

Greater Investments, Bigger Rewards: Lessons from Procurement Leaders

A Research Summary for the American Express OPEN for Government Contracts:
Victory in Procurement® (VIP) for Small Business Program



Victory in Procurement®
GOVERNMENT CONTRACTS

With the US government as the world's largest single purchaser of goods and services, it stands to reason that many small business owners would consider entering into the federal procurement marketplace. As they consider embarking upon that journey, what lessons can they learn from the most experienced small business contractors?

This report examines how firms are faring in the federal procurement arena by level of procurement experience—taking into account both their length of time in federal procurement and their financial success. How do procurement leaders behave, and what are their business and personal characteristics? How do they differ from less successful active small business contractors? Does the federal procurement marketplace get any easier with experience, or do the challenges just get more complex and the competition stiffer as a small firm works its way up the procurement ladder of success?

These important questions are the focus of this report, the fourth and final summary published from the second annual survey conducted among active small business contractors for the American Express OPEN for Government Contracts: Victory in Procurement for Small Business program.¹ All reports may be found at <http://www.openforum.com/governmentcontracting/resources/press>

QUICK FACTS

- Procurement leaders—those with 10+ years of procurement experience and \$1 million+ in federal contracts—do not differ significantly from the average small business in the federal contracting arena in terms of personal characteristics, but are somewhat more likely to be located in the Washington DC metro area, and more likely to be in a goods-producing industry, in professional/scientific/technical services, or in the information services industry.
- What differentiates procurement leaders? Much more than either personal or business character, their behavior sets them apart. They invest more time and money seeking contracts, submit significantly more bids, and bid smarter—thereby enjoying significantly higher success rates than their less experienced peers.
- Are there any secrets to greater procurement success? For the most part, procurement leaders say no—their success has come from hard work and perseverance, not a lucky break. However, getting on the GSA schedule is associated with greater success, as is moving away from performing as a subcontractor and toward going after larger prime contracts, including playing the role of prime contractor by including other small firms as subcontractors.

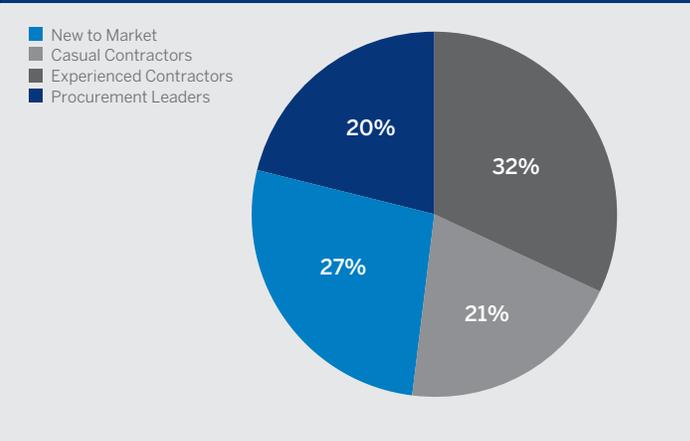
¹ See Methodology Note and program description at the end of this report for additional details.

Key Findings

Procurement leaders—those with 10+ years of procurement experience and \$1 million+ in federal contracts—do not differ significantly from other active small business contractors in terms of personal characteristics (such as gender or race). They are, however, somewhat more likely to be located in the Washington DC metropolitan area, and are more likely to own firms in the industries supplying the goods and services that government agencies are looking to buy.

- Small businesses active in the federal procurement arena can be divided into four major groups pursuant to their level of procurement experience and success:
 - New to the market. Representing just over one-quarter (27%) of active small contractors, these firms have sought federal contracting opportunities for less than three years.
 - Casual contractors. These firms, which represent 21% of small business contractors, have been active in federal contracting for more than three years, but have garnered less than \$1 million in federal contracts overall. They are much less active in bidding than the next two groups.
 - Experienced contractors. Firms that have either been involved in federal contracting for 10 years or more OR won \$1 million or more in federal contracts. These firms comprise one-third (32%) of active small contractors.
 - Procurement leaders. Firms that have been engaged in federal contracting for a decade or more AND won \$1 million or more in contracts. These firms comprise one in five (20%) of active small contractors.

