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Business Development

Small Firms Should Take Advantage Of Year-End Contract Spending, Analysts Say

The end of the government's fiscal year is a potential bonanza for small business contractors as agencies strive to meet—or at least get closer to—their small business contracting goals, procurement analysts recently told Bloomberg BNA.

There are several strategies that small firms can use to try to snag some of this business, such as forming teaming arrangements and taking advantage of multiple-award vehicles. But one practitioner cautioned that none of these strategies is a panacea, and many federal agencies historically have not taking small business contracting goals very seriously.

Bloomberg Quantitative Analyst Evan Croen said during a presentation Aug. 27 that agencies tend to spend up to 3.5 times as much money for small business procurements in September as they do in any other single month. "That obviously means September is a good month to try to grab some business," he said.

Devon Hewitt of Protorae Law PLLC told Bloomberg BNA Aug. 30 that the uptick in small business contract spending at year's end is due in part to agencies' natural desire to spend all the money they have available.

"As we all know, the government tries to use all of its appropriated money," she said. "Smaller types of acquisitions that they can fill in here and there can help with that."

However, not all agencies are equally good prospects. Small firms should focus on those that consistently exceed their small business contracting goals, such as the Defense Contract Management Agency, Bloomberg Quantitative Analyst Duncan Amos said during the Aug. 27 presentation.

Other good opportunities this year include the Army and the Navy, which spend a lot of money on procurements set-aside for small businesses but have yet to reach their goals in that area, he said.

But Hewitt said it is difficult to generalize about which agencies are best for small firms to target.

"I don't know how seriously the government takes the small business goals and whether they really govern acquisitions as strongly as we practitioners like to preach that they do," she said. "But I think there is a push to meet the goals, because at the end of the day, agencies have to get their contracting needs met."

Sequestration, Furloughs. Bloomberg Budget and Congressional Analyst Cameron Leuthy said during the presentation that sequestration has made federal contract spending especially hard to predict.

"Agencies tend to have a typical pattern of spending money," he said. "This year has been a bit of a roller coaster, but now they're sort of turning the spigot back on again."

Government furloughs also have complicated matters, Leuthy said, in part because they have affected the government's acquisition workforce and thus its ability to enter into and administer new contracts.

"Furloughs just make agencies' jobs harder at the end of the year" when it comes to contracting, he said.

Hewitt said they also make life more difficult for contractors.

"You have to have a value proposition. What that really translates into is if you have something no one else has." — Hewitt

"Agencies are saying to contractors, 'We're taking furloughs, so you have to furlough your employees who are working on government contracts,'" she said. "If we're not showing up, your people shouldn't show up."

But the analysts agreed that despite the unpredictability in federal spending, there are real opportunities for small businesses to win new contracts and subcontracts between now and Sept. 30, the end of the fiscal year. Taking advantage of those opportunities will require several key strategies, they said, including:

- using schedule vehicles as much as possible;
- developing a "tight value proposition";
- acting quickly before FY 2014 starts, most likely with a continuing resolution;
- teaming with appropriate larger firms; and
- being mindful of the government's push toward lowest-price, technically acceptable (LPTA) contracts.

Multiple-Award Vehicles. Bloomberg Product Director Kristine