GAUGE
2025 REPORT
SUPPLEMENT

Industry Insights

One Year Later:
How AI Continues to Shape the GovCon industry

Unanet | CohnReznick

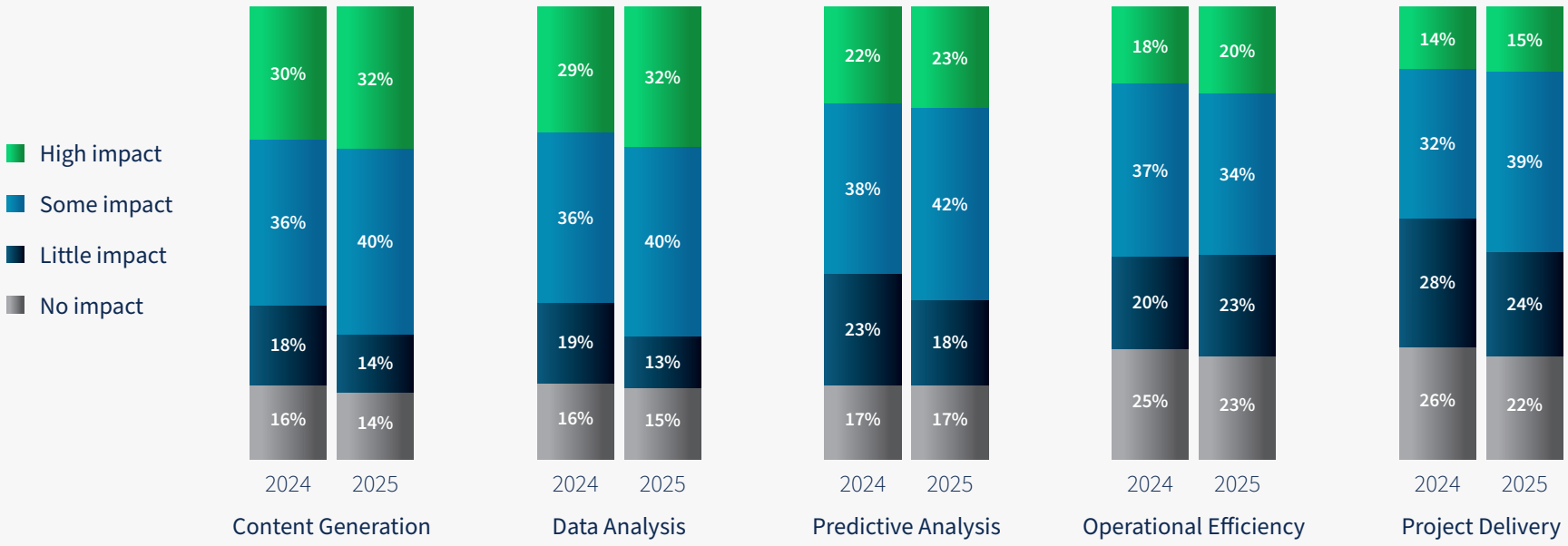
GAUGE-ing One year later: How AI continues to shape the GovCon industry

In the 8th edition of the GAUGE report from 2024, artificial intelligence began to emerge as a practical tool for enhancing compliance and efficiency in the government contracting industry. Only a third of GovCons had adopted AI, primarily in Marketing and Business Development. Fast forward to 2025 and the landscape has changed precipitously, with 54% of GAUGE respondent GovCon firms actively leveraging AI tools, and 42% being open to the technology.

It has become clear that AI usage is no mere developing trend; it is a competitive differentiator firms can no longer afford to ignore. The question is no longer if, but how to use AI to drive growth and efficiency in an increasingly complex and fast-moving environment.

In general, the industry is growing more convinced of AI's utility; the proportion of firms that say it will provide "some" or "high" levels of positive impact has gone up across all business areas since 2024, particularly when it comes to content generation and data analysis. GovCons are very excited about AI and the potential of its impact on their business. But as you can see below, there are several ways that AI could impact, with Content Generation and Data Analysis listed as the two with the most potential to impact their business.

