

Introduction

The federal procurement system classifies companies as either small or large. A “small” company in the federal contracting system has number of employees or level of revenue that falls below a NAICS-Code-specific level set by the U.S. Small Business Administration. Such small companies are eligible for federal contracts and subcontracts that are reserved for small business.

A company that has grown beyond those small business size standards is “large.” There is no in-between.

Small businesses seeking to win bids for federal business can face significant obstacles once their companies outgrow eligibility for federal small business preferences for prime and subcontracts that had given them access to opportunities that had been driving the majority of their revenue.

The Federal government considers them “Large.” At that point, even if they might have only \$20 million or \$8 million in revenue, they must compete for federal prime contract business directly with some of the world’s largest multi-billion dollar corporations.

That’s a problem for thousands of federal contractors. In this study, we refer to these newly-large companies as “mid-tier” federal contractors.

The purpose of this study was to identify the challenges that firms shared a common loss of contracts and the ability to re-compete for prime work on which they have previous experience and excelled at, due to loss of small business status.

At that point, these companies face a constant battle of convincing customers to keep or renew contracts when, despite having demonstrated superior performance and gaining expertise that represents high value and low risk, they no longer can contribute to meeting small business goals.

Methodology

We undertook this project to gain further insight into the challenges that mid-tier companies in the government contracting space face today. Mid-Tier Advocacy (MTA) provided a list of potential respondents – business owners willing to participate in a 30-60 minute interview to discuss challenges that current and aspiring mid-tier companies face in government contracting and how they have responded to, or plan to approach, these issues.

The research team at The George Washington University conducted 10 telephone interviews between January 11 and March 3, 2014.

Analysis of small and mid-tier companies identified some size-specific challenges as well as common concerns.

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Study Highlights***Respondent Snapshot***

6 Mid-Tier / 4 Small Business

Revenue Range:

1 = <\$5M 2 = \$5 - 10M 1 = \$10 - 20M 2 = \$20 - 50M 3 = \$50M+

50% of participants rely on small business status for the majority of their revenue

A. Federal business challenges internal to the mid-tier business

1. Lack of resources and scalability of the giant corporations they must compete with directly for federal prime contracts.
2. Lack of financing to retain key technical employees that are not billable when federal contracts are postponed or suspended.
3. Lack of access to lower-risk growth capital

B. Federal business challenges internal to the mid-tier business

- Federal buyers focus more on set aside goals than cutting risks that can lead to costly project failure.
- When Federal buyers recompetes work among small business to achieve small business goals, they consequently lose the experience and lower risk represented by the previous incumbent with excellent past performance that has outgrown its size standard through the course of the contract.
- Federal buyers award contracts to small businesses despite requirements beyond the small business vendor's capability and waste tax dollars when those projects fail as a result
- Because Federal small business programs have no provisions or incentives to encourage buyers to make good use to mid-tier, or newly-not-small but experienced vendors, they are under continuing pressure to do business with small businesses
- Federal goals for small business subcontracting motivate large primes to prefer a small supplier that can help them meet those goals (especially if the small business qualifies for multiple programs) over a mid-tier company with more experience who can no longer be counted toward those goals. As a result, mid tier companies say that the large primes won't even talk to them about teaming.

Respondents' strategies for transition from small to large

- Anticipate the implications of winning contracts that move you from one tier to the next.
- Improve competitive positioning as unique
- Diversify practice areas
- Aggressively pursue a growth strategy that will take the company strongly through transition
- Prepare for transition by investing in cost effective infrastructure to support greater business volumes, including business development team, marketing and sales effort, administrative, legal, human resources, and benefits
- Increase community outreach, business development, networking, social media
- Seek alliance with other mid-tier companies
- Focus strongly on increasing capture ratio and outstanding contract performance
- Spin-off a small business company that can access the mid-tier company resources, but can sub-contract to back to mid tier to cushion the latter's transition from small to large.
- Get outside help for things like
 - Strengthen proposals or provide connections
 - New markets
 - Exit strategy – Merger / Acquisition
 - Subject matter expertise