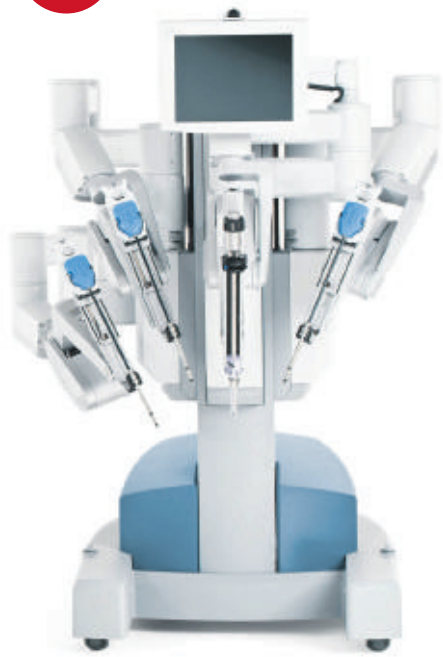




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YEARS



Doctors Community Hospital spent \$1 million on the da Vinci surgical robot. Courtesy Doctors Community Hospital

Pr. George's hospital plots surgical strategy

By Ben Fischer

Doctors Community Hospital in Lanham is spending at least \$10 million to renovate and expand its aging surgical suites for the first time since its 1975 founding, part of an effort to keep affiliated surgeons from fleeing for more modern facilities.

The independent 200-bed nonprofit hopes to solicit construction bids in the spring for a 34,000-square-foot project to enlarge its 10 operating rooms and staging areas.

The hospital also recently spent more than \$1 million to buy a da Vinci surgical robot – Prince George's County's first – and has launched a support program for patients hoping to undergo bariatric lap-band surgery.

Chief Operating Officer Paul Grenaldo noticed a downward trend of minimally invasive surgery cases and feared it might accelerate if the hospital didn't take steps to make its facilities more accommodating to high-tech techniques.

And the moves show that, for all the political attention given to struggling Dimensions Healthcare System and its money-losing hospitals in Prince George's County, small free-standing hospitals such as Doctors Community have found a way to thrive in the county.

"It's an effort to bring the next generation of surgeons into the county, quite frankly," Grenaldo said.

Doctors Community will finance the

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Emergent BioSolutions is facing life after outgoing CEO Fuad El-Hibri. The executive talks about what's next for the cornerstone biotech in an exclusive interview. Page 7



Survival tactics

Contractors cutting to the bone to safeguard profits

By Jill R. Aitoro

For Reston-based NCI Inc., 2011 was a rough year. The Army canceled the company's biggest contract – accounting for 20 percent of revenue – and replaced it with a contract that stripped out half of NCI's profit. About \$90 million in contracts with the Defense Department wrapped up without the expected follow-on work, and a new contract win, also worth \$90 million, was protested and then abruptly canceled.

The result was devastating: NCI expects to report about \$560 million in revenue for fiscal 2011 – \$140 million less than forecasted. That number will likely free-fall even further to \$360 million by the end of this year, company executives predict.

"The company is dramatically smaller than it was a year ago," said NCI President Brian Clark, who joined the company in April from Stanley Associates Inc., where he was in charge of equity and debt financing. "We just don't have contracts that are generating



enough dollars to absorb our overhead. We had to make decisions to live leaner in order to remain competitive."

NCI is one of a growing number of local federal contractors forced to look inside their organizations for areas to cut costs – including real estate, back-office processes and salaried personnel not directly billable to the government – to maintain profits. The risk, some procurement experts say, is that

economic pressures will force companies to cut to the bone, sacrificing the very resources needed to expand.

"Ultimately, a contractor wants to have high margin, and one way to achieve that is by lowering overhead costs," said Ray Bjorklund, senior vice president and chief knowledge officer at Herndon-based software and consulting company Deltex Inc., which analyzes federal contract spending.

"Whatever they make above the allowable costs is gravy, but especially in this more competitive environment, the gravy isn't enough" – to fuel growth or please Wall Street.

Here's how it works: In reimbursement contracts, companies get paid for direct costs, such as labor and materials, making

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\$10 million slated for surgical suite renovations

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project with proceeds from \$13.6 million in bonds floated in 2007 and 2010 – revenue that also funded the construction of a \$54 million inpatient bed tower completed in 2010.

Annapolis-based CR Goodman Associates LLC is consulting on the design.

Although the upgrades will ideally keep surgical volumes high across all specialties, the hospital is particularly eager to improve its capacity to serve surgeons trained in robotic, lap-band or other techniques that require less anesthesia, cutting and recovery time.

By targeting minimally invasive procedures, Grenaldo said, the hospital can both establish relationships with young surgeons and maximize revenue through added volume.

