

Subcontracting and Teaming: Important Avenues to Procurement Success

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



Victory in Procurement®
GOVERNMENT CONTRACTS

While the US government is the world's largest single purchaser of goods and services, the recession has hit government spending as it has other areas of the American economy. With federal spending flat or declining, many small firms have considered teaming with other small firms to go after larger procurement opportunities—or are contributing goods and services to large contracts as a subcontractor. How many active small business contractors are pursuing subcontracting or teaming as a procurement strategy? Do these activities lead to greater business and procurement success? And what about the frequently heard issue of contributing to a large bid as a subcontractor only to be excluded from the contract after it is won—how many small firms have experienced that phenomenon, and are some firms more likely to suffer that fate than others?

These important questions are the focus of this report, the third of four summaries to be 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

- Half of active small firm contractors have successfully pursued subcontracting as a procurement strategy: 48% have contributed products and services as a subcontractor, deriving an average of 25% of their procurement revenue from subcontracts. Teaming is pursued less frequently—27% of active small contractors have had some procurement revenue from teaming, averaging 9% of their procurement revenue. While engagement in subcontracting and teaming rises with business size and procurement experience, the share of revenue from these two activities declines as small firms grow—mainly due to increased success in obtaining prime contracts.
- Small firms in two industries are those most likely to be engaged in subcontracting and teaming: the information sector (software, data processing) and professional/scientific/technical services (computer systems design, engineering, research). Women and minorities are equally active in subcontracting as the average small firm contractor, but minorities are more likely than average to be engaging in teaming.
- Nearly one-third (29%) of active small business contractors have experienced the oft-discussed phenomenon of being shut out by large prime contractors—meaning that they participated in a winning bid as a subcontractor, but subsequently did not participate in the fulfillment of that contract. The likelihood of this happening to a business rises with level of procurement experience.

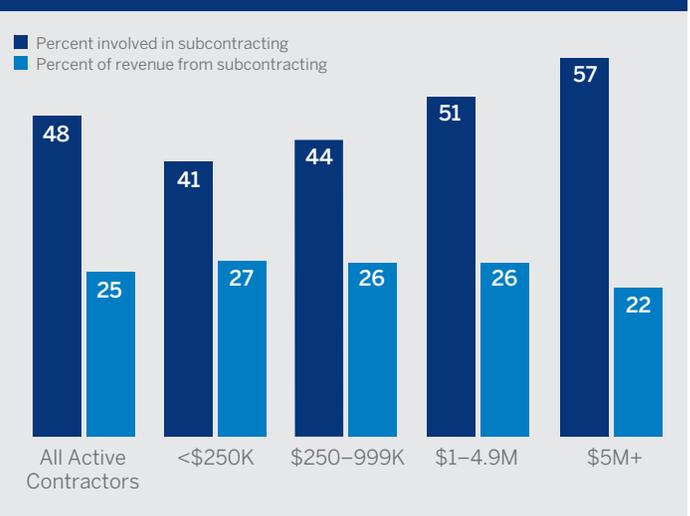
¹ See Methodology Note and program description at the end of this report for additional details.

Key Findings

Subcontracting is a pursuit undertaken successfully by half of active small firm contractors. Fully 48% of active contractors have contributed products or services as a subcontractor over the past three years, deriving 25% of their procurement revenues while doing so. While experienced contractors are just as likely as less experienced contractors to perform as subcontractors, less experienced contractors derive a greater share of their procurement revenues from subcontracting—indicating that subcontracting is a successful way for a firm to “get its feet wet” in the federal procurement marketplace.

- Subcontracting is an invaluable way to gain federal procurement experience. Nearly half (48%) of active federal contractors have performed services on a federal contract as a subcontractor over the past several years, including 40% of firms with less than three years’ contracting experience and 49% of those with 10 years or more of contracting experience.
- On average, 25% of active small firm procurement-related revenue comes from subcontracting activity. And, while the share of firms performing as subcontractors rises with the level of procurement experience—and with the revenue size of the firm—the share of firm revenue contributed by subcontracting actually declines, as prime contract revenue increases. This shows that success breeds success, since the share of prime contracting revenue grows with level of procurement experience. Thus, subcontracting is an excellent way to gain experience and increase federal procurement opportunities.

