

Women and Minority Small Business Contractors: Divergent Paths to Equal Success

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



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Victory in Procurement®
GOVERNMENT CONTRACTS

The US government is the world's largest single purchaser of goods and services, spending just over \$535 billion in contracts in fiscal year 2011.¹ This offers a tremendous market opportunity for growth-oriented firms, especially small businesses, as there is a 23% goal for federal spending with small firms, 5% with women-owned firms, and 5% with minority-owned firms. How are women and minority active contractors faring compared with other small firms in the wake of reduced contract spending? How do they compare with other small firms in terms of overall contracting activity and success? And how do their strategies and sources of assistance vary from other small businesses in the federal procurement arena?

These important questions are the focus of this report, the second 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 how the federal contracting experience differs for women and minorities, and what changes have been seen over the past year. The first report highlighted the overall trends in small business contractors' experiences between the 2010 and 2011 surveys; the other upcoming reports will focus on how strategies and outcomes change with level of procurement experience, and what lessons can be shared from firms who focus on subcontracting as a procurement strategy.

QUICK FACTS

- Women and minority active contractors have achieved the same level of business and contracting success as their peers, but for businesses owned by persons of color, it has come at a price. The annual investment made seeking federal contracts is 35% higher than average among minority-owned firms.
- The average investment made in seeking federal contracts has risen over the past year, while bidding activity has declined. This trend in bidding activity is particularly true among women and minority contractors. For minority contractors, their greater investments and higher bidding activity seem to pay off—the success rate in prime contracting among minority contractors improved 10% between the 2007–09 and 2008–10 periods in contrast to the 8% decline in overall prime contracting success rates among average small business contractors in the same period.
- Women and minorities are more likely than average to have a special procurement designation or certification. The most useful to those who have them are 8(a) status, service-disabled veteran status, veteran status (for minorities) and getting on the GSA schedule (for women).
- While the majority of active small business contractors cannot point to a single “turning point” on their road to procurement success, fellow business owners have been more helpful than average to minorities, while outside consultants are cited more frequently than average by women.

¹Federal Procurement Data System. See usaspending.gov for additional information. This FY2011 spending figure is as of January 2012, and may change as new data are made available.

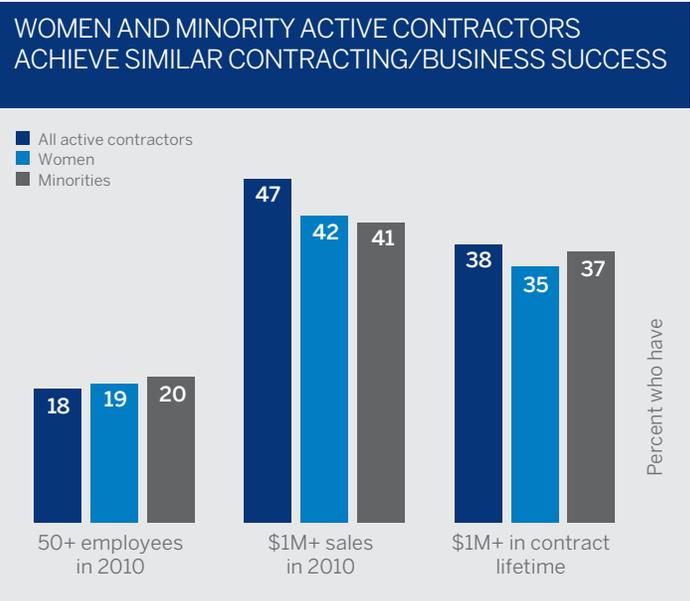
²See Methodology Note and program description at the end of this report for additional details.

Key Findings

Women and minority small business contractors have achieved the same level of business and procurement success as their peers, but—for minorities in particular—that success has come with a higher price tag. The annual investment made by minority business owners seeking federal contracts was \$139,709 in 2010, fully 35% higher than the \$103,827 average for all small firms. In addition, it took minority business owners longer to achieve their very first victory in procurement.

