

Trends in Federal Contracting for Small Businesses

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. Federal government contract spending amounted to just over \$535 billion in fiscal year 2011, down slightly from \$537.7 billion the previous year, and down from a high of nearly \$542 billion in FY2008.¹ How have small business contractors fared in the wake of reductions in spending? What are the key trends in small business contracting activity over the past year? Have any groups fared better or worse than others?

These important questions are the focus of this report; the first 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.² This report focuses specifically on key trends between 2010 and 2011 with respect to small firm bidding and contracting activity, the investments small businesses are making in seeking federal contracts, and their success rates in the procurement marketplace. Other upcoming reports will focus on how women-owned and minority-owned firms in particular are faring in federal contracting, how strategies and outcomes change with level of procurement experience, and what lessons can be shared from firms that focus on subcontracting as a procurement strategy.

QUICK FACTS

- Over the past year, the amount of time and money that active small business contractors have invested in seeking federal contracting opportunities has averaged \$103,827, an increase of 21% over the previous year.
- Even as the average investment made in seeking federal contracts has risen over the past year, bidding activity has declined by nearly half—both in prime and subcontracting bidding activity. Further, the average success rates for active small business contractors in both prime and subcontracting have declined as well.
- “If at first you don’t succeed, try, try again” was a key piece of advice offered by successful small business contractors in the 2010 VIP survey. This year, that homily is quantified; active small business contractors report that they had to submit an average of 4.4 bids before they won their very first contract.
- And, over the long term, experience does pay off. Average success rates in prime contracting—38% overall—are significantly higher among those with 10 or more years of contracting experience under their belts (53%) compared to those who have been seeking federal contracts for three years or less (20%).

¹ See usaspending.gov for additional information. FY2011 spending figure is as of January 2012 and may change as new agency data become available.

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

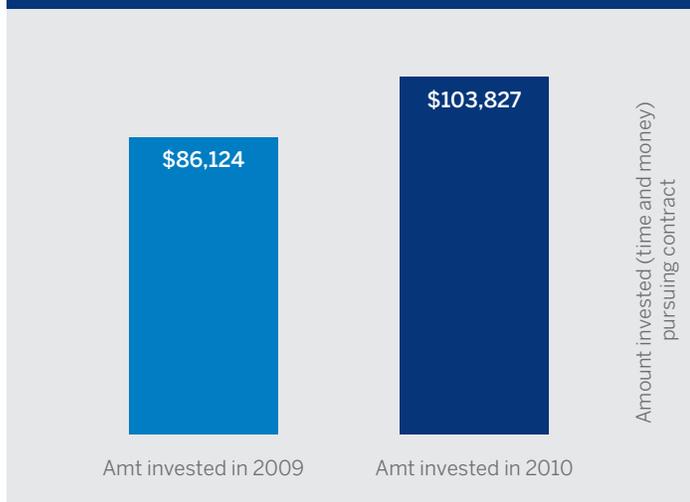
Key Findings

Active small business contractors report that they spent an average of \$103,827 in time and money during the course of 2010, seeking federal contracting opportunities. This represents a 21% increase over their reported \$86,124 investment the previous year.

- It takes an investment of both time and money to seek federal contracting opportunities. In the inaugural Victory in Procurement® survey conducted last year, that investment was quantified for the first time ever: active small business contractors reported that they had spent an average of \$86,124 in the previous year (2009) seeking federal contracts. This year, active small business contractors report that they invested \$103,827 during 2010 seeking federal contracts—an increase of 21%.

SMALL FIRMS NOW SPENDING MORE TIME AND MONEY SEEKING FEDERAL CONTRACTS

Average Investment Up 21% Over the Past Year



- Who spends the most time and effort seeking federal contracting opportunities? Not surprisingly, the largest small firms make the most significant investment. Firms with 50 or more employees invested \$283,284 seeking contracting opportunities in 2010, while firms with less than 10 employees spent just \$41,432. And small firms with \$5 million or more in revenue invested \$267,559, while those with less than \$250,000 in revenues invested \$25,541. Interesting, however, those showing the largest increase in their investment over the past year are not the firms with \$5 million or more in sales (up 72%), but those with \$250,000 or less (up 110%)—an indication, perhaps, that the Victory in Procurement® program is encouraging smaller firms to grow their businesses through government contracting.
- Another group that invests an above-average amount of time and money seeking federal procurement opportunities are businesses owned by persons of color. In 2010, they invested \$139,709 seeking federal contracts, fully 56% more than the \$89,334 invested by small firms owned by Caucasian men and women.