Please rate the potential positive impact of AI technology on the following areas of your business.
(% High Impact)



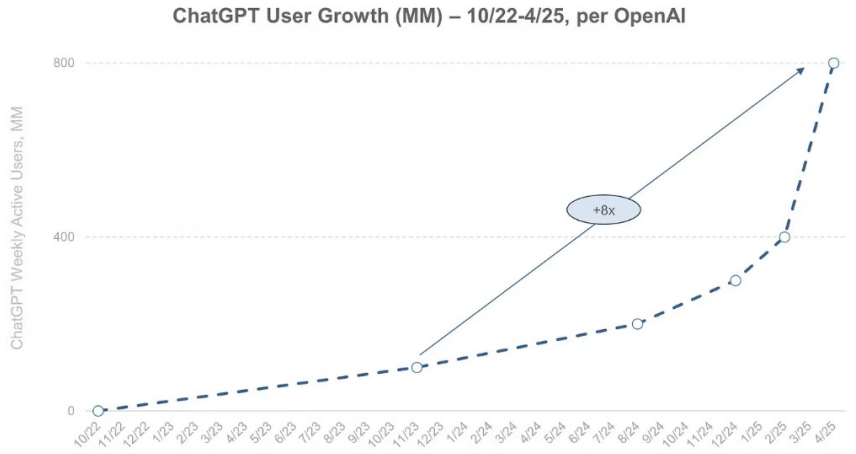
What is AI?

First, let's talk about what AI means. AI in some form has been around for a while now, and I don't mean in science fiction. Mostly, what has come on the scene lately is Generative AI and Large Language Models. The rapid progress in the accuracy, cost, and speed of these capabilities over the last few years has captured our culture with the potential for massive transformation that has been hard to miss – as everyone has been talking about it.

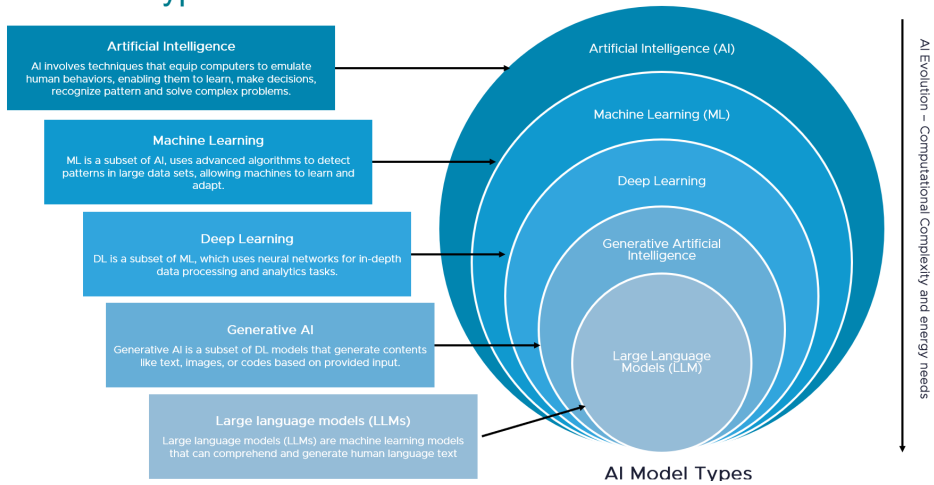
AI and Content Generation (aka Proposals)

The power of these solutions is largely in the space of generating content and understanding human language. In the GovCon world, this has largely shown up as proposal creation tools. The Government is also looking for AI to be leveraged across their own procurement and operations, and the expectation is that AI will be leveraged extensively by contractors to deliver work faster, cheaper, and better.

AI User Growth (ChatGPT as Foundational Indicator) = +8x to 800MM in Seventeen Months



