

**Threats, Measures by ManTech International to Mitigate Sequestration on Business
Performance**

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Executive Summary

Robust growth in business performance that has been witnessed in ManTech International over the last few years is likely to be affected by automatic budget cuts, normally referred to as sequestration. Sequestration is expected to adversely affect defense programs as the federal government cuts on domestic and national defense spending programs to reduce budget deficit. This will have an automatic negative effect on defense contractors who the federal government is their major client. ManTech International is one such company that mainly provides security and defense related services to the government. Due to the expected drop in business, there is a need for ManTech International to look into ways of insulating themselves in the future from defense budget cuts. Diversification of business and markets offers this opportunity. It will help the defense contractor offer other services either related or non-related to the core business to other markets hence shifting their revenue reliance from provision of defense services to the U.S government. This will aid ManTech International post favorable financial performance even in times of defense budget cuts or other unfavorable industry environmental dynamics.

General Background

ManTech International is a public company listed at the NASDAQ stock exchange, with a market capitalization of over \$3 billion (Perspective, 2011). It has been described by analysts as among one of the fastest growing technology companies. According to ManTech International Corporation (2012) the company was established in 1968 with the aim of providing technological services to the United States government. From its initial government contract of developing combat-gaming prototypes for the U. S Navy, the company has consistently been involved in developing innovative security based solutions for various government agencies,

mainly government intelligence agencies like the Homeland Security, the FBI, the Department of Defense and the military. The company offers wide range of services in computer forensics, security system architecture, intelligence, logistics and information technology services. Besides the government security contracts, ManTech International also offers data and network security services to private sector players to protect their critical information.

Core Products and Services

The security firm has specialized in providing system engineering and other technical solutions through the following solution sets; namely, a) intelligence, b) surveillance, c) cyber security, d) intelligence and counter-intelligence, e) logistics support, f) system development, g) testing and evaluation, h) command and i) Reconnaissance lifecycle support also known as C4ISR (ManTech International, 2011).

Mission and Vision

The company is guided by the mission to provide customer success through delivering unique solutions, services and technologies that match customers' critical need and value through innovation and quality. The company vision is to be the most trusted industry partner valued by all stakeholders. ManTech International encompasses integrity and ethics as its values to drive its mission. In its mission the company is facing shifts in the industry and market dynamics.

General Problem

There are concerns among government security contractors on imminent budget cuts towards security expenditure. In an article in Washington Post, Taborek (2012) reports that the federal government schedules to cut both domestic and national security expenditure by \$1.2 trillion in an effort to reduce the national deficit through sequestration measures, rendering lost

revenue to government defense contractors. If sequestration takes place, budget analysts speculate that defense programs will bear the greatest blunt of the automatic cut with a reduction in spending on defense programs by 10% (NCMA, 2012). Moreover, the Obama administration has pledged to cut defense expenditure by \$487 billion in the next ten years. The coupling of sequestration and reduction in defense expenditure poses problems to the entire defense industry in lost shrinking number of contracts, revenue and margins. The most hit organizations will be those whose revenue is largely skewed towards government defense and security contracts.

Specific Problem

According to statistics, in 2011, ManTech International was awarded defense contracts worth \$1.9 billion by the federal government (Bloomberg, 2012). The contracts were estimated to be over a thousand of them spread across 40 different security agencies. The statistics indicate that the federal government remains the primary customer of ManTech International, with over 97 % of the company's revenues being derived from government defense contracts. The proposed sequestration measures will adversely affect business performance of the organization due to over reliance on government contracts. The company expects its revenues to dwindle as the number and value of contract bids reduce, consequently hampering its operating margins.

SWOT Analysis

Strengths

Over the past few years, ManTech International has posted strong financial performance. In 2 years that is from 2005 to 2007 revenues of ManTech International have steadily increased from \$980 million to \$1,448.1 million (Datamonitor, 2008). The strong performance was attributed to increased federal government spending on defense and security programs, especially anti-terrorism programs. The second strength is the close association of ManTech International

with the U.S government. In most of the contracts, ManTech offers lifecycle support, management and maintenance, consequently, assuring the organization continued business relations.

Weakness

The greatest weakness of ManTech is over-reliance on government defense contracts and business concentration in one region, the United States of America. According to Datamonitor (2008), ManTech International derived almost 99% of its entire revenue from the U.S operations, of which 97.7% was derived from federal government contracts. Sequestration will, therefore, adversely affect ManTech International revenues. On the same note, ManTech International over relies on the United States market for sale of its products and services. This is a major weakness that plagues the defense contractor since any unfavorable economic, regulatory and statutory policy that hits the United States of America defense program subsequently affects the firms bottom-line.

Figure 1. ManTech Internal geographical segmentation by sales

Market Segment	2011	2010	2009
United States of America	99.7%	99.2%	99.0%
International	0.3%	0.8%	1.0%
Total	100%	100%	100%

Source: ManTech International (2011)

Opportunities

Despite looming sequestration measures which are expected to adversely affect defense contracting, and subsequently revenue margins of defense contractors like ManTech

International due to reduced federal spending on security programs, opportunities abound in cyber security, counter intelligence, cyber surveillance, counter intelligence or reconnaissance. There are indications that demand for services in these sensitive security areas is expected to rise as the government scale up its war against cyber attack and terrorism. This pose a great opportunity for ManTech International to exploit since not many defense contractors have the requisite experience, technical expertise in this sub fields of security.