**27% OF ACTIVE SMALL BUSINESS CONTRACTORS ARE NEW TO THE MARKET;
20% ARE PROCUREMENT LEADERS**



- An analysis of these four major types of firms reveals few demographic differences of note. Experienced contractors and procurement leaders, by virtue of their experience and contracting success, own larger firms than those who are new to market or are casual contractors. Procurement leaders are significantly more likely than the average small contractor to employ 50 or more workers (43% vs. 18%) or to have annual revenues of \$1 million or more (78% vs. 45%). And yet, they are not significantly less likely to be female (29% of procurement leaders are women, compared to 33% of all active contractors), nor are they less likely to be persons of color (29% of procurement leaders are minority vs. 30% overall).
- Location matters, but not a great deal. The regional distribution of firms does not vary significantly by level of procurement experience or financial success. However, procurement leaders are somewhat more likely (19%) than either those new to market (12%) or casual contractors (10%) to be located in the

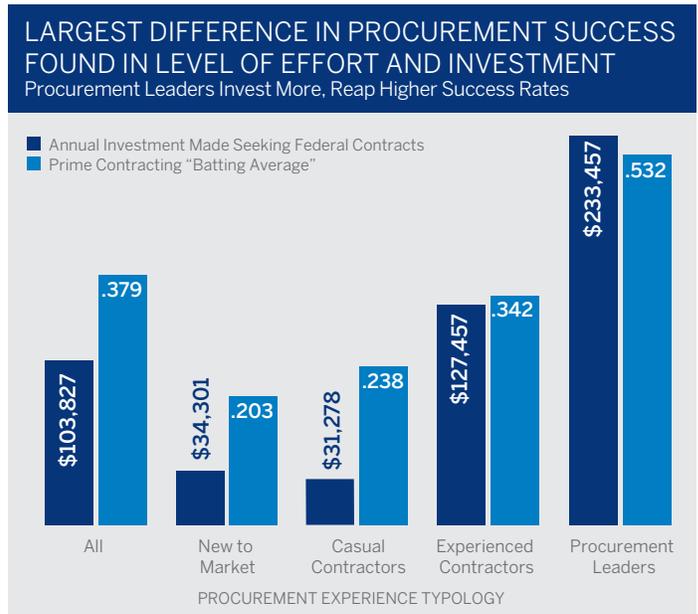
District of Columbia, Maryland, or Virginia—close to the “golden ring” of the Capital Beltway. Many firms outside the Capital Beltway make the time to regularly visit federal agencies in and around the Beltway. As procurement leaders point out, relationship building is a key element of success.

- What most strongly differentiates procurement leaders from other active small firm contractors is owning a firm in an industry that offers a product or service that federal agencies are looking for. Firms that are procurement leaders are more likely than other active contractors to be in a goods-producing industry (like durable or non-durable manufacturing or construction—32% vs. 26%), in the professional/scientific/technical services sector (including accounting, computer systems design, engineering, and research—29% vs. 25%), or in information (including software design—7% vs. 3%). These three sectors are where two-thirds (68%) of procurement leaders are found, compared to 54% of all active small firm contractors—and just 49% of those new to market and 51% of casual contractors.

What differentiates procurement leaders? Much more than either personal or business character, their behavior sets them apart. They invest more time and money seeking contracts, submit significantly more bids than average, and bid smarter—thereby enjoying significantly higher success rates than their less experienced peers.

- On average, active small business contractors spent \$103,827 in staff time and direct expenditures seeking federal contracting opportunities over the course of 2010. Procurement leaders invested over twice as much per annum—\$233,457. Casual contractors only invested \$31,278 over that same time period.
- In addition to spending more time and money seeking contracts, procurement leaders were significantly more active bidders, submitting an average of 18.9 prime bids and 5.6 subcontract bids over the course of the past three years—83% and 37% more bids,

respectively than all active contractors. During the same timeframe, all active contractors submitted 10.3 prime contract bids and participated in 4.1 bids as a subcontractor.



- Their higher investment, which means it is likely that they are bidding for larger contracts and are being more thoughtful and perhaps more selective in their bids, has resulted in significantly higher success rates for procurement leaders.² As firms learn the procurement process—especially pricing, proposal wording and bid package structure—their success rates improve. New to market firms are winning just over 20% of their prime contract bids. Casual contractors are faring only slightly better, winning 24% of bids. Experienced contractors improve upon those “batting averages,” winning 34% of bids. Outslugging all others, procurement leaders are winning just over half (53%) of their proposals submitted. They have definitely learned the tricks of the trade.
- The story is much the same for subcontracting activity and success. Overall, active small firm contractors were involved in just over one subcontracting