AI Model Types



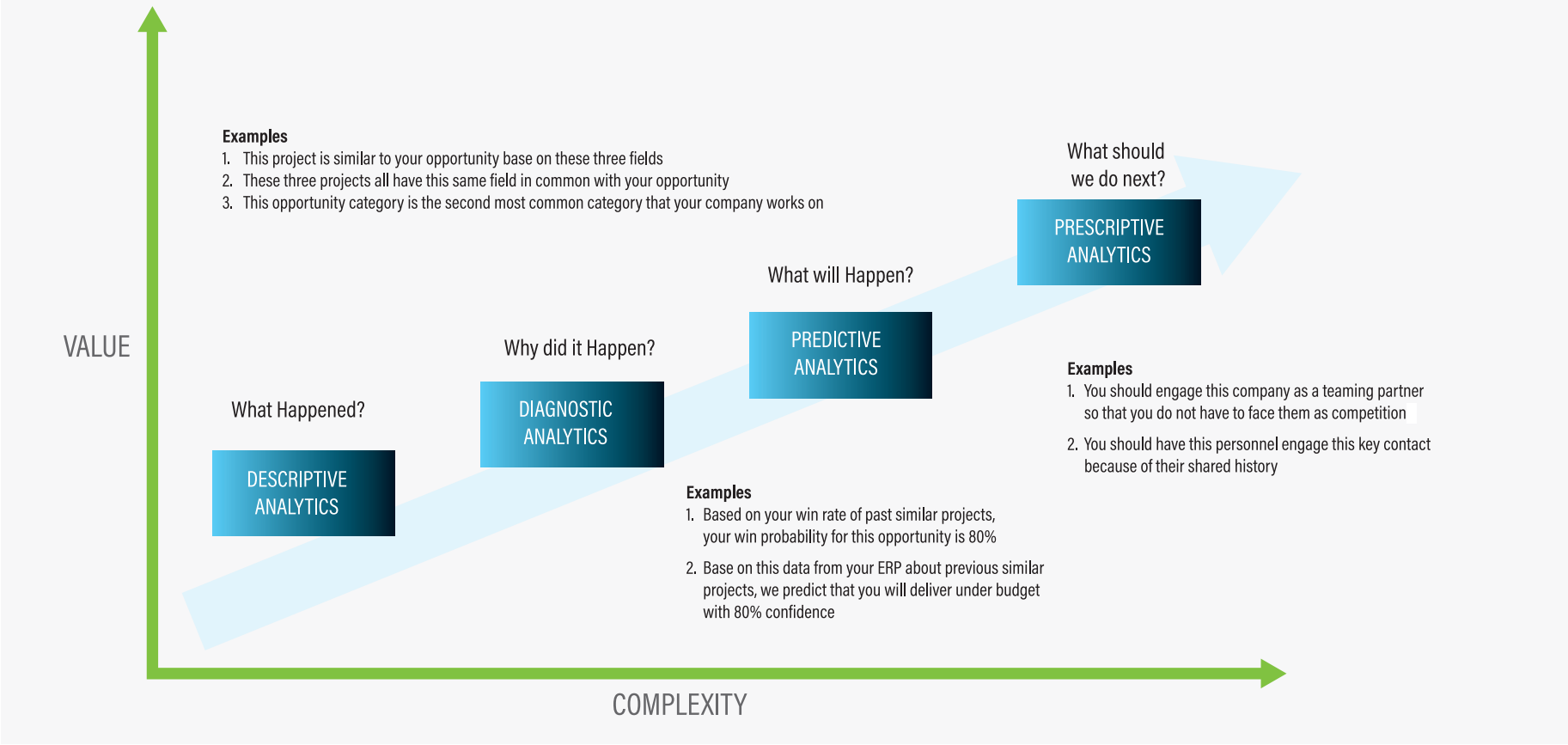
AI and Analytics

The second biggest area of potential impact is data analytics. Why is that? Because making sense out of data is hard. There are so many small ways that connecting data from various systems can go wrong (just ask any Data Analyst). Many firms have dedicated staff or hire consultants to help connect data, generate reports, and discover insights. Despite the promise of easy insights for the last couple of decades, the reality has been harder to achieve in practice.

Yet AI-powered analytics can offer hope. After being trained on millions of data sets, learning patterns, and using natural language to recognize patterns, running disparate data through AI and asking it questions in natural language has become the new expectation.

As you see below, this is a basic framework for how to think about the way analytics is evolving. Before AI, answering the types of questions at the top right of the chart for diagnostic, predictive, and prescriptive analytics took a ton of fundamental knowledge about database architecture, algorithms, and business intelligence (BI) platforms.

After AI, all it takes is some work to unify and clean up the data in a Data Warehouse or Data Lake and then asking a few questions the same way you would a data analyst.



Agentic AI – What's Next

Which brings up the next wave of AI – Agentic AI. If you read anything shared by any of the various CEOs or CTOs of the big AI companies, you will hear this term a lot.

For example, here's how Agentic AI is described – by Google Gemini:

"Agentic AI refers to AI systems capable of autonomous decision-making and action to achieve specific goals, often with limited or no human supervision. Unlike traditional AI, which primarily responds to inputs, agentic AI proactively plans, adapts, and executes tasks, demonstrating a form of "agency" or independent action."

Here's a more detailed breakdown:

Key Characteristics of Agentic AI:

Autonomy
Agentic AI systems can operate independently, making decisions and taking actions to achieve their objectives without constant human direction.

Adaptability
They can adjust their actions and plans based on changing circumstances or new information, enabling them to handle dynamic environments.

Complex Goal Pursuit
Agentic AI can tackle multi-step tasks and pursue complex goals, often involving multiple interconnected actions.

Decision-Making
They can evaluate situations, weigh options, and choose the best course of action, often using advanced reasoning and problem-solving capabilities.