- Among a nationally representative sample of small business owners who are active federal contractors, women and minority-owned firms have achieved the same levels of business and contracting success as their peers. Nineteen percent (19%) of women-owned active contractors and 20% of minority active contractors employ 50 or more workers—equal to the 18% of all small business contractors employing 50 or more workers. Small businesses in the federal marketplace are much larger than the average small business in the U.S.—only 1% of which employs 50 or more workers.

Similarly, 42% and 41% of women and minority small firm contractors, respectively, have business revenues in excess of \$1 million—statistically similar to the 47% among all active contractors, and far exceeding the 5% of all small businesses that have achieved that level of business success.³



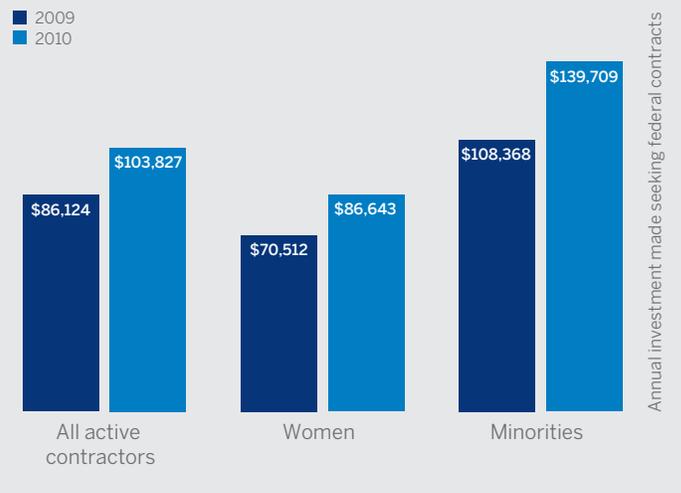
- When looking at federal contracting success in particular, the picture is much the same. Overall, just over one-third (38%) of active small business contractors have received \$1 million or more in federal contracts since they entered into the federal procurement marketplace, with 17% garnering \$10 million or more. Among women-owned active contractors, 35% have won \$1 million or more in federal contracts, with 15% receiving \$10 million or more, and for minority-owned contractors, the shares are a very similar 37% and 20%. So, among the active small business contractor population, women and minority business owners are both standing toe-to-toe with the average small business in terms of business and federal contracting achievement.

³ Percent of firms with 50+ employees and \$1M+ in revenues is according to the U.S. Census Bureau's 2007 Survey of Business Owners.

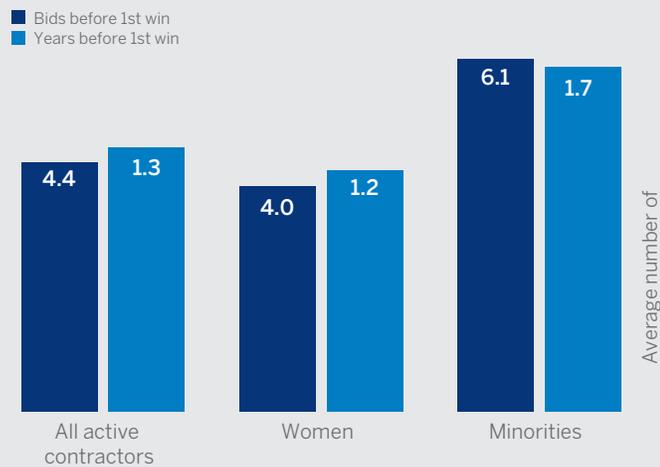
- However, for minority contractors in particular, that success has taken longer and has come with a higher price tag. When active small business contractors are queried as to how long it took them to achieve their very first contract win—both in terms of number of years and number of unsuccessful bids—minority business owners report a longer road to procurement success. It took minority business owners an average of 1.7 years (20 months) and 6.1 unsuccessful bids before they notched their first victory in procurement, while it took the average small business contractor a lesser 1.3 years (16 months) and 4.4 unsuccessful bids. It took women just about the same time and effort as average—1.2 years (14 months) and 4 bids.

women-owned firms, or the fact that they are more likely than the average small firm contractor (as will be discussed later in this report) to avail themselves of the GSA schedule.