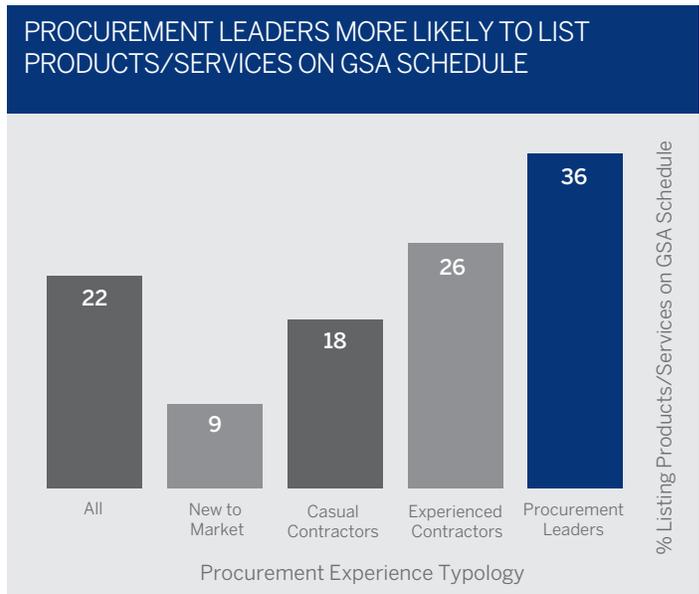
² This is derived from the calculation that they are spending twice as much (\$28,600) in time and money per bid as new to market firms, which are spending \$14,300 per bid.

opportunity per year in each of the past three years, for a 4.1 average over three years—and they enjoy a success rate of 66%. Procurement leaders were involved in 37% more bids and their success rate was 25% higher, with 5.6 bids and a success rate of 83% for subcontracting activity.

Are there any secrets to greater procurement success? For the most part, procurement leaders say no—their success has come from hard work and perseverance, not a lucky break or “silver bullet.” However, getting on the GSA schedule appears to be a trigger for greater success, as is weaning the business away from performing as a subcontractor and going after larger prime contracts, even acting as a prime contractor by employing other small firms as subcontractors.

- When asked directly if there were any special turning points in their journey to procurement success, a majority of all active contractors—including 59% of procurement leaders—say that there was no particular turning point, “just a long journey in which perseverance was the key.” Further, when asked about some of the difficult aspects of federal contracting, procurement leaders were just as likely as those new to market to point out the challenges of competing with the big players in their industry and preparing and submitting proposals. A 54% majority and 49% near majority of all firms rate competition with larger firms and preparing and submitting bids as the two most difficult aspects of federal contracting. These two issues remain the greatest procurement challenges for all active contractors, regardless of level of experience or success.
- However, business owners report that two things get easier with experience:
 - 37% of those new to market, but just 29% of procurement leaders, say that maintaining relationships with agency procurement officials is a difficult aspect of contracting.

- 37% of those new to market, but a lower 32% of procurement leaders, say that figuring out proposal pricing was a difficulty.
- On the other hand, some aspects of federal contracting get more challenging with experience:
 - Keeping up with and prioritizing all of the bidding opportunities becomes more difficult with greater experience: just 37% of those new to market say this is a challenge, but that share grows to 44% among procurement leaders.
 - Competition among peers gets stiffer: just 14% of new to market firms, but 21% of procurement leaders, say that competing with firms of similar size in their industry is a procurement challenge.
 - Finding qualified employees grows with firm size and success as well: just 6% of those new to market find this to be a challenge, while 14% of procurement leaders say that staffing is a challenge. This is a common issue for firms as they grow, so it is not unique to the government contracting marketplace.
- Based on their reported procurement behavior, there are three key tips for greater procurement success as a firm gains procurement experience and success:

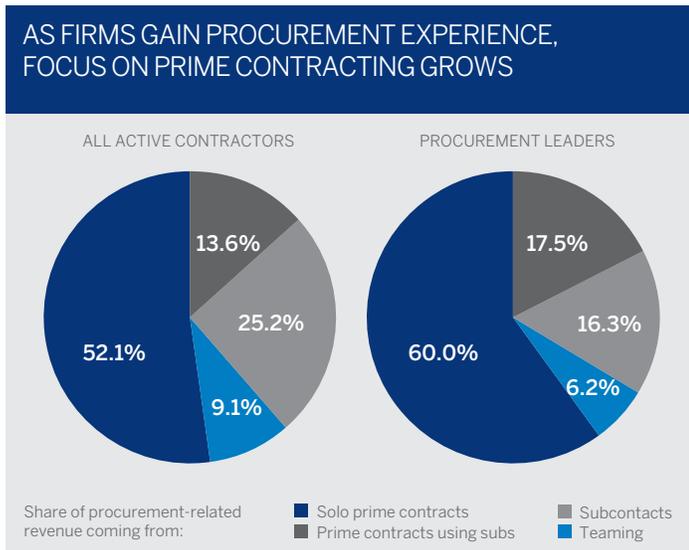


- First, being listed on the GSA schedule³ is a key strategy that more experienced contractors—especially procurement leaders—are employing for expanding contracting opportunities. Overall, 22% of active contractors are on the GSA schedule. Not surprisingly, just 9% of new to market firms are listed, but the share rises with level of experience—with 18% of casual contractors, 26% of experienced contractors, and 36% of procurement leaders doing business through the schedule. Therefore, as a firm grows in procurement experience and success, they should consider getting on the GSA schedule.
- Second, as the level of procurement experience rises, so does the share of a firm's income that comes from federal contracting—but only to a point. On average, 35% of active federal contractor annual revenues come from federal contracts. When a firm starts out, that share is lower: 28% among those new to the marketplace, and 24% for casual contractors. However, experienced contractors derive 38% of their firm's annual revenues from

federal contracts, and procurement leaders garner just over half (53%) of their revenues from federal contracting. Therefore, a firm entering the federal procurement marketplace should balance their government contracting activity with non-government work and should not expect to, nor strive to, devote all of their business development activity toward federal procurement opportunities.

- Third, as procurement experience and success grows, small businesses shift away from a strategy of blending smaller prime contracts with subcontracting and teaming work, and move toward a focus on pursuing larger prime contracts—even acting as a prime contractor by employing other firms as subcontractors. On average, two-thirds of small business procurement related revenue comes from prime contracts—52% from “prime solo” contracts in which the small firm does all the work, and 14% from “prime sub” contracts, where the firm wins the prime contract but subs out part of the work to others. Twenty-five percent (25%) of procurement revenue comes from performing as a subcontractor, and 9% from teaming.⁴

AS FIRMS GAIN PROCUREMENT EXPERIENCE, FOCUS ON PRIME CONTRACTING GROWS



Looking at procurement leaders finds a different scenario—much less revenue from either subcontracting (16%) or teaming (6%), and a much stronger emphasis on the pursuit of prime contracts. Fully 78% of procurement-related revenue comes from prime contracts—60% from “prime solo” contracts and an increased 18% from “prime sub” contracts. As a firm gains experience and contacts, they may wish to consider going after larger prime contracts and enlisting smaller firms to be suppliers or subcontractors. It’s a strategy that’s working for small business procurement leaders.

³ Listing your firm’s products or services on the General Services Administration schedule is akin to getting on a pre-approved bidder list or getting your products on the shelves of Wal-Mart or the e-catalog of Amazon.com. It can open up tremendous opportunity, but only if you have a product or service that can be offered at a set price.

⁴ Teaming refers to a legally binding structure under which two or more firms band together to pursue contracting opportunities together on a more or less equal basis.

METHODOLOGY NOTE

A total of 740 small business owners responded to an online survey launched briefly in mid-August, then continued from October 10 through November 4, 2011. The survey population is randomly drawn and representative of small businesses that are active federal contractors, defined as small businesses that are either currently performing on a federal contract as a prime contractor or subcontractor, or that have performed on a federal contract within the past five years. These business owners are a specialized population: they own small businesses that are contained in the Federal Procurement Data System (FPDS) and are registered on the Central Contractor Registration (CCR) database. The survey sample was obtained directly from the CCR office.

The survey is thus representation of all active small business contractors in the federal procurement system, but is not nationally representative of all small businesses. The sampling error for a survey of this size is +/- 3.6%. This means that, 95 times out of 100, the survey findings will be within 3.6% of true population values.



Summary Tables

What differentiates a “procurement leader” from other small firms pursuing contracts? It’s not what they look like or where they are located—though being inside the Beltway helps.

	All Active Contractors	Procurement Experience Typology*			
		New to Market	Casual Contractors	Experienced Contractors	Procurement Leaders
Race					
Caucasian	75%	68%	79%	79%	74%
Minority	30	37	26	27	29
Sex					
Male	67	61	70	69	71
Female	33	39	30	31	29
Region					
Northeast	11	9	15	10	10
Midwest	17	19	18	18	13
South	38	39	35	37	43
West	34	32	33	35	34
Capital Beltway (DC/MD/VA)	14	12	10	15	19
Industry Sector					
Goods-producing	26	24	22	27	32
Professional/Scientific/Technical services	25	23	26	24	29
Information	3	2	3	3	7
All other	46	51	49	46	32

* Procurement Experience Typology: “New to Market” firms have less than three years procurement experience AND less than \$1 million in contract revenues; “Casual Contractors” have been in federal contracting for three years or more, but have not yet attained \$1 million in total federal contracts; “Experienced Contractors” have either been pursuing federal contracts for 10 years or more OR have attained \$1 million in federal contracts over their lifetime of pursuing contracts; and “Procurement Leaders” have been in federal contracting for 10 years or more AND have garnered \$1 million or more in contracts.