Learning and Improvement
Some agentic AI systems can learn from their experiences and interactions, refining their strategies and improving their performance over time.

How Agentic AI Differs from Other AI:

Generative AI
While generative AI focuses on creating content, agentic AI focuses on achieving goals through actions and decisions, according to CohnReznick.

AI Agents
Agentic AI is a more advanced form of AI agents, with the key distinction being the ability to operate autonomously and pursue goals proactively, rather than just reacting to user input.

Traditional AI
Traditional AI systems often require explicit instructions and limited learning, whereas agentic AI can learn and adapt to a wider range of situations.

GovCon Example:

An AI-powered supply chain system that monitors weather patterns, predicts disruptions, reroutes deliveries, and adjusts inventory levels in real-time, without human intervention, is an example of agentic AI. It perceives its environment, plans a course of action, executes that action, and then learns from the outcome to improve its future performance.

In essence, agentic AI represents a step toward more sophisticated and autonomous AI systems that can operate with greater independence and adaptability to achieve complex objectives, according to Harvard Business Review.

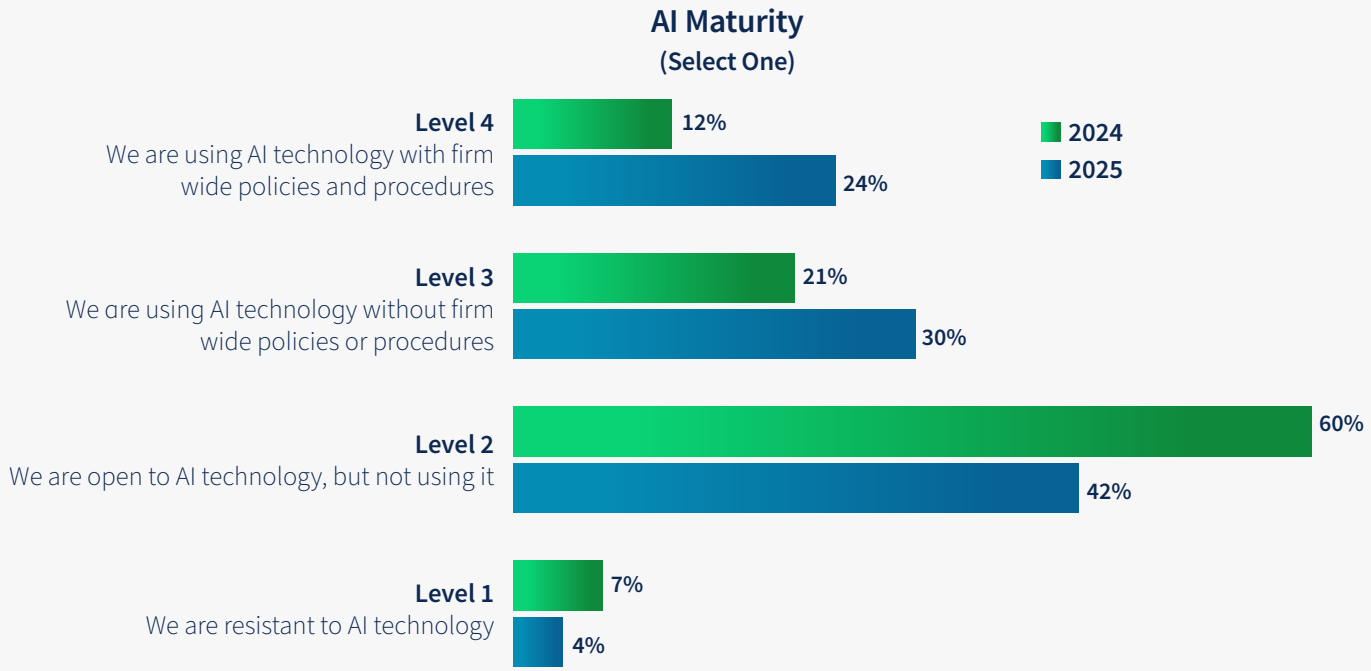
How Will Agentic AI Change the way you work?

The biggest change will be the expectations users have with software. Here are some of the emerging trends we are already seeing.

GAUGE Trends in AI in GovCon: How will it change the way you think?

Firms with higher focus on operational maturity are more likely to use AI.

Organizational maturity appears to be a critical predictor of AI usage: firms with PMOs are twice as likely to be using AI than those without, and half as likely to have resistant attitudes. Such process-driven firms are both more likely to have the cultural and operational frameworks to more effectively integrate and leverage AI tools.