Speaking of gender, women continue to invest somewhat less time and money than their male counterparts seeking federal contracts. While both women and men increased their investment in 2010 over 2009 at a similar rate, the \$86,643 investment made by women-owned firms is 30% less than the \$112,107 made by men-owned firms.

- These gender differences may be explained in part by the fact that the level of investment in procurement opportunities increases with contracting experience, and women-owned firms have less experience in the federal procurement marketplace. Overall, firms that have been seeking federal contracts for three years or less (37% of women-owned firms are in this group, compared to 29% of men-owned firms) invested \$64,172 seeking federal contracts last year, compared to \$89,223 by those with between four and nine years of contracting experience and \$153,521 by small firms with 10 or more years of contracting experience.
- Other subgroup differences of note in the level and change in bidding investment are by region and industry sector. Regionally, active contractors in the South—home to Maryland, Virginia, and the District of Columbia—continue to make the largest investment of time and money seeking federal contracts, which is not surprising. However, what is worth noting is that those regional differences have lessened somewhat, as active contractors in the Northeast and Midwest have stepped up their investment substantially—up 61% and 71%, respectively. Conversely, active small business contractors in the West region have reduced their investment in seeking federal contractors over the past year, dipping by 22%.
- With respect to contract investment by industry, the three biggest types of small firms in federal contracting are goods-producing firms, firms in professional/scientific/technical services (such as engineering, research, and computer systems design), and firms in other services. Together, firms in these industries account for 89% of active small business contractors.³ Goods-producing firms have increased their investment in seeking federal contracts by an above-average 37%, to \$116,186, while firms in services other than professional/scientific/technical services have increased by

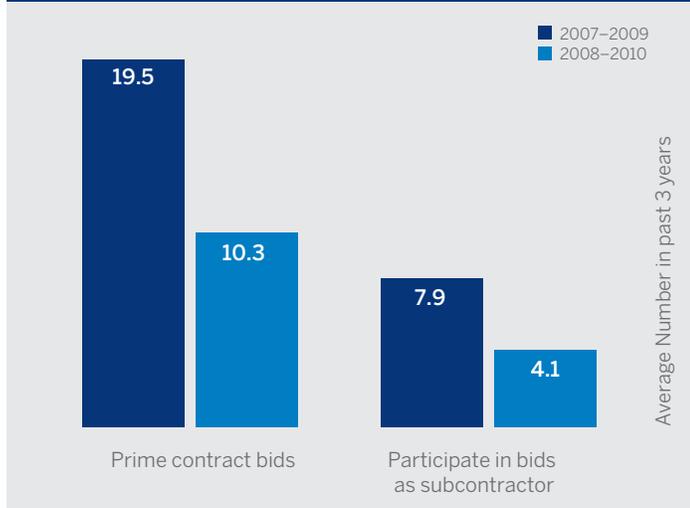
19% to \$80,369. Going against the trend are firms in professional/scientific/technical services, which have lowered their investment by 10% to \$111,594. Firms in this industry are particularly subject to changes in subcontracting opportunities, as they are among the small firms most likely to be providing one element of a larger contract deliverable.

Even as the average investment made in seeking federal contract opportunities has increased, the level of bidding activity has declined. Over the past three years, the number of prime contracting bids declined from 19.5 in the 2007-2009 period to just 10.3 in the 2008-2010 period. Subcontracting bids declined from an average of 7.9 in the 2007-09 three-year period to 4.1 over the 2008-10 period. Success rates have suffered as well, more so in subcontracting than in prime contracts.

- While the investment that small firms have made in seeking federal contracts has increased, their bidding activity has fallen. Last year, active small contractors reported that, over the previous three-year period (2007-2009), they submitted 19.5 bids for prime contracting opportunities and participated as a subcontractor in an average of 7.9 bids during the same time frame. In the most recent three-year period (2008-2010), the average number of prime contract bids has dropped by 47%, to just 10.3 bids, and the number of bids participated in as a subcontractor similarly fell by 48%, to 4.1 bids over the three-year period.

³ The other 11% are comprised of wholesale/retail trade, transportation/warehousing, information, and finance/insurance/real estate.