INVESTMENT MADE SEEKING CONTRACTS RISES, IS HIGHER FOR MINORITY BUSINESS OWNERS



MINORITY CONTRACTORS TAKE MORE TIME, MAKE MORE BIDS TO ACHIEVE FIRST CONTRACT WIN



- That higher than average investment among active minority contractors continues. On average, active small firm contractors invested \$103,827 seeking federal contracting opportunities in calendar year 2010—a 21% increase over the previous year figure. Minority business owners report investing \$139,709 in 2010 seeking federal contract opportunities, an amount 35% higher than average. Women business owners report investing \$86,643 seeking federal contract opportunities, 17% less than average. This may be due to the different industry distribution of

- In addition, the investment made by minority contractors grew by 29% from 2009 to 2010, higher than the 21% average increase and the 23% increase seen among women-owned firms. So, while the investment of time and money made seeking contracting opportunities has risen for all small firms, it grew even more significantly among minority active contractors.

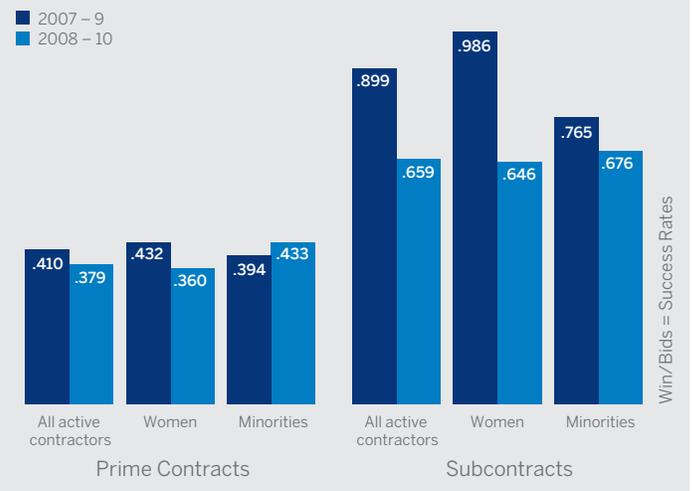
Both bidding activity and success rates have declined for active small business contractors in the 2008–2010 period compared to the previous three-year period. This trend is particularly true among women contractors. For minority contractors, while their decline in bidding activity is more evident, their success rate in prime contracting improved 10% between the 2007–09 and 2008–10 periods compared to the 8% decline in overall prime contracting success rates among average small business contractors in the same period.

- The first report published from the 2011 Victory in Procurement® survey, “Trends in Federal Contracting for Small Business,” pointed out the significant decline—in the three-year 2008–10 period compared to the earlier 2007–09 period—in both bidding activity and contracting success rates for active small business contractors. Between 2007 and 2009, active small business contractors submitted an average of 19.5 bids for a prime federal contract. That number dropped to just 10.3 bids during the 2008–10 period—a 47% decline. Participation in bids as a subcontractor dropped by the same percentage—a 48% decline, from an average of 7.9 bids in 2007–09 to 4.1 in the 2008–10 period.

- This decline is even more marked among minority contractors. The average number of bids they submitted for prime contracting opportunities dropped by 54% between the 2007–09 and 2008–10 periods, from 27.7 to 12.7 bids. The average number of bids in which they participated as a subcontractor dropped even more—by 62%, from 9.8 to 3.7 bids. Women saw a similar above-average drop in prime contracting bids—55%, from 19.0 to 8.6 bids—but their participation in subcontracting opportunities dropped by a lower than average amount—30%, from 6.9 to 4.8 bids.

- As bidding activity among active small business contractors has declined, success rates have also declined, but not as severely. Overall, prime contracting success rates are down by 8%—from a “batting average” of .410 to .379—and subcontracting success rates have declined by 27%—from .899 to .659. With respect to success

PRIME “BATTING AVERAGES” SEE MODEST DECLINE; SUBCONTRACTING SUCCESS DOWN MORE SHARPLY
Women Have Lost the Greatest Ground