2025 PMO Model

PMO	No PMO
28%	14%
33%	13%
36%	65%
3%	8%

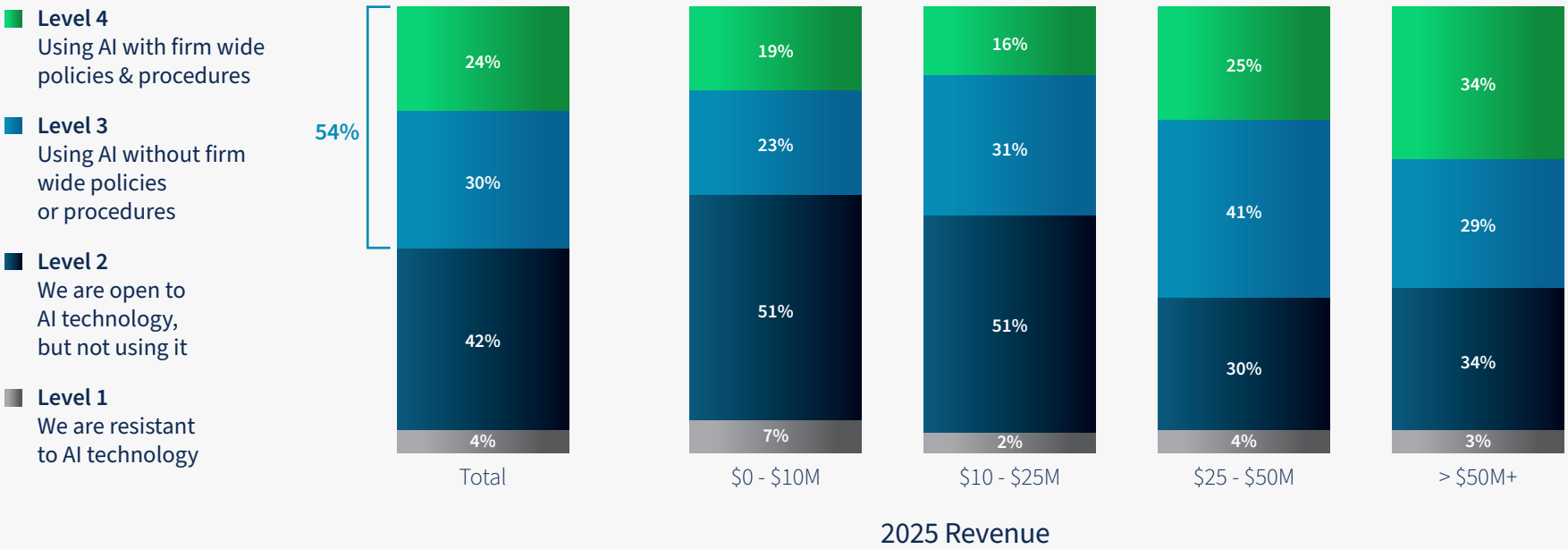
Trends by company size and revenue

In the 8th edition of the GAUGE Report, firms with revenues between $25 million and $50 million led the charge in AI adoption; these firms reported the highest rates of AI usage across all business areas, and were also particularly keen to expand their application of AI to include Business Development and Marketing.

In the 9th edition of the GAUGE, the highest-earning firms have rapidly closed the gap. What's more is that these largest firms tend to be more rigorous and disciplined in their approach toward AI—34% of these firms have formal organizational policies governing AI use, compared to 25% or less of lower-earning firms—and are thus more likely to be able to enhance business outcomes while minimizing regulatory and security risks.

Meanwhile, SMBs, hindered by less mature operational practices and tighter resources, continue to lag, with lower overall rates of usage and less formal governance in place. As AI-mature GovCons continue to further speed up capture, delivery, and operations, SMBs that remain laggardly will have to face the threat of this widening efficiency gap.

Which of the following best describes your firm's approach to leveraging Artificial Intelligence (AI) technology?
(Select One)