BIDDING ACTIVITY HAS DECREASED IN 2008–2010 PERIOD COMPARED TO 2007–2009



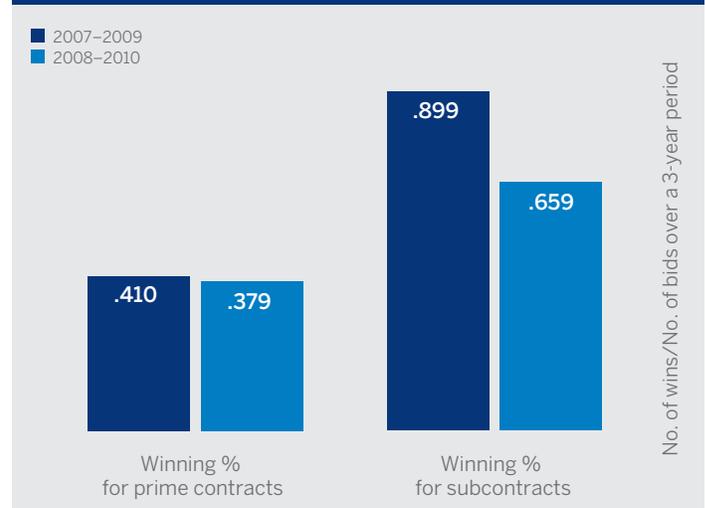
- The *average* annual number of contract bid submissions has thus dropped from 6.5 prime bids and 2.6 sub-contracting bids in the 2010 survey to an annual average of 3.4 prime bids and 1.4 subcontracting bids in this year’s survey.
- One reason for a drop in bidding activity may be a lack of growth in government spending—the US government has trimmed contract spending in recent years in an effort to reduce the US budget deficit. The US government spent \$541.8 billion on contracts in fiscal year 2008, \$541.2 billion in FY2009, \$539 billion in FY2010, and \$476.8 billion in FY2011 —an overall 12% reduction in spending on external contracts over the past four years.⁴
- The reduction in federal government spending has not only reduced small business bidding activity, but has also negatively affected small firm contracting success rates. Our analysis shows that not only has bidding activity declined by nearly half over the most recent three-year period, but the “batting average”

of small firm contractors—or their success rates comparing contracts performed on versus number of bids submitted—has declined as well. This decline is especially significant in the area of subcontracting.

In last year’s survey, the batting average for active small business contractors in the federal procurement arena was .410—calculated from dividing the 8.0 average contract victories by the average 19.5 bids submitted over the 2007–2009 period. This year, the small business procurement batting average is .379 for the 2008–2010 period, down 8%. The batting average for subcontracting performance is down even more—27%, from a healthy .899 last year to .659 this year.

The larger drop in sub-contracting success rates relative to prime contracts may be an indication that large prime contractors have become less likely to “farm out” pieces of their federal business to smaller firms in the wake of the increased competition and lower profit margins caused by federal spending cuts.

CONTRACTING “BATTING AVERAGES” HAVE DECLINED FOR BOTH PRIME CONTRACTS AND SUBCONTRACTS

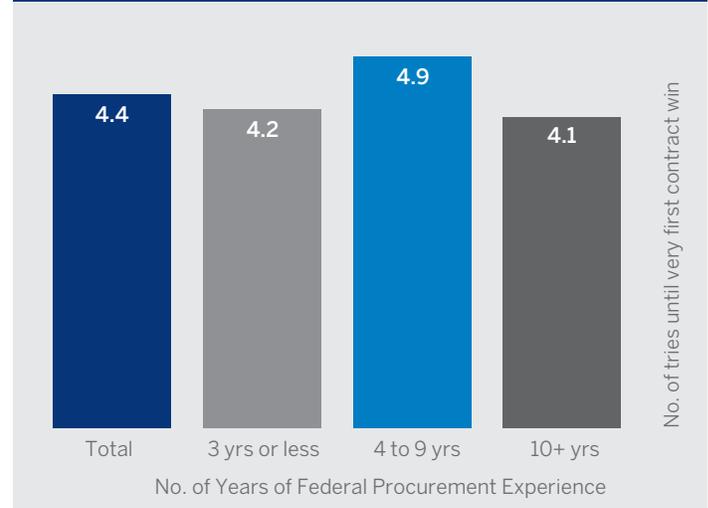


⁴ Source: usaspending.gov.

When asked to look back to when they first started seeking federal procurement opportunities, active small business contractors say that it took an average of 4.4 bids before they won their very first victory in procurement, and just under a year before they won their second contract. The number of tries before initial success has not changed significantly over time.

- It's often said that "if at first you don't succeed, try, try again." Our analysis shows, with respect to federal contracting, that homily should be amended to "try, try—and try—again." When asked to think back to when they first started seeking federal contracts, active small business contractors say that it took an average of 4.4 bids before they won their very first contract.
- That average of four tries hasn't changed significantly over time. For the most experienced small business contractors—those that have been in the federal procurement arena for 10 or more years—it took an average of 4.1 attempts before obtaining the first notch on their belt. Among those with between four and nine years of contracting experience, it took 4.9 proposals, and for those newly engaged in federal contracting, it has taken an average of 4.2 bids before achieving their first victory in procurement.
- How has initial contracting success varied by type and size of firm, region, or owner characteristics? The "fourth time's the charm" average holds true to form regardless of firm size, region, industry, or gender. However, it took minority-owned firms 6.1 bids before their first victory in procurement, while the average number of unsuccessful attempts by Caucasian-owned firms before their first procurement victory was 3.7.