SUBCONTRACTING ACTIVITY INCREASES WITH FIRM SIZE, BUT CONTRIBUTES LESS TO BOTTOM LINE
Larger Firms Garner Greater Share of Procurement \$ from Prime Contracts



- There are few gender or ethnic differences in the extent to which firms are participating in subcontracting: 49% of women-owned firms and 46% of minority-owned firms have garnered at least some revenue from subcontracting over the past several years. However, there are striking differences by industry sector. Firms in the information (software, data processing) and professional/scientific/technical services (computer systems design, engineering, research) sectors are much more likely than firms in any other industry to be providing services as subcontractors (62% and 65%, respectively, compared to the average of 48%), while those in goods-producing industries and in professional/scientific/technical services are the industries in which the greatest share of federal procurement revenues are derived from subcontracting (31% and 33%, respectively, compared to the overall 25% average).



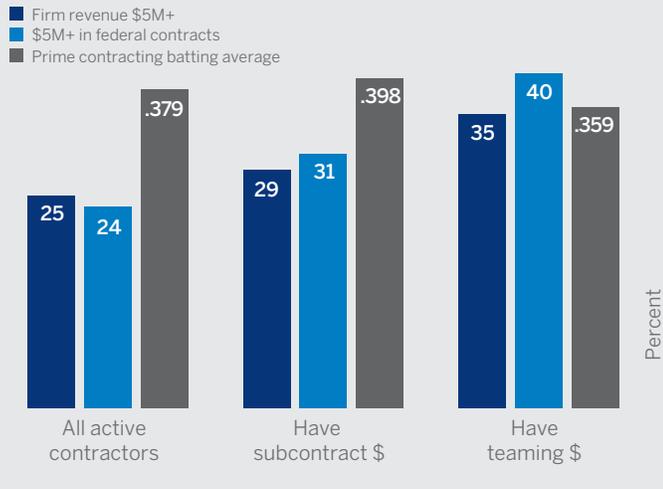
Teaming—formally banding together with other small firms on a more or less equal basis to go after larger contracts than one could alone—has been undertaken successfully by 27% of active small business contractors. On average, 10% of contracts and 9% of contract revenue won by active contractors has come from teaming. Larger firms and those with more procurement experience are among those most likely to be pursuing teaming.

- Teaming is an activity less frequently undertaken by active small firm contractors, as teaming requires finding other complementary small firms and building legal and strategic alliances—which takes time, contacts, and a good deal of trust. Just over one-quarter (27%) have generated income from teaming, with an average of 9% of procurement-related revenues coming from contracts in which the firm is performing as a member of a team.



- The likelihood of performing as a member of a team increases with amount of federal procurement experience and with firm size, but again the share of team-related revenue declines as a firm gains more experience and grows larger—due to greater success in winning prime contracts.
- What firms are most likely to be pursuing teaming arrangements? In addition to larger firms and those with more procurement experience, firms in information (42%) and professional/scientific/technical services (40%) are more likely than average to be forming teams. Minority-owned firms are also more likely than average to have joined a teaming arrangement—35% have done so, but they are garnering an average 11% of firm revenue from the activity.
- While subcontracting and teaming in and of themselves may not be generating additional revenue, firms that are engaged in subcontracting and teaming along with pursuing prime contracts are much more likely to be enjoying greater business and procurement success. For one thing, they are more active in bidding and in winning prime contracts. Teams that are involved in subcontracting have won 21% more prime contracts than average (4.7 versus 3.9 over the past three years); while those involved in teaming have won 54% more prime contracts (6.0 vs. 3.9). And that has led to more contracting revenue: while 24% of all active federal contractors have been awarded \$5 million or more in federal contracts over the span of time they've been active in federal contracting, fully 31% of those who are active in subcontracting and 40% of those who have pursued teaming have achieved that procurement milestone. In addition, notching subcontracting and teaming victories adds to overall firm revenue achievement. While 25% of all active small firm contractors garnered \$5 million