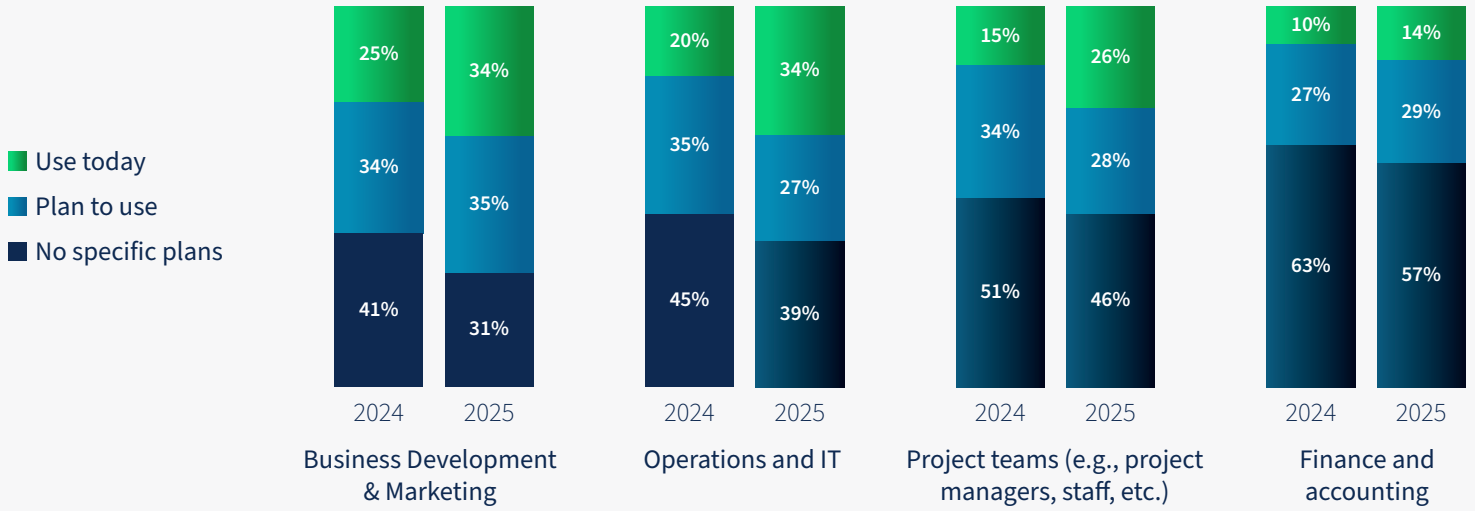


AI by Department

AI usage has expanded since 2024, though some areas remain more resistant than others. Finance and accounting, with its high sensitivity to risk, continues to lag behind other areas in overall adoption.

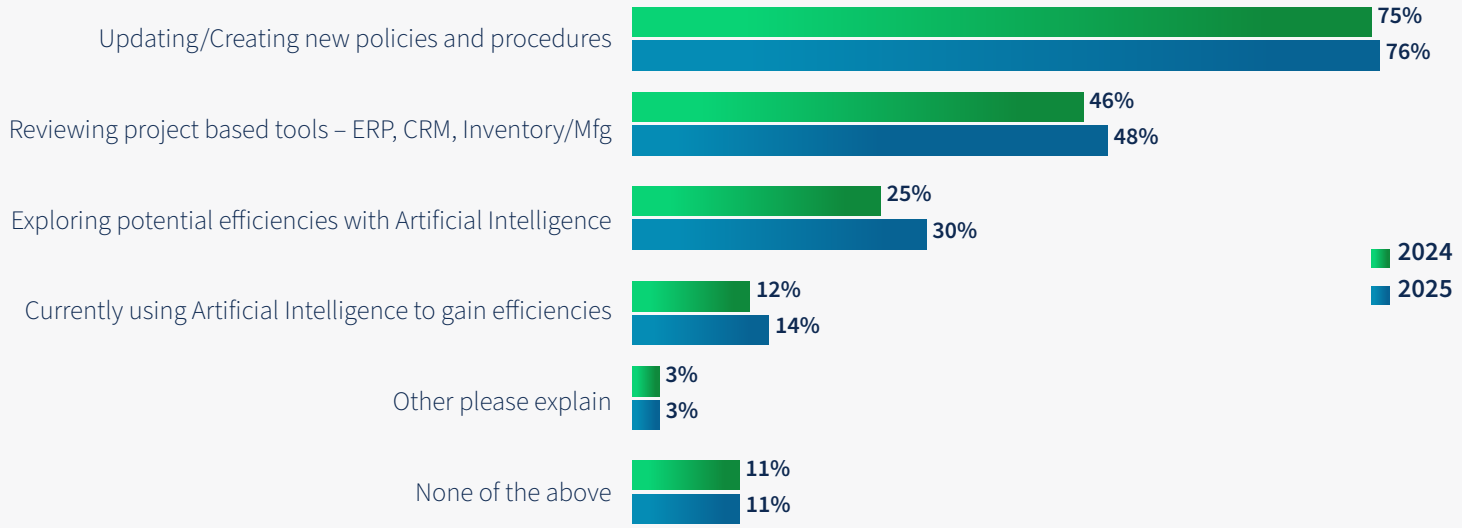
Business Development and Marketing continues to enjoy high rates of AI usage—a trend that is likely to hold. Traditional relationship-based capture strategies are liable to shift in the future as key contacts within the government workforce exit the GovCon space, and data-driven, pricing-first bidding strategies will become increasingly persuasive. AI-driven proposal tools will represent massive efficiency gains for businesses looking to scale BD efforts by allowing teams to quickly qualify viable opportunities, forecast win probabilities, and generate winning proposals.

