 workers, or more than 10 percent of its workforce, to insourcing. In a majority of those cases, its government customers took away the work as well as the worker.

On the strength of a large portfolio of contracts, and its ability to win additional work, Schwegman said MacAulay-Brown has been able to rebound to nearly its pre-insourcing peak of 2,000 employees.

While many companies are reluctant to talk about the effects of outsourcing, two years of the policy has taken a heavy toll on the regional defense community, said Dennis DeMolet, president and chief executive officer of Kettering-based DeMolet Consulting.

Advisory and service companies, commonly known as A&S, were affected most by insourcing.

“Government found out that the cost saving, and most of all the experience, was in fact lost by insourcing,” DeMolet said. “Positions that are inherently critical in nature were to be the only position targeted by insourcing, and they were not in many cases. Small business therefore was dynamically effected.”

However, even if insourcing does slow considerably, the ability of defense contractors to perform any kind of planning is being hampered by a growing amount of chaos in the federal budget process.

That process used to produce temporary turmoil, but is now producing continuous turmoil, said Tom Batty, senior vice president of business operations at MacAulay-Brown.

While frustrated, Schwegman and Batty made it clear that base-level military personnel, such as those at Wright-Patt, were not to blame for the chaos. In fact, they face just as much uncertainty.

“When the guys at the top can’t get together and do a budget and figure out how to deal with the debt ceiling and future budgets, if they can’t figure that out at the top, everything below them is going to be in disarray,” Schwegman said. “If you’re confused, we are too.”

The Dayton region is home to a thriving defense industry including companies such as The Ahrens Consulting Group, Booz Allen Hamilton Inc., Computer Sciences Corp., Peerless Technologies Corp., Science Applications International Corp., and GE Aviation, part of General Electric Co.

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