**SUBCONTRACTING AND TEAMING ACTIVITY
 IMPROVES BOTH FIRM AND CONTRACT REVENUES**
 Prime Contracting Success Rates Not Affected



or more in firm revenues in 2010, 29% of those who have had subcontracts and 35% of those who have had teaming contracts met or exceeded \$5 million in annual sales in 2010. This is an indication that going beyond the pursuit of small prime contract opportunities and exploring both subcontracting and teaming opportunities can—and indeed does—lead to higher levels of procurement success and business growth.

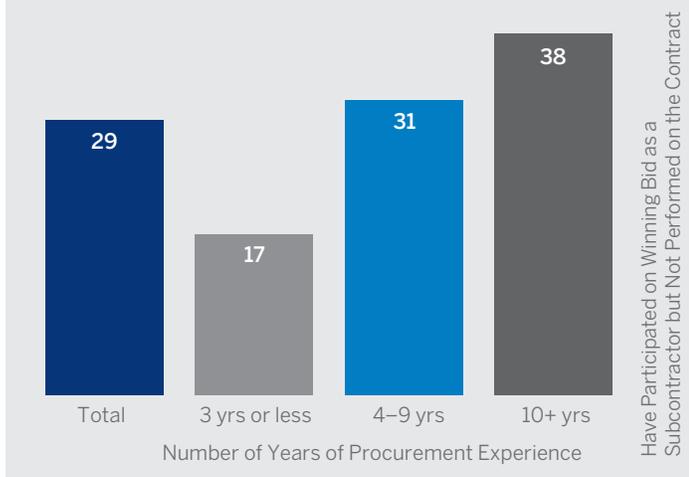
- Interestingly, while subcontracting and teaming success is associated with higher bidding activity, more contract wins, higher contracting revenue and higher overall firm revenue, it does not lead to a higher prime contracting “batting average,” or success rate. This shows that the three strategies are distinct from one another and equally challenging. Overall, active small contractors notch a batting average of .379, meaning that they win an average of 38% of their prime contracting bids. That rate is not significantly different for those who have had subcontracting (40%) or teaming (36%) success.

Small federal subcontractors have long complained about being frozen out by large prime contactors—meaning that they will be asked to provide expertise and be listed as a subcontracting team member, but then not get called upon to provide services after the contract is awarded. This survey—for the first time—has measured the extent to which this happens. Nearly one-third (29%) of active small business contractors have been “stiffed” by large prime contractors. Further, the likelihood of this happening increases over time.

- One of the most frequently heard complaints from small business engaged in federal contracting—especially among those pursuing subcontracting opportunities—is that prime contractors who ask them to contribute to the preparation of a proposal sometimes do not call upon them to perform on the contract if the proposal is successful. We now can say, for the first time, that this has happened to nearly one-third (29%) of active small business contractors—and that the likelihood of providing input into a winning bid but then being frozen out of performing on the contract rises with the level of procurement experience. While it may not happen often, the longer a small business participates in subcontracting, the greater the chances they will experience being short-changed in this manner.
- While nearly one in three active small business contractors say that being frozen out of a winning bid they had a hand in achieving has happened to them, that share rises to 38% among firms that have been active federal contractors for 10 years or more. There is no difference in the likelihood of this occurring by either gender or ethnicity—so women and minority-owned firms are no more likely to be left holding the short end of the procurement stick. However, it is more

LIKELIHOOD OF BEING SHUT OUT BY A LARGE PRIME INCREASES WITH PROCUREMENT EXPERIENCE

Nearly 4 in 10 Subcontractors with 10+ years of Procurement Experience have Participated in a Winning Bid, then been Excluded



likely to have happened to firms in the industries most likely to be engaging in subcontracting: information and professional/scientific/technical services, 40% and 63% of whom, respectively, say that it has happened to them.