What areas of your business are leveraging AI technology today or plan to in the next 12 months?
(Select One for Each)



Similarly, AI usage in project delivery can enhance resource planning, task automation, and training to boost team effectiveness. In particular, scenario modeling AI tools can help inform smarter resourcing strategies—deciding whether to buy (meaning hire), build (meaning train), or borrow (meaning subcontract) resources is always a challenging exercise.

What are you doing to be more efficient in satisfying compliance requirements?
(Select All That Apply)



Special Focus: Resource or Project Management

Interestingly, GovCons with PMOs are firm believers in the advantages of using AI; compared to those without PMOs, they are more likely to see AI as an asset across the board.

This difference is especially marked for operational efficiency, with 35% of firms with PMOs agreeing AI will prove advantageous compared to 16% of those without.

OTSBs more often think that AI will have a “high” impact when it comes to operational efficiency and project delivery. The majority of these firms (83%) say they have a PMO, and a little under two-thirds identify as having “very” or “somewhat” mature resource management practices, suggesting a greater sense of organizational attention toward matters of efficiency and utilization.

Take the GAUGE AI Challenge

Where does your company stand in the Maturity Model

In the course of our GAUGE 8th to 9th edition, the GovCon industry has shown a startling maturation in terms of both attitudes toward and usage of AI. Larger, more organizationally mature firms are pulling ahead, leveraging AI to enhance operational rigor, support strategic imperatives, and realize very real, very significant bottom-line gains. As firms continue to seek ways to become more adaptable and responsive in a quicksilver federal landscape, it seems likely that AI will become not only a tool for automation but a driver of strategic advantage—for projects, platforms, processes, and people. Take the challenge to find out where your company stands. Are you "resistant” to change and siloed with data in disparate systems; could your firm be “curious” and have some understanding of AI compliance governance and security considerations are being made; will you be climbing to an “emergent” level with internal control champions of AI and building purposeful platforms for AI; and finally can you call your company “mature” with stakeholders deep as AI subject matter experts and internal champions a part of key management positions? **Whatever level you are in AI is here to stay and is part of our everyday life so use the maturity model on the following page to help you grow with the rest of us.**

For more insights on the state of the GovCon industry and how to master planning reource planning and execution **dowload the full 2025 GAUGE Report.**

AI Maturity Model

Where do you and your company stand?

LEVEL 1 – RESISTANT

1. Siloed data. Large amounts of unprocessed (dark) data.
2. Limited business intelligence. Basic or unreliable forecasts.
3. Unclear or rarely reviewed processes.
4. Heavy reliance on spreadsheets or manual tools. Little automation and no AI usage.
5. No dedicated committee for governance. No expert stakeholders.
6. Limited understanding of secure, compliant AI implementation.
7. Disjointed tools and processes make auditability a challenge.
8. People are resistant to or uninterested in the idea of using AI.
9. There are no internal champions. Leadership is minimally engaged.

