



Strategies for Success from Federal Small Business Contractors **A Research Summary for the** **American Express OPEN for Government Contracts:** **Victory in ProcurementSM (VIP) for Small Business Program**

The US government is the world's largest single purchaser of goods and services, spending \$500 billion or more each year.¹ Given the government goal of awarding 23% of their spending to small firms – some \$115 billion annually – Federal contracting is an important avenue of growth for many small businesses to consider, and it is important to learn more about the challenges and successes that small business owners are having pursuing Federal contract opportunities.

This report is the first of three summaries to be published from a groundbreaking survey conducted for the American Express OPEN for Government Contracts: Victory in Procurement for Small Business program.² This report focuses on the experiences and advice of active Federal contractors, and contrasts their actions and behavior with other small businesses that have not yet landed a prime Federal contract. (The other two reports will focus on the Federal contracting experiences of women and minority small business owners, and on the experience that small business owners have had with such procurement strategies as teaming and subcontracting.)

What advice and tips do successful small business contractors have for those who are just getting started? And what can less successful small business contractors learn from the strategies and behaviors of successful small business contractors? Those questions are the main focus of this report.

Quick Facts

- **What are the two most important pieces of advice that successful small business contractors offer? 1) Start small and work your way up; and 2) if at first you don't succeed, try, try – and try – again.**
- **Active contractors are more successful in contract performance in part because they are more active in the bidding process – for both prime and subcontracting opportunities.**
- **Federal procurement success takes both time and money. Active contractors have invested more of both.**
- **Getting on the GSA³ schedule can be another key avenue to procurement success. Getting listed on this “pre-approved” bidder registry has been especially fruitful for women business owners.**

¹ Federal Procurement Data System.

² See Methodology Note and program description at the end of this report for additional details.

³ General Services Administration.

Key Findings

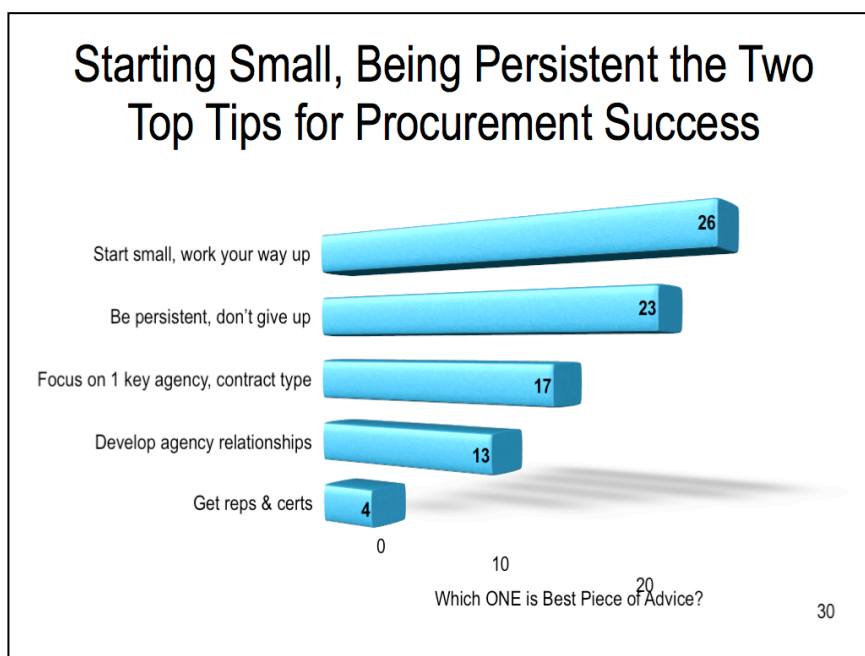
The two most important pieces of advice that active small business contractors have for those who are still trying to win that elusive first prime Federal contract are: 1) start small and work your way up, and 2) if at first you don't succeed, try, try (and try) again. Starting small has led to big rewards for the most successful contractors; persistence is especially important advice from business owners of color.

- Start small and grow over time. This is the top tip offered by successful small business contractors; 26% suggest that approach. It's mentioned even more frequently by the most successful small business contractors: fully 34% of those who have won \$5 million or more in prime contracts since they entered the Federal procurement marketplace say that starting small is the key, compared to only 19% who have won less than \$500,000 in Federal contracts. Clearly, those who are still winning smaller contracts don't yet have that degree of perspective.