- On the flip side, nearly one-quarter (22%) of active small firm contractors say that they have gotten other subcontracting opportunities after being recommended to a large prime contractor by a prime that they had performed successfully for in the past. This, too, is more likely to have happened to larger, more experienced small firms, as well as those in information and professional/scientific/technical services. In no case is the share of those obtaining referral opportunities greater than the share of those getting frozen out of contracts they had a hand in preparing the bid for, however.

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 representative 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

Half of active small firm contractors have successfully pursued subcontracting as a procurement strategy: 48% have contributed products and services as a subcontractor, deriving an average of 25% of their procurement revenue from subcontracts. Teaming is pursued less frequently—27% of active small contractors have had some procurement revenue from teaming, averaging 9% of their procurement revenue. While engagement in subcontracting and teaming rises with business size and procurement experience, the share of revenue from these two activities declines—due to increased success in obtaining prime contracts.

Over the past several years, what approximate percentage of (your Federal contracts/the value of those contracts) have come from...

	All Active Contractors	Years of Procurement Experience		
		3 yrs or less	4–9 yrs	10+ yrs
Percentage of Firms That Have...				
Performed as a subcontractor	48	40	47	49
Performed as a part of a teaming arrangement	27	22	28	29
Percentage of Contracts				
Prime contracts in which you are the sole provider of goods or services	52	51	47	59
Prime contracts in which you subcontract some portion of the tasks to other companies	14	11	15	14
Contracts in which you are a subcontractor	24	26	28	19
Contracts in which you are performing as a part of a teaming arrangement	10	13	10	7
Percentage of Contract Dollars				
Prime contracts in which you are the sole provider of goods or services	52	50	47	60
Prime contracts in which you subcontract some portion of the tasks to other companies	14	11	15	15
Contracts in which you are a subcontractor	25	27	29	20
Contracts in which you are performing as a part of a teaming arrangement	9	12	10	6

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

	All Active Contractors	Have Been a Subcontractor	Have Done Teaming
Number of prime bids	10.3	11.8	16.7
Number of prime wins	3.9	4.7	6.0
“Batting average”	.379	.398	.359



Firms in the information and professional/scientific/technical services sectors are more likely than firms in any other industry to be engaged in subcontracting or teaming. In addition, both women and minority contractors are participating in subcontracting in equal measure, but minority-owned firms are more likely than average to be pursuing teaming.

	Subcontracting		Teaming	
	Have Done	% of Revenues	Have Done	% of Revenues
All Active contractors	48	25	27	9
Women-owned firms	49	26	25	9
Minority-owned firms	46	19	35	11
Revenue Size of Firm				
Under \$250,000	41	27	22	11
\$250–\$999K	44	26	20	6
\$1–4.9M	51	26	28	9
\$5M+	57	22	38	8
Industry				
Goods-producing	52	31	22	8
Information	62	19	42	12
Professional/Scientific/Technical Services	65	33	40	14
All other industries	35	17	21	7

Nearly one-third (29%) of active small business contractors have experienced the oft-discussed phenomenon of being shut out by large prime contractors—meaning that they participated in a winning bid as a subcontractor, but subsequently did not participate in the fulfillment of that contract. The likelihood of this happening to a business rises with level of procurement experience.

Have any of the following situations ever happened to you in your pursuit of federal contracts?	All Active Contractors	Years of Procurement Experience		
		3 yrs or less	4–9 yrs	10+ yrs
You participated in a winning bid as a subcontractor, but the prime contractor never used you during their fulfillment of the contract	29	17	31	38
You got other subcontracting opportunities based on a recommendation of one prime contractor to another after you performed well on a project	22	13	27	26
Number of Cases	(740)	(232)	(250)	(259)

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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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