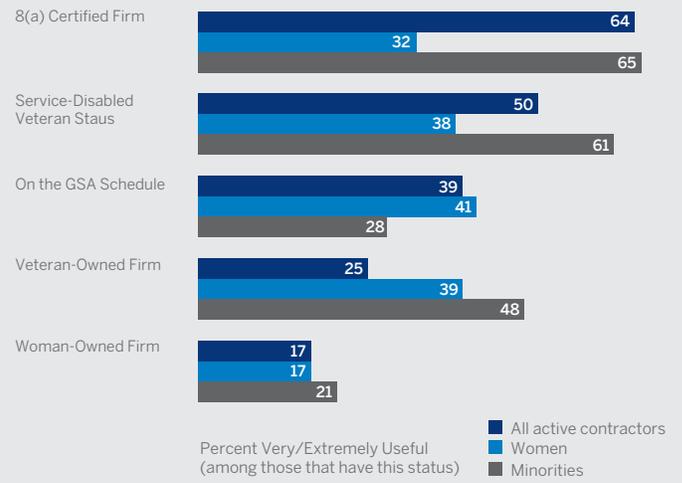
rates, minority active contractors have fared much better than average—their success rate in prime contracting actually improved 10% from the 2007–09 to 2008–10 periods, while subcontracting success declined by a lesser 12%.

- Among active women contractors, however, procurement success rates have declined at a greater than average rate—down 17% for prime contracts and 34% for subcontracts. It would appear that, with an overall decline in federal contract spending over the past four years, large prime contractors are offering fewer subcontracting opportunities to small firms, and more particularly to women and minority small businesses. And, at the same time, the bundling of contracts may be providing fewer prime contracting opportunities to small businesses. These results may be a one-year dip, but if these trends continue, it would spell trouble for government small business contracting goals and programs.

Women and minorities are more likely than average to have a special procurement designation or certification. Among the 10 certifications tested, the most useful to those who have them are 8(a) status, service-disabled veteran status, veteran status (for minorities) and getting on the GSA schedule (for women).

- The federal government has a number of certifications and designations that can make it a bit easier to compete for federal contracts, sometimes restricting competition to other small businesses, and other times allowing for even more restricted competition. Most small businesses are certified in some form or fashion, ranging from self-certified categories to designations requiring third-party certification. Fully 70% of active small business contractors have one or more designations, ranging from a high of 28% who are certified as a woman-owned business to just 7% who are certified as a HUB zone business. Other designations or certifications include: getting registered on the GSA schedule (22%), veteran-owned business (20%), being a minority-owned business (19%), a service-disabled veteran business (10%), or being accepted into the 8(a) program (8%). Women (82%) and minorities (81%) are more likely than average to have one or more designations.
- Having one or more designations doesn't do a business owner any good if they do not lead to enhanced contracting opportunities. The two most useful designations by far—which the majority of those who have them say the designation has been very or extremely useful to them—are being an 8(a) certified business or being a service-disabled veteran-owned business. Fully 64% of 8(a)-certified business owners say the certification has been very

8(a), VETERAN STATUS MOST HELPFUL FOR MINORITIES: GSA SCHEDULE BEST FOR WOMEN



or extremely helpful in getting federal contracts, while 50% of those who are service-disabled veteran-owned firms say that designation has been very or extremely helpful.

- Among minority active contractors, 8(a) status and disabled veteran status have been the most helpful, as has being a non-disabled veteran and having any sort of certification from a local government agency.
- For women, the most helpful certification has been getting on the GSA schedule. Forty-one percent (41%) of women contractors who are on the schedule say that it has been very or extremely helpful, similar to the 39% among all firms on the schedule, but significantly more than the 28% of active minority contractors who are on the schedule.
- Interestingly—but not surprisingly—only 17% of women active contractors who have self-certified as a woman-owned business say that this designation has been very or extremely useful to them—making it the least helpful of the 10 certifications tested. Up until February 2011 this designation was not accompanied by a program of outreach