In addition to beginning by seeking smaller prime contracts, starting small can also mean pursuing subcontracting opportunities. In addition to their prime contract successes, three-quarters (76%) of active small business contractors have also pursued being a *subcontractor* to a larger prime contractor (participating in an average of 7.9 bids over the past three years), and 54% have actually provided goods or services as a subcontractor at some point in the past three years. In contrast, a lesser 65% of non-contractors have pursued subcontracting opportunities (an average of 1.7 times) during the past three years, and only 25% have performed as a subcontractor. Attending matchmaking events, researching agency purchases, and developing relationships with agency contracting officials are all excellent ways of identifying prime contractors.

In addition, 62% of active small business contractors have pursued *teaming arrangements* with other small firms, compared to only 36% of non-contractors. Attending matchmaking events, visiting teaming web sites, and networking at small business conferences are all excellent ways to find potential teaming partners.

- If at first you don't succeed, try, try (and try) again. Persistence is the second most important piece of advice from successful prime contractors, with 23% offering that lesson learned. The degree to which this piece of advice is



offered does not differ by region, industry, size of business or gender. However, small businesses owned by men or women of color are significantly more likely to push the power of persistence. Fully one-third (32%) of business owners of color say that persistence has been the key – making it their top recommendation to small business owners who are just getting started pursuing Federal contracts.

The need for persistence can be further illustrated by the fact that active contractors report that it **took nearly two years of trying** (an average of 1.7 years, or 20 months) to win their first Federal contract.

Many small business owners who have not yet won their first prime contract are just getting started. Nearly half (42%) of non-contractors have started pursuing Federal contracting only recently – having gotten registered on the Central Contractor Registration (CCR) database (a necessary first step in the procurement process) in 2008 or later. Thus, the data would suggest that many of them will become successful – if they keep bidding – over the next year.

- Seeking Federal contracts is a **proactive growth strategy** for these business owners – both those who are currently active as well as those who are still seeking greater success. When asked why they entered into the federal procurement marketplace, the plurality of active contractors, currently inactive contractors AND non-contractors⁴ all say that entering into the Federal marketplace is a conscious growth strategy for their business. (39% of active contractors, 37% currently inactive and 39% non-contractors all say this is their main motivation). Coming in a close second is the conviction that they have a product or service that will fill a need for a particular agency (34%, 29%, 27%, respectively). Few are entering into federal procurement as a buffer against the ebb and flow of other business. Just 16% of active contractors, 21% of currently inactive and 21% of non-contractors give this as their main reason for seeking Federal contracts.

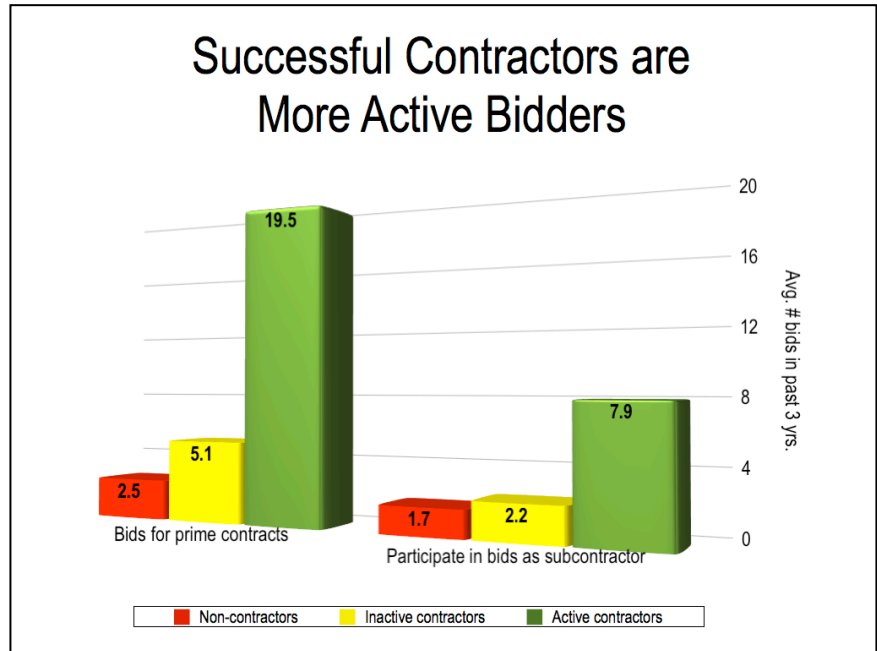
Small businesses that are active Federal contractors are more successful – at least in part – because they are much more active in the bidding process. Active contractors have submitted more than three times as many prime contract bids as currently inactive contractors, and more than seven times as many bids as non-contractors. They are also more active in bidding for subcontracting opportunities.

