



Entering and thriving in the US public sector market

Forensics today

PwC perspectives on the newest risks drawing investigator scrutiny



Entering and thriving in the US public sector market

- The business-to-government (B2G) market in the United States remains a highly misunderstood and untapped market for most businesses.
- That means opportunities abound for both new and seasoned contractors as the federal government modernizes and pursues national technology competitiveness and policies to attract new entrants.
- Entering and thriving in the US public sector market requires equal measures of strategy, operational excellence and compliance while being attentive to the distinctive nature of this space.

Business opportunities in the public sector don't come just from selling goods and services to government agencies but from grants and direct funding to pursue research and infrastructure projects as well.

For many business leaders, this is a market that's wholly misunderstood, where the government's vast purchasing and funding power seems unattainable or not worth the compliance burden.

Still, a growing number of businesses, from Fortune 500 companies to startups, are launching successful B2G initiatives. Regardless of size, these "nontraditional contractors" with little to no prior public sector footprint are making waves in the US public sector marketplace.

What these businesses understand is that navigating this space requires equal parts attention to *strategy*, *operational excellence* and *compliance*. These three factors come together when organizations understand how to treat the government as both customer and regulator.



Why the B2G market is worth considering

The US public sector is an enormous market. The federal government's discretionary spending in FY2023 alone totaled \$1.7 trillion, including \$805 billion for defense and \$917 billion for nondefense spending, making it the world's largest customer. Over 90,000 additional state, municipal and local governments contribute hundreds of billions more.

The public sector experiences consistent year-over-year growth, the steady pace of which is only occasionally interrupted by spending cuts or spikes such as during the COVID-19 pandemic. Not surprisingly, when faced with economic uncertainty and downturns, many business leaders eye the public sector as a reliable revenue source.

Today, the B2G market in the United States is changing on four fronts, opening up significant opportunities and conditions for nontraditional and traditional contractors alike.



Reduced barriers to entry and streamlined procurement attract new entrants. Many companies are standing up new dedicated business units or acquiring

companies to tap into new revenue streams, access new contract vehicles and obtain new funding incentives. Meanwhile, the government is looking beyond the traditional supply base and making concerted efforts (e.g., DCMA's Commercial Item Group) to identify commercial products and services to meet its needs.



Government agencies invest in technology. With an eye to economic competitiveness and national security concerns, the federal government

is investing in cloud and AI platforms, space technology development and green energy solutions. It has reinvigorated industrial policy through, for example, the CHIPS and Science Act, with \$52.7 billion appropriated in FY23 to foster domestic investment and onshoring of critical industries like semiconductor research and development. Separately, the Inflation Reduction Act authorized \$773 billion in new investments and tax credits over the next 10 years with the focus on clean energy.



Governments fortify cyber defenses. As directed by the executive order on cyber, suppliers of products, systems and services to the

federal government must begin to meet standards of software supply chain security, critical software security and zero trust architecture. In some cases, contractors may have to implement other controls and safeguards and eventual certifications of their systems should they handle certain classes of data such as controlled unclassified information (CUI).

Governance and compliance challenges are increasing. Government procurement and grant funding are introducing more sustainability and diversity obligations, while long-standing requirements are the subject of renewed oversight and enforcement. In addition, national security concerns related to foreign ownership, control or influence (FOCI) are intensifying.

Weighing opportunities in the US B2G market

The US public sector market and B2G business models are highly specialized. The process to win government contracts, grants, loans or other award types or funding is highly structured, regulated and takes place over long-term cycles. B2G companies need to demonstrate the ability to administer complex contracts successfully and use public funds appropriately.

With input from key stakeholders in business development, finance, sales, legal and compliance, you should take several important steps before entering the market.