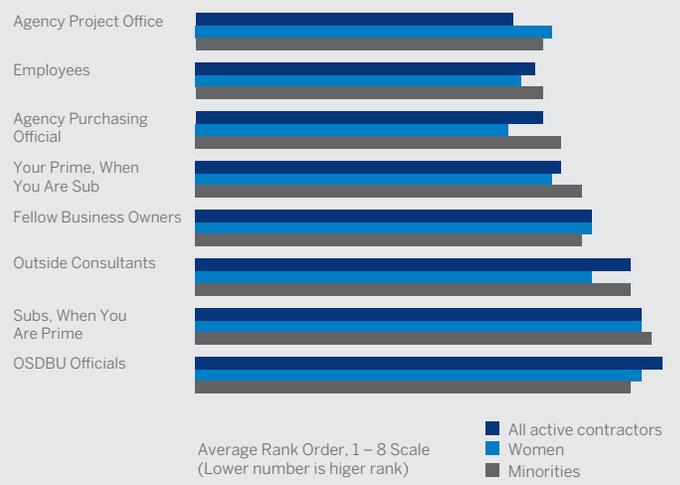
or restricted competition. It would seem that the newly-launched Woman-Owned Small Business (WOSB) Procurement Program couldn't have come at a better time. Tracking the usefulness of this designation going forward will be of strong interest among women's entrepreneurship advocates.

The majority of active small business contractors cannot point to a single “turning point” on their road to procurement success. However, fellow business owners have been more helpful than average to minorities, while outside consultants and agency purchasing officials garner a higher than average rating from women.

- Entering into any new market requires patience and perseverance, and the federal procurement arena is no exception. In fact, the road to procurement success has so many different pathways—which vary by industry, agency, region, or type of purchasing vehicle—that it is no surprise that a 55% majority of small business owners say that there has been no single “turning point” in their journey to contracting success, just a “long journey in which perseverance was the key.” This is the answer given by a majority of all active small business contractors regardless of gender, ethnicity, industry, region or business size.
- While the federal procurement arena is a market that requires patience and perseverance, small business owners do point out several key sources of assistance. One-quarter (26%) point to a key champion or guide within a particular agency that was helpful, and another one-quarter (22%) say that finding a fellow business owner who was willing to share tips and experiences was an important turning point.

- Minority business owners are more likely than average (29% compared to 22%) to point to advice from a fellow business owner as an important turning point. Women were no more likely than average (23%) to have received guidance from a fellow business owner.
- When asked to rank eight specific groups according to the level of positive impact they had on their procurement success, agency project offices received the highest ranking overall (averaging 3.2 on the 1 to 8 ranking scale), and among minority business owners (3.5). Among women business owners, agency purchasing officials ranked as most helpful, garnering a 3.1 on the 1-8 scale. Women also gave outside consultants (such as procurement advisors, accountants or attorneys) a higher than average ranking. Other groups ranked as especially helpful are a company's employees, and prime contractors, when the firm is performing as a subcontractor.

AGENCY OFFICIALS, EMPLOYEES PROVIDE MOST POSITIVE IMPACT ON PROCUREMENT SUCCESS





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

Women and minority active contractors have achieved the same level of success as their peers, not only in terms of the total value of all federal contracts, but in overall revenue and employment size. Minority-owned firms are paying a higher price for equal success, however – their annual investment made seeking federal contracts is 35% higher than average, and has grown more in the last year compared to their peers.

Business/Procurement Achievement	All Active Contractors	Women	Minorities
Employment Size of Firm			
Less than 10 employees	60	59	59
10-49 employees	23	22	21
50+ employees	18	19	20
Revenue Size of Firm			
<\$250,000	36	38	42
\$250,000-\$999,999	19	20	16
\$1-4.9 million	21	20	16
\$5 million+	26	22	25
Approximate Value of All Federal Contracts, Lifetime			
Under \$100,000	35	39	40
\$100-999K	27	28	24
\$1-9.9M	21	20	17
\$10M+	17	15	20

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)?

	All Active Contractors	Women	Minorities
2010	\$103,827	\$86,643	\$139,709
2009	\$86,124	\$70,512	\$108,368
Percent change	+21%	+23%	+29%

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? Approximately how many proposals did you submit before you won your first contract? Approximately how many proposals did you submit before you won your first contract?

	All Active Contractors	Women	Minorities
Average number of years	1.3	1.2	1.7
Average number of proposals	4.4	4.0	6.1



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. This trend has hit women and minority contractors harder than average—especially bidding activity and success rates for women in prime contracting, and bidding activity for minorities in both prime and subcontracting.