**IF AT FIRST YOU DON'T SUCCEED,
TRY, TRY—AND TRY—AGAIN:
It Takes 4 Tries for First Procurement Victory**



- Once they got their first taste of procurement success, small business contractors wasted little time before trying—and succeeding—again. Fully two thirds of active small business contractors have performed on more than one federal contract, and on average, it took them just under a year (11.5 months) after their first procurement victory to win their second contract—and that length of time did not vary significantly by race, gender, region, industry or size of firm.

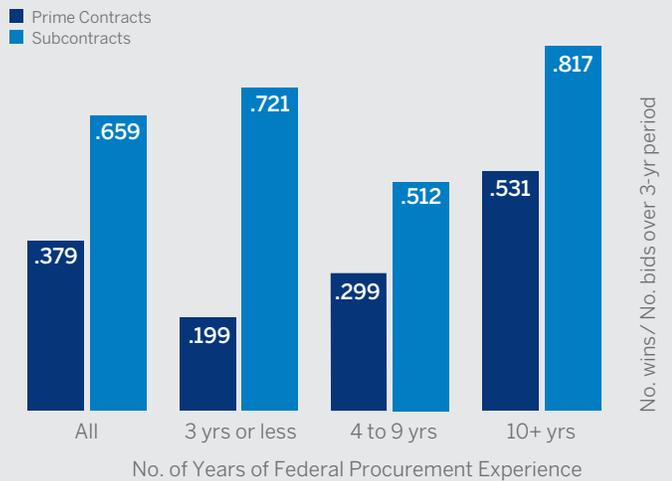
In federal contracting, as in other business arenas, experience pays. Average success rates in federal contracting rise along with the number of years of contracting activity. Firms with 10 or more years of contracting experience were over twice as likely to have had contracting success, compared to those who have been seeking federal procurement opportunities for three years or less.

- With experience comes increased contracting success. As summarized earlier in this report, the batting average, or prime contracting success rate,

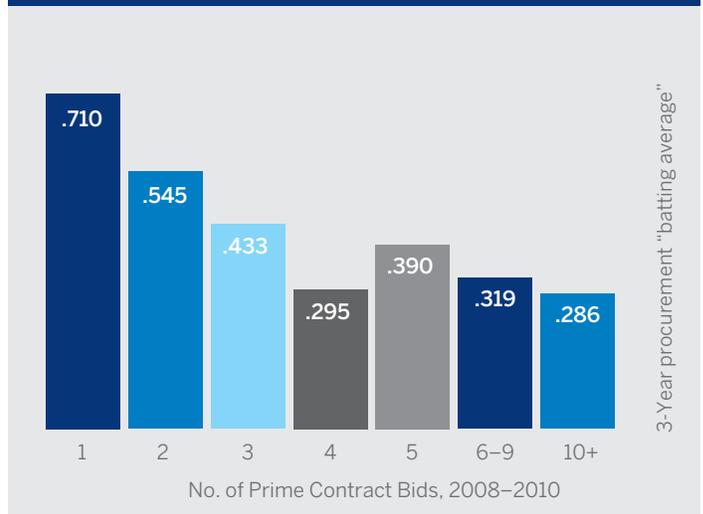
for active small business contractors is .379, meaning that small firms win a little better than one-third (38%) of the proposals they submit for prime contracting opportunities. As firms gain contracting experience, that success rate improves significantly. Small firms that have been seeking federal contracts for three years or less win just one in five (20%) of the proposals they submit, those with four to nine years of experience bag just under one in three (30%) of the bids they submit, and those with 10 or more years of contracting experience win over half (53%) of the bids they submit.

in being a prime contractor. In contrast, a greater share of the contracts performed by firms with three or fewer years of procurement experience (26%) is through subcontracting activity, with 61% of their contracts coming from prime solo contracts. (The remaining percentages in each case are contracts performed in teaming arrangements.)