Threats

Nevertheless, various threats pose serious challenges to the success of the defense contractor. There is intense competition among defense contractors with players of large defense contractors having unique technical expertise, intelligence competencies, vast experience and quality reputation. This has greatly affected market dominance of the defense contractors. Among the large defense contractors that threaten market share of ManTech International are BAE Systems, Lockheed Martin Corporation, which has the highest number of contracts in bids and amount with the federal government, General Dynamics and Northrop Grumman Corporation. Sequestration is another threat to market dominance and financial performance of ManTech International. Due to automatic budgetary cuts to be effected, defense contractors are likely to lose huge portion of revenues, estimated at \$500 million, according to Taborek (2012) as the federal government scale down on its defense expenditures to plug budget deficit. Unfavorable regulations and provisions of government contracts are other major threats to ManTech International. Failure to comply with the stringent rules and procedures may result to termination of contracts and blacklisting of a contractor.

Another threat facing ManTech International is erratic spending patterns of the federal government and other government agencies that make up 99% of the firm's client base.

According to the management of ManTech International, the operating environment of ManTech is largely affected by the U.S government spending plans, budgetary pressures, procurement laws and risks in contractual agreement and awards. The management of ManTech International acknowledges unpredictable spending patterns by the federal government as a threat that will materially affect the performance of the organization.

Alternative Approaches

Some of the threats that ManTech International is facing are within the control of the organizations control. However, some threats like unfavorable provisions on government contracts, stringent regulation and sequestration are statutory and legislative measures beyond the company's control. The best alternative approach to survive in the defense contracting business is through: a) diversification of products and services and b) venturing into new markets, c) new product development and d) enhancing contract performance.

Diversification of products and services

Diversification of product and services will ensure that the organization does not heavily rely on offering security and defense products and services. Diversification may be through acquiring companies that offer related or totally different core services that the ManTech specializes in offering. This will be implemented by entering into mergers, both vertical and horizontal, joint ventures and partnerships with other players. In case of acquisitions of companies that deal in totally different products and services from core business offering of ManTech International, the defense contractor will spread risks associated with a single business line. By ManTech International acquiring companies that offer similar or related core business as it, the defense contractor will be creating economies of scale in its business operations, enabling the firm to increase its competitiveness in bidding contracts. For example, if ManTech

International acquires a company that deals with manufacture of components that are used by the parent company, ManTech international, in making of vital security apparatus, it will have lowered expenses that the firm would have incurred in purchasing from third party.

Venturing into new markets

Venturing into new markets will help ManTech International shift its over-reliance on the erratic U.S market. Venturing into new markets can be done in two ways: a) ManTech International setting up new firms in its new markets and b) entering into acquisition with defense companies similar to ManTech International. This will require extensive market feasibility studies and due diligence on companies in the new markets to evaluate fit. Successful venturing into new markets will aid ManTech International guard against market place risk, regulatory risks, financial risks and other statutory risks associated with concentrating with a single market, in this case the United States of America specifically federal government.

New product development

Due to emerging security threats such as terrorism and renewed cyber attacks, there is increasing demand for defense and security services tackling this renewed form of security threats. For instance, the United States of America government has renewed its commitment to grow its spending on technical security services such as intelligence, cyber surveillance, counter intelligence and reconnaissance. ManTech International should scale its research in the stated security sub-field. ManTech International should also scale up its operations in the IT sector where there is huge demand for superior technology solutions in information systems and enterprise applications.

Enhancing contract performance

During period of tight spending, the federal government engages in radical cost benefit analysis to ensure that it spends on priority projects. On the same light, prioritized projects are given thorough evaluation and assessment to ensure that the government gets value for money. The management of ManTech International should therefore ensure that their contract performance assessment remain above board to guarantee future business and contracts. Poor contract performance may result to blacklisting of a contractor, which subsequently results to huge losses on the part of the contractor. Moreover, during tight federal spending, it is important for contractors to maintain correct performance measures to justify their budget levels on contracts.

Communication

Successful implementation of diversification plans will greatly benefit the shareholders of ManTech International through capital gains and increased dividend payout. Analysts anticipate that sequestration will adversely affect share prices of listed defense contractors due to anticipated shrink in revenue. I intend to sell the diversification idea to the management and shareholders of ManTech International during AGMs and through publications in the dailies. AGM s will offer the best platform to convince both the management and shareholders of the benefits of diversifying markets and products and services away from solely relying on government defense contract as the major source of revenue.

Conclusion

From the discussion above, it is evident that ManTech International will be negatively impacted by sequestration measures and the continued defense budget cut. There is therefore urgent need by top executive to look into ways of propping their revenues to shield shareholders

from poor returns on their investments. The management should therefore engage services of corporate finance experts to look into possible diversifications through either acquisition or joint ventures. There should be extensive market research to identify new markets that the firm can venture into. By the end of the implementation process which may tentatively take 10 years, ManTech International should have diversified its market to possibly look like figure 2 below in order to shift its over-reliance on the U.S market that is not promising even in the future as federal spending on defense program is expected to continue shrinking:

Figure 2: Hypothetical ManTech International geographical segmentation by 2021

Market Segment	2011	2015	2021
United States of America	99.7%	75%	50%
International	0.3%	25%	50%
Total	100%	100%	100%

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