Over the past three years, how many times have you...	All Active Contractors	Women	Minorities
Submitted a bid for a prime Federal contract			
2008 – 10	10.3	8.6	12.7
2007 – 09	19.5	19.0	27.7
Won a prime Federal contract			
2008 – 10	3.9	3.1	5.5
2007 – 09	8.0	8.2	10.9
Participated in a bid as a subcontractor for a Federal contract			
2008 – 10	4.1	4.8	3.7
2007 – 09	7.9	6.9	9.8
Contributed products or services as a subcontractor			
2008 – 10	2.7	3.1	2.5
2007 – 09	7.1	6.8	7.5
“Batting average” for prime contracting			
2008 – 10	.379	.360	.433
2007 – 09	.410	.432	.394
“Batting average” for subcontracting			
2008 – 10	.659	.646	.676
2007 – 09	.899	.986	.765
Percent change, 2008-10 period vs. 2007-09 period			
Prime contracting bidding activity	-47%	-55%	-54%
Subcontracting bidding activity	-48%	-30%	-62%
Prime contracting success rate	-8%	-17%	+10%
Subcontracting success rate	-27%	-34%	-12%



Women and minorities are more likely than average to have a special procurement designation or certification. Among the 10 certifications tested, the most useful to those who have them are 8(a) status, service-disabled veteran status, veteran status (for minorities) and getting on the GSA schedule (for women). Being a woman-owned firm has NOT, in and of itself, been useful for women business owners in getting federal contracts.

Does your business have any of the following designations or certifications? (IF YES:) How useful has that certification been for you in getting federal business?	All Active Contractors		Women		Minorities	
	Have	V/E Useful	Have	V/E Useful	Have	V/E Useful
Has 1 or more designations/certifications	70	—	82	—	81	—
Woman-owned business	28	17	68	17	27	21
On the GSA Schedule	22	39	24	41	19	28
Veteran-owned business	20	25	7	39*	21	48
Minority-owned business	19	26	23	27	57	26
SDB/DBE (Small Disadvantaged Business/Disadvantaged Business Enterprise)	18	29	24	28	40	32
Any state government agency certification	17	28	21	22	28	34
Any local government specific certification	12	28	14	31*	20	41*
Service-disabled veteran-owned business	10	50	3	38*	10	61*
8(a) certified business	8	64	8	32*	21	65*
HUB zone business	7	19	8	32*	7	13*

Lower numbers indicate a more positive impact.

V/E Useful = percent saying the designation has been very or extremely useful in getting federal contracts.

*Low cell count means that this number should be interpreted with caution.



The majority of active small business contractors cannot point to a single “turning point” on their road to procurement success. However, fellow business owners have been more helpful than average to minorities, while outside consultants and agency purchasing officials garner a higher than average rating from women.

Many small business owners have pointed to some important “turning points” in their journey to contracting success. Have any of the following been a turning point for you?

	All Active Contractors	Women	Minorities
There was no turning point, just a long journey in which perseverance was the key	55	52	54
Finding a key champion or guide within an agency who gave me procedural tips	26	29	25
Finding another business owner who was willing to share their experiences with me	22	23	29
Finally narrowing my focus to one particular agency rather than taking a shotgun approach	18	18	21
Meeting an agency official at a matchmaking event or informational seminar	13	15	17
Meeting someone from a large prime contractor at a matchmaking event or informational seminar	11	10	12

Please rank order the following groups according to how much positive impact they have had on your federal contracting success, with 1 being the person or group that has had the most positive impact and 8 being the 8th most important – use each number only once. If any of these groups has had no influence or a negative influence, give them a “0.”

Average Ranking (1-8)#

Agency project office/group	3.2	3.6	3.5
Your employees	3.4	3.3	3.5
Agency purchasing official	3.5	3.1	3.7
Your prime contractor, when you are the sub	3.7	3.6	3.9
Your fellow small business owners	4.0	4.0	3.9
Your outside consultants (such as procurement advisors, accountants, attorneys)	4.4	4.0	4.4
Your subcontractors, when you are the prime	4.5	4.5	4.6
Agency OSDBU official	4.7	4.5	4.4
Number of Cases	(740)	(241)	(213)

ABOUT AMERICAN EXPRESS OPEN

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