- Successful contractors have bid on an average of 19.5 prime contracting opportunities over the past three years, while currently inactive contractors have submitted an average of 5.1 bids and non-contractors have submitted less than 1 bid per year (2.5 bids over the past three years). Successful contractors have won an average of 8 times during that time, compared to 1.1 times for inactive contractors and 0 times for non-contractors.
- Active contractors are also active in seeking subcontracting opportunities, participating an average of 7.9 times over the past three years in a prime contract proposal submitted by another bidder. In comparison, currently inactive contractors have participated in only 2.2 subcontracting opportunities over the past three years, and non-contractors have participated in only 1.7 subcontract bids during that same timeframe. Successful small

⁴ Currently inactive contractors are small business owners who may have had a prime Federal contract in the past, but who are designated in the Federal Procurement Data System as currently inactive. Non-contractors have never won a prime Federal contract. See Methodology Note at the end of this research summary for a complete definition of all three groups.

business contractors are thus significantly more active bidders, for both prime and subcontract procurement opportunities.

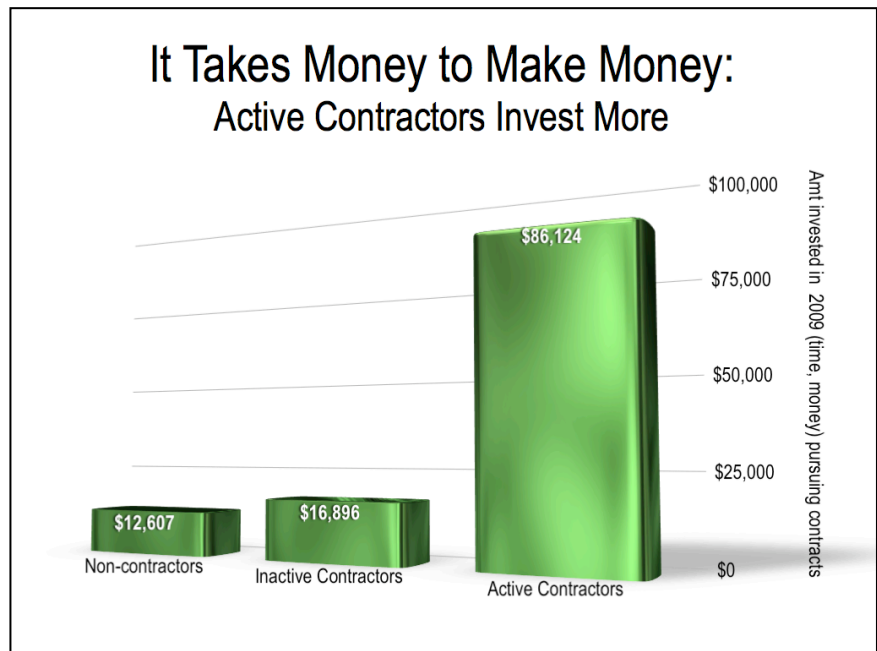
- Who are the most active of the active contractors with respect to bidding activity? Business owners of color, businesses in a goods-producing industry, and



businesses with higher revenues. Over the past three years, minority business owners say they have submitted an average of 27.7 prime contracting bids (42% more than the average 19.5 bids), owners of manufacturing or construction firms have submitted an average of 25.2 bids, and firms with \$1 million or more in revenues have submitted an average of 23.6 bids.

Success in the Federal procurement arena thus comes only after a significant investment of time and money. Active contractors have invested more of both – not only making bids, but meeting and cultivating relationships with agency officials. On average, it took active contractors over 18 months to win their first contract.

- In addition to more frequent bidding activity, active small business contractors are also more likely to be engaged in networking and learning opportunities. Nearly half (44%) of them say that they have attended agency-sponsored informational meetings or seminars, compared to 34%



of currently inactive contractors and 35% of non-contractors.