What differentiates procurement success lies much more in firm behavior than in demographic characteristics. Successful firms make a greater investment in their procurement success: they bid more frequently, and appear to bid more selectively, thus significantly raising their contracting success rate.

	All Active Contractors	Procurement Experience Typology*			
		New to Market	Casual Contractors	Experienced Contractors	Procurement Leaders
Investment made in seeking federal contract opportunities (2010)	\$103,827	\$34,701	\$31,278	\$127,457	\$233,457

Thinking specifically about the past three years, how many times have you submitted a bid for a prime federal contract or won a prime federal contract?

Number of prime bids	10.3	5.2	6.3	12.2	18.9
Number of prime wins	3.9	1.1	1.5	4.2	10.1
"Batting average"	.379	.203	.238	.342	.532

Thinking specifically about the past three years, how many times have you participated in a bid as a subcontractor for a federal contract or contributed products or services to a federal project as a subcontractor?

Number of subcontract bids	4.1	2.1	2.6	5.8	5.6
Number of subcontracts	2.7	1.3	2.1	5.6	4.6
"Batting average"	.659	.614	.792	.964	.826

Does it get any easier as a firm gains procurement experience? Most firms say no – there's no key turning point, and difficulties remain regardless of level of procurement experience. Yet, as they advance, procurement leaders focus much more on prime contract opportunities, reducing their level of effort on subcontracting or teaming. They are also much more likely to list their goods and services on the GSA schedule.

Over the past several years, what approximate percentage of the value of your federal contracts have come from:

Prime contracts in which you are the sole provider of goods or services	52.1	52.2	52.4	46.8	60.0
Prime contracts in which you subcontract some portion of the tasks to other companies	13.6	10.5	10.6	15.6	17.5
Contracts in which you are a subcontractor	25.2	25.7	28.9	28.1	16.3
Contracts in which you are performing as a part of a teaming arrangement	9.1	11.6	8.1	9.5	6.2
Share of total firm revenue from federal contracts	35.4	27.9	23.7	37.9	53.1

	All Active Contractors	Procurement Experience Typology*			
		New to Market	Casual Contractors	Experienced Contractors	Procurement Leaders

Many small businesses have pointed to some important “turning points” in their journey to contracting success. Have any of the following been a turning point for you? (multiple responses allowed)

No turning point, just a long journey in which perseverance was the key	55	51	58	55	59
Finding a key champion or guide within an agency	26	26	27	26	24
Finding another business owner who was willing to share their experiences	22	24	23	21	20
Finally narrowing my focus to one particular agency rather than taking a shotgun approach	18	18	14	20	17
Meeting an agency official at a matchmaking event or informational seminar	13	12	11	13	14
Meeting someone from a large prime contractor at a matchmaking event or informational seminar	11	8	12	14	11

Which of the following would you say are the most difficult aspects of federal contracting? (multiple responses allowed)

Competing with the big players in our industry	54%	51%	53%	61%	46%
Preparing and submitting the proposals	49	51	53	47	47
Keeping up with and winnowing down all of the bidding opportunities	40	37	38	40	44
Maintaining relationships with agency procurement officials	37	37	35	42	29
Figuring out the pricing of the proposals	32	37	32	29	32
Competing with other firms of similar size in our industry	17	14	22	15	21
Maintaining relationships with our contracting partners (large primes, teaming partners)	17	15	16	19	16
Finding and keeping qualified staff that can perform on our contracts	10	6	9	11	14



	All Active Contractors	Procurement Experience Typology*			
		New to Market	Casual Contractors	Experienced Contractors	Procurement Leaders
Does your business have any of the following designations or certifications? (multiple responses allowed; top responses listed)					
Have one or more	70	72	68	68	73
Women-owned business	28	33	29	28	21
On GSA schedule	22	9	18	26	36
Veteran-owned business	20	17	20	23	19
Service-disabled veteran-owned business	10	4	11	15	9
8(a) certified business	8	6	4	10	12
Number of Cases	(704)	(201)	(153)	(235)	(150)

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The American Express OPEN for Government Contracts: Victory in Procurement® (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 website, <http://www.openforum.com/governmentcontracting>, 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.



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