While Doctors Community has generally operated at a surplus in its 38-year history, hospitals that lose ties with surgeons and other physicians will ultimately see their revenue fall off, because doctors' opinions carry great weight for patients deciding where to get care.

The county's largest hospital system, chronically cash-short Dimensions, spends nearly \$20 million annually to keep independent doctors working at its hospitals. While discussing the challenges facing Dimensions in a legislative hearing last week, Prince George's County Executive Rushern Baker said 60 percent of residents end up leaving the county for care.

Dr. Regina Hampton, a surgeon who owns her own Lanham practice, Signature Breast Care, said patients prefer receiving care or undergoing treatment close to home. But they and their doctors must be convinced that their local, suburban option meets a minimum threshold.

"If they can be treated close to home and get the same standard of care and technol-



Doctors Community Hospital COO Paul Grenaldo, with nurse Ellen Irving, says that by targeting minimally invasive surgeries the hospital can build relationships with young surgeons and maximize revenue by growing volume. Photo by Joanne S. Lawton

ogy as they get in the District, I think patients will stay here," Hampton said. She personally does not use the minimally invasive techniques in her practice, which focuses on breast cancer surgeries.

Independent doctors groups are eager for

the hospital's upgrades to begin, so they can recruit young doctors into their private practices, Grenaldo said. "Many of the existing surgical staff is getting close to retirement," he said.

The hospital has not yet asked the Mary-

land Health Care Commission for a required certificate of need; however, because the project does not alter surgical capacity, approval is expected.

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Need to find ways to grow 'or else you'll stall'

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the majority of profit on the former. That makes contract employees indispensable. The government also pays an indirect rate for the general costs involved with running the company, including facility costs, and salaries for administrative and management positions not directly tied to (and therefore billable) under the contract. This is where companies often look to trim: The leaner a company, the lower the rate for indirect costs and the more competitive and more profitable that company can be.

Now, as federal budgets tighten and agencies bid fewer contracts, companies are forced more than ever to take a close look at their own spending.

NCI laid off 60 employees at the end of fiscal 2011, most of whom supported accounts payable and partner relationships, and consolidated the remaining workforce of about 2,600 employees so it could trim facility costs – terminating one lease for a facility in Colorado and preparing to sublet four other facilities in Reston, Annapolis Junction, Md., New Jersey and Arizona. The company paid about \$3 million during fourth quarter of 2011 for the restructuring, which it expects to drive \$5 million in annual savings, starting in 2012.



“

We just don't have contracts that are generating enough dollars to absorb our overhead. We had to make decisions to live leaner in order to remain competitive.”

NCI President **Brian Clark**

Earlier this month, news broke that McLean-based Booz Allen Hamilton Inc. laid off what one source said was more than 100 middle and senior managers, pointing in a statement to a strategy that focuses on “taking cost out of our infrastructure and overhead.” The company already keeps facility costs down through its “hoteling” model that encourages employees to work remotely and reserve space when they need an office.

And in fiscal 2010, Lockheed Martin Corp. let go more than 600 company executives – about 25 percent of the total executive ranks – through buyouts. It also undertook a major corporate reorganization, divested two business units and reduced its international trade show participation and advertising.

Arlington-based BAE Systems Inc. also “aggressively restructured” the business during

2011, stripping million of dollars from overhead by limiting the number of management layers and transitioning to a shared services model, said Erin Moseley, senior vice president of government relations for BAE.

“We had a lot of disparate systems that focused on finance and human resources and such, and spent a lot of energy combining those capabilities,” she added, noting that the company will unveil additional initiatives to trim overhead during 2012.

But even as companies find ways to operate more efficiently, experts say, government acquisition policies and processes demand more. Agencies increasingly “dumb down” personnel requirements, including education and experience level, to rationalize lower pay rates, even though the skills needed to do the job demand more quali-

fied people, said Stan Soloway, chief executive of the Professional Services Council, an Arlington-based trade association for the government's professional and technical services industry. They also increasingly use margins as a cost-reduction tool, he added, pointing to one major military unit at the Defense Department that capped margins at 6 percent, which doesn't even account for the amount that companies need to pay their subcontractors.

“All considered, profit might end up only about 2 percent, which you might expect for companies that work in high-volume markets,” Soloway said, but not contractors providing services. “Blanket margin caps are insane, and put even more pressure on companies in ways that are not healthy and leave nothing left to reinvest. Trimming overhead is a necessity. But government needs to pay reasonable prices and margins.”

As for NCI, the company kept its hands off business development resources and maintains plans for future acquisitions – though lower revenue will probably mean less credit capacity, Clark conceded.

“You take yourself to the breaking point, because you don't want to leave the whole place on needles, waiting for the next shoe to drop,” he said. “But at the same time, you need to find ways to grow, or else you'll stall. Right now, we're looking at the new world upon us and figuring it all out.”

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