- Active contractors are also much more likely to have met with agency procurement officials – such as representatives of an agency’s Office of Small and Disadvantaged Business Utilization (OSDBU) or other agency small business specialists who can provide useful information and introductions to bidding opportunities. Over one-third (37%) of active contractors have met with agency procurement officials, compared to just 29% of currently inactive and non-contractors.
- Another important informational resource can be procurement matchmaking events, wherein multiple agency representatives are available to answer questions and provide information about upcoming bidding opportunities. Active contractors are only somewhat more likely (38%) than currently inactive (32%) or non-contractors (33%) to have attended a matchmaking event.
- All told, successful small business contractors have made a much more significant investment of time and money in pursuing Federal contracting opportunities than their less successful counterparts. Active contractors estimate that they committed, on average, over \$86,000 in cash and staff resources just during the course of 2009 seeking contract opportunities. In contrast, currently inactive contractors invested just under \$17,000, while non-contractors invested less than \$13,000 in 2009 seeking Federal contracting opportunities. The old adage “it takes money to make money” would appear to be never truer than in this case.

Getting on a pre-approved bidder list in the General Services Administration (otherwise known as “getting on the GSA schedule”) can be another important strategy for pursuing for Federal contract opportunities. It appears to be a more important avenue to success for women than for men.

- One-third (34%) of active small business contractors say they’ve gotten on the GSA schedule – which is a pre-approved bidders list that allows Federal agencies to purchase goods and services in a more streamlined manner. In comparison, just 13% of currently inactive contractors and 12% of non-contractors are on the GSA schedule. That is a significant difference between active and inactive contractors, showing that the GSA schedule is an important way to increase procurement success.
- In another marker of success, fully 80% of active small business contractors that are on the GSA schedule have annual revenues of \$1 million or more, and derive 47% of their annual revenues (at least \$500,000 per year) from their Federal contracts. In contrast, a lesser 58% of active contractors who are not on the GSA schedule have revenues of \$1 million or more, and these firms derive 33% of their revenues from the federal government. On average, Federal government contracts account for 38% of the revenues of active Federal contractors. These firms thus actually derive the majority of their revenues from other types of customers, including: other small or medium-sized businesses (21%), large corporations (18%) and state or local governments (11%).
- There is a significant gender difference in the firms who are seeking procurement opportunities via the GSA schedule. Fully 40% of women business owners who are active contractors are on the GSA schedule, compared to a significantly lower 31% of men business owners who are active contractors.

- There is also a regional difference in the level of activity on the GSA schedule. Getting on the GSA schedule appears more likely to be an “inside the Beltway” strategy; fully 44% of active contractors in the South Atlantic region (which includes Maryland, the District of Columbia and Virginia and continues down to Florida along the Atlantic coast) are on the GSA schedule – a share far higher than in any other region. What regions are least likely to be taking advantage of GSA schedule opportunities? Firms in the Mid Atlantic (NJ, NY, PA) and in the East South Central (AL, KY, MS, TN) regions – just 16% and 19% of whom, respectively, are on the GSA schedule.
- The GSA schedule is not just for commodity purchases. In fact, just 22% of active contractors in goods-producing industries are on the schedule, as are 34% of firms in wholesale or retail trade. Fully 50% of active contractors in information services (publishing, software, data processing) are on the GSA schedule, as are 49% of active contractors in professional and technical services.

Methodology Note

A total of 1,508 small business owners responded to an online survey launched between January 19 and February 2, 2010. The survey population is randomly drawn and representative of small businesses that are either currently engaged in or actively interested in seeking Federal procurement opportunities. These business owners are a specialized population: those who are contained in the Federal Procurement Data System (FPDS) and registered on the Central Contractor Registration (CCR) database. There are three distinct populations:

1. **Active contractors** – small businesses that have been awarded a prime Federal contract within the past three years (N=698 business owners);
2. **Currently inactive contractors** – small businesses that are registered on CCR, but who have either a) never landed a prime Federal contract or b) may have done so in the past but who are designated as inactive (in terms of performing on contracts) in the FPDS (N=810 business owners); and
3. **Non-contractors** – a subset of inactive contractors: 644 business owners who are registered on CCR but who have not yet landed a prime Federal contract.

The survey is thus representative of all of the small businesses in the Federal procurement system, but is not nationally representative of all small businesses. The sampling errors of each of the three distinct samples are: +/- 3.7% among 698 active contractors; +/- 3.5% among 810 inactive contractors; and +/- 3.9% among 644 non-contractors. This means that, 95 times out of 100, the survey findings will be within those ranges of true population values.