**EXPERIENCE PAYS OFF:
SUCCESS RATES RISE WITH EXPERIENCE**



**PROCUREMENT SUCCESS RATES DECLINE
WITH INCREASED BIDDING ACTIVITY**



- Subcontracting success does not improve with increased experience when compared with prime contracting success—possibly because more experienced small firm contractors are more likely to concentrate on seeking prime contracting opportunities compared to their less experienced counterparts. The subcontracting batting average for firms with three or fewer years of experience in federal procurement is .721, while it is .817 for those with 10 or more years of experience. However, the most experienced firms say that just 19% of their federal contract activity comes from performing as a subcontractor, while fully three-quarters (74%) is

- Another lesson learned through procurement experience is to be judicious with proposal preparation. While there may be a bit of a “chicken and egg” relationship here—because firms that are successful after one or two bids may curtail their bidding activity for a period of time—our analysis shows that there is a law of diminishing returns when it comes to bidding. The success rate falls below the overall .379 batting average as a business surpasses bidding on six or more contracts over a three-year period. Thus, it would appear that the most successful strategy a small firm could employ in the federal marketplace is to pare down and concentrate on just a few procurement opportunities and not submit more than two or three bids per year.

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.

Small businesses, as defined in this survey and report, are derived from the federal government's size standards: procurement-focused definitions of "small," which vary by industry (either by revenue or employment) and are defined by the US Small Business Administration. In this environment, a small firm can employ more than 500 people and generate more than \$1 million in revenue, because their baseline of comparison (and competitors) in a given industry may be very large, publicly-traded corporations.

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

The investment that active small business contractors make in seeking federal contracting opportunities has risen significantly over the past year. In addition, the time and money small businesses spend on seeking procurement opportunities increases with level of contracting experience.

How much would you say that your business has invested, including all cash outlays and salaries for person-hours, in pursuing Federal contracting opportunities in (2009/2010)?

	2010	2011	% Change
Total	\$86,124	\$103,827	+21%
Gender			
Men	92,308	112,107	+21
Women	70,512	86,643	+23
Race			
Caucasian	79,055	89,334	+13
Business owners of color	108,368	139,709	+29
Region			
Northeast	53,129	85,503	+61
Midwest	76,462	130,450	+71
South	102,095	131,900	+29
West	81,721	64,146	-22
Industry Includes only those industries with 50 or more respondents.			
Goods-producing	84,799	116,186	+37
Professional/Scientific/Technical services	124,555	111,594	-10
Other services	67,717	80,369	+19
Employment Size of Firm			
Less than 10 employees	33,162	41,432	+25
10-49 employees	103,516	126,609	+22
50+ employees	157,564	283,284	+80
Revenue Size of Firm			
<\$250,000	12,146	25,541	+110
\$250,000-\$999,999	39,133	49,393	+26
\$1- \$4.9 million	72,675	98,807	+36
\$5 million+	155,486	267,559	+72



How much would you say that your business has invested, including all cash outlays and salaries for person-hours, in pursuing Federal contracting opportunities in 2010?

	Years of Contracting Experience			
	Total	3 Years or Less	4 – 9 Years	10 Years +
Average amount invested	\$103,827	\$64,172	\$89,223	\$153,521
Share of contractor population	100%	31%	34%	35%

Both bidding activity and success rates have declined for active small business contractors in the 2008 – 2010 period compared to the previous three-year period.

Over the past three years, how many times have you...

	2007–2009	2008–2010	% Change
Submitted a bid for a prime Federal contract	19.5	10.3	-47
Won a prime Federal contract	8.0	3.9	-51
Participated in a bid as a subcontractor for a Federal contract	7.9	4.1	-48
Contributed products or services as a subcontractor	7.1	2.7	-62
“Batting average” for prime contracting	.410	.379	-8
“Batting average” for subcontracting	.899	.659	-27

It takes the average newly registered small business just over 4 tries before they land their very first federal contract, and that average has not changed significantly over time.

How long did it take you, from the time you first registered on the CCR and started pursuing Federal contracts, to win your very first contract?

	Years of Contracting Experience			
	Total	3 Years or Less	4 – 9 Years	10 Years +
Two or fewer proposals/bids	56	55	53	61
Three to nine	28	31	26	25
Ten or more	16	14	21	14
Average number of proposals	4.4	4.2	4.9	4.1

With experience comes increased success: the “batting average” of more experienced small firm contractors rises over time, as does their level of bidding activity.

Over the past three years, how many times have you...

	Years of Contracting Experience			
	Total	3 Years or Less	4 – 9 Years	10 Years +
Submitted a bid for a prime Federal contract	10.3	6.7	10.7	13.2
Won a prime Federal contract	3.9	1.3	3.2	7.0
Participated in a bid as a subcontractor for a Federal contract	4.1	2.4	5.0	4.7
Contributed products or services as a subcontractor	2.7	1.7	2.6	3.8
“Batting average” for prime contracting	.379	.199	.299	.531
“Batting average” for subcontracting	.659	.721	.512	.817

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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, 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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