LEVEL 2 – CURIOUS

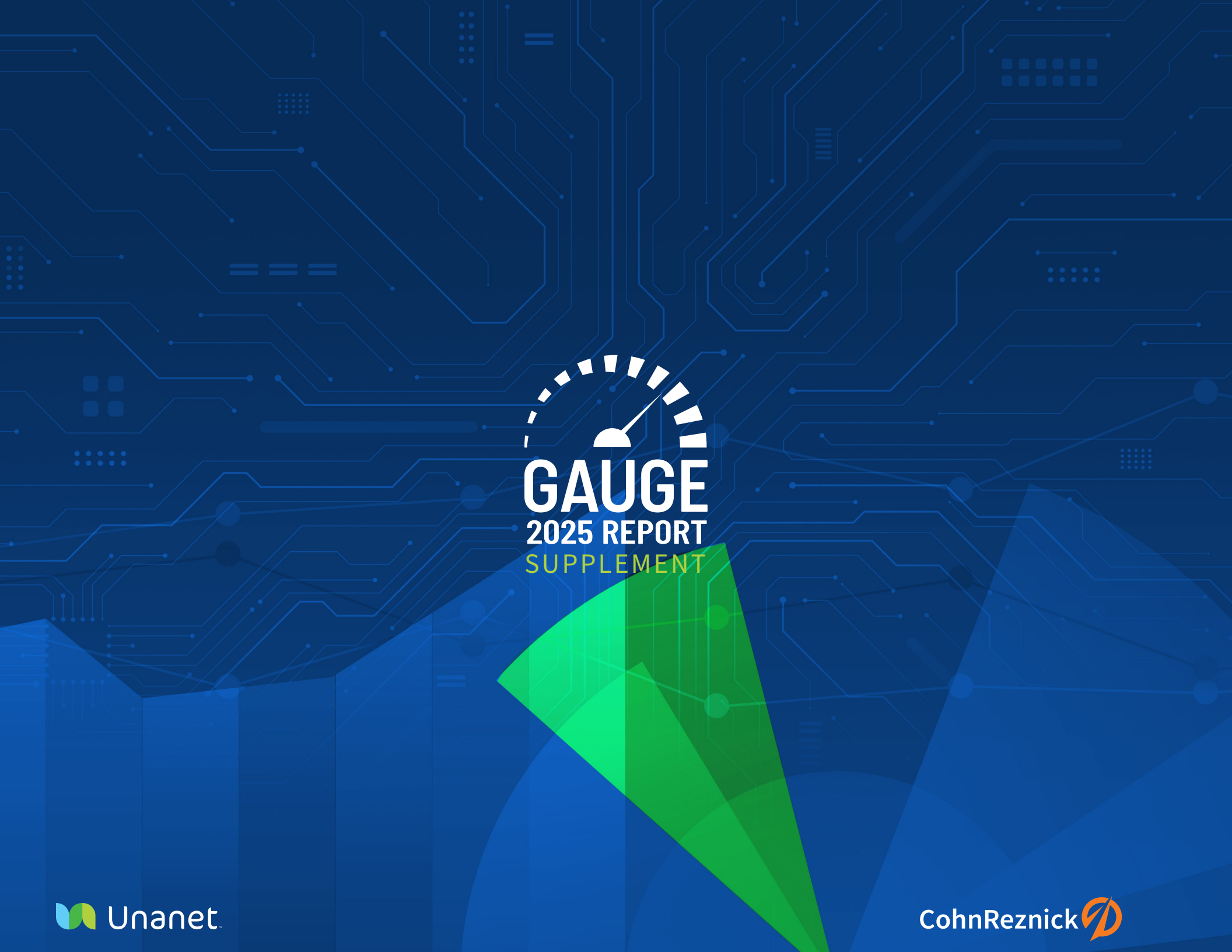
1. Some data systems are integrated. Data occasionally reviewed and cleansed.
2. Static business intelligence. Regular performance of key forecasts.
3. Clear, occasionally reviewed procedures.
4. Mix of spreadsheets and purpose-built platforms. Some automation. Ad hoc AI use.
5. Governance falls within other committees. Some knowledgeable stakeholders.
6. Compliance and security considerations for AI implementation are understood.
7. Some audit challenges due to partial integration and basic processes.
8. People are interested in using AI for core business functions in the future.
9. There are a few identifiable internal champions. Leadership is supportive.

LEVEL 3 – EMERGENT

1. Significant integration of key data systems. Regular data management.
2. Dynamic business intelligence. Comprehensive, frequent, and regular forecasting.
3. Detailed, regularly reviewed policies and procedures.
4. Mostly purpose-built platforms. Significant automation. AI use in many business areas.
5. Standalone technology committee with experienced and knowledgeable stakeholders.
6. AI implementation follows industry best practices for compliance, with adoption and change management still needed.
7. High level of auditability from centralized platforms and defined processes. Audit deficiencies defined and assessed.
8. People are comfortable with and actively use AI for core functions in their business area.
9. Internal champions lead AI initiatives. Leadership provides guidance.

LEVEL 4 -MATURE

1. Full, seamless integration of data systems. Robust, proactive data management.
2. Real-time dynamic business intelligence with advanced analytics and predictive forecasting.
3. Robust governance framework with regular audits and updates.
4. Purpose-built platforms customized to business needs. Significant automation. Firm-wide AI use.
5. Cross-functional technology committee. Stakeholders with deep subject matter expertise.
6. AI implementation fully compliant to regulatory standards and full change management phases implemented.
7. Clear audit trail from centralized infrastructure and standardized operating procedures, with rotational audits occurring utilizing AI.
8. People are proficient at using AI and identifying potential new applications. AI competency is assessed in performance evaluations.
9. Internal champions are a part of key management positions. Leadership collaborates to drive AI strategy.



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