About American Express OPEN

American Express OPEN is the leading payment card issuer for small businesses in the United States and supports business owners with products and services to help them run and grow their businesses. This includes business charge and credit cards that deliver purchasing power, flexibility, rewards, savings on business services from an expanded lineup of partners and online tools and services designed to help improve profitability. Learn more at www.OPEN.com and connect with us at openforum.com and twitter.com/openforum.

American Express is a global services company, providing customers with access to products, insights and experiences that enrich lives and build business success. Learn more at www.americanexpress.com and connect with us on www.facebook.com/americanexpress, www.twitter.com/americanexpress and www.youtube.com/americanexpress.

*The American Express **OPEN for Government Contracts: Victory in ProcurementSM (VIP) for Small Business** program helps small business owners get the insight and experience they need to win government contracts. The program provides business owners with invaluable information on connections with procurement officials, forming teaming relationships with other small businesses, coaching and*

mentoring opportunities, procurement events, and online training and other resources. VIP's new interactive Web site, www.OPEN.com/governmentcontracts, provides step-by-step access to hands-on training and education resources, in-depth guides, case studies and checklists to assist in the various steps of the contracting process.



This analysis report was prepared for American Express OPEN in March 2010 by **Womenable**. Womenable is a research, program and policy development consultancy enabling women's entrepreneurship worldwide. Womenable's mission is to improve the policies and programs enabling women's entrepreneurship by providing fact-based information, thoughtful and insightful analysis and actionable recommendations. To learn more, visit www.womenable.com.

Summary Tables				
What important advice do successful small business contractors offer? Start small and work your way up; and keep on trying.				
<i>Which ONE of the following is the best piece of advice you could give to other small business owners who are interested in selling their goods or services to Federal agencies?</i>	Active Small Business Contractors			
	Total	Business Owners of Color	Value of Contracts Won to Date	
			<\$500K	\$5M+
Start small and work your way up; small contracts performed well lead to bigger opportunities	26	24	19	34
Be persistent, don't give up; you'll get there eventually	23	32	25	20
Focus your efforts on one key agency or type of contract that's best suited to your business	17	13	15	19
Develop relationships with program offices, OSDBUs, and Federal officials	13	16	13	16
Get as many "representations and certifications" as you can	4	4	5	2
<i>Which ONE of the following is the most important reason why you are involved in the federal procurement marketplace?</i>	Active Contractors	Currently Inactive Contractors	Non-contractors	
<u>Growth:</u> Federal contracting has been a conscious growth strategy for my business	39	37	39	
<u>Filling a need:</u> I have a product/service that meets a need in a particular niche of the federal marketplace	34	29	27	
<u>Client diversity:</u> Federal work is a buffer against the ebb and flow of other business	16	21	21	
<u>Cash flow:</u> Federal contracts pay more promptly	4	8	8	
Active contractors are more successful in contract performance in part because they are more active in the bidding process – for both prime and subcontracting opportunities.				
<i>Over the past three years, how many times have you ...</i>	Active Contractors	Currently Inactive Contractors	Non-contractors	
Submitted a bid for a prime Federal contract	19.5	5.1	2.5	
Won a prime Federal contract	8.0	1.1	0.0	
Participated in a bid as a subcontractor for a Federal contract	7.9	2.2	1.7	
Contributed products or services as a subcontractor	7.1	2.4	2.1	

Federal procurement success takes both time and money. Active contractors have invested more of both.			
	Active Contractors	Currently Inactive Contractors	Non-contractors
<i>Percent who say they have ...</i>			
Attended an agency-led seminar	44	34	35
Attended a procurement match-making event	38	32	33
Met with an agency OSDBU official	37	29	29
Average number of years before winning first contract	1.7	--	--
Estimated investment made in 2009 (including cash outlays & staff time) pursuing Federal contracting opportunities	\$86,124	\$16,896	\$12,607
Getting on the GSA schedule can be another key avenue to procurement success. This avenue has been especially fruitful for women business owners.			
	Active Contractors	Currently Inactive Contractors	Non-contractors
<i>Percent who say they have gotten on the GSA schedule</i>			
Total	34	13	12
Men	31	11	10
Women	40	17	16