- 1. Perform a total addressable and serviceable market analysis.** The analysis will help determine your ideal public sector customer base, go-to-market methods, and contract types and vehicles (i.e., direct or indirect). This in turn will help dictate the requisite types of operational and compliance capabilities. Many nontraditional contractors will likely start from the indirect standpoint or use partners to de-risk compliance obligations or avoid extra investments in operational and compliance capabilities. This cross-functional market assessment (including business development, strategy, engineering, compliance and legal) also can help you identify competitive advantages, develop customer use cases and determine the investments necessary for meeting government requirements.
- 2. Design a public sector strategy.** Certain businesses recognize market opportunity but struggle to develop an effective and efficient public sector strategy. You should design a fit-for-purpose, scalable strategy that addresses the following questions.

- What's the opportunity and is it a good fit?
- What products/services will we offer? Are they distinct from our commercial offerings?
- What's leadership's approach to communicating common goals throughout the business?
- How will our organizational model meet the government's needs?
- What's our company's risk appetite? How much risk are we willing to accept?

If your public sector strategy extends beyond the United States, then address each of these questions within the context of the respective customer base and procurement requirements.

- 3. Develop a go-to-market plan.** A detailed roadmap should align your strategic goals and investment needs and establish an implementation timeline. Your go-to-market plan should combine the full scope you need to enter a market successfully and demonstrate meaningful understanding of potential risks and returns. These strategic documents should address key public sector considerations, including terms and conditions, pricing, supplier impact, workforce requirements, and access and need for new business systems and/or applications.

Deciding and refining your operating and governance model

The appropriate entity structure and operating model for nontraditional contractors depend on the associated level of risk and the size of the opportunity. You should first consider whether a separate business unit or legal entity dedicated to public sector business is necessary (entity structure), followed by what functions and resources you need to support it (operating model). Finally, your public sector business model can succeed only if you have a governance model that enables the business to react to unique government requirements, make key business decisions to ensure compliance, and support future strategic growth.

Major B2G models

	Model 1	Model 2	Model 3	Model 4
	Fully commercial	Dedicated public sector teams	Dedicated public sector business	Independent public sector business
What?	Fully integrated model with no distinction between commercial and public sector.	Certain dedicated teams but continue to share back office, systems and leadership.	Public sector org with matrixed support and separation of processes and systems. Will continue to share some functions.	Distinct legal entity/ subsidiary with dedicated front and back office, systems and leadership.
Why?	No product variation (i.e., commodity), minimal customer requirements.	Product distinction, unique contract terms, customer demand for services.	Increasing customer requirements, audit and oversight, growth in public sector business.	Organizational and system security requirements, cost-based contracting M&A.

As your B2G business evolves, ask the following questions to see when it might be time to modify your operating model.

- **Organizational capacity.** What are the dimensions of our current operating model and what's its capacity to support the B2G business?
- **Government business size and commitment.** How much are we currently selling to the government and how much growth can we expect in the next few years? Does the company need to evolve its operating model to manage this growth?
- **New contracts being pursued.** Does the current model support new public sector opportunities we're pursuing?
- **Product offerings.** Do we already provide any unique product offerings for our government customers?
- **Strategy focus.** Does our public sector sales strategy include state, local and education (SLED) customers and/or public sector customers in international territories?
- **Contractual or regulatory obligations.** Are there new or potential contractual, regulatory or other requirements that merit changing our operating model (people, processes, tools)? What measures can be taken to effectively shield the commercial organization from government reach in the event of a government audit?
- **Data security.** Do we need to ring-fence the organization, processes and tools, and the environment where commercial and government resources collaborate? What sensitive or classified data does the business currently hold?

Contact us

Ryan Murphy

Partner, Global Investigations & Forensics Leader

PwC US

[LinkedIn](#)

ryan.d.murphy@pwc.com

John May

Partner

PwC US

[LinkedIn](#)

john.m.may@pwc.com

Gregg Pilotte

Principal

PwC US

[LinkedIn](#)

gregg.s.pilotte@pwc.com

Katie Castelluzzo

Director

PwC US

[LinkedIn](#)

katelyn.a.castelluzzo@pwc.com

Phil Koos

Partner

PwC US

[LinkedIn](#)

philip.koos@pwc.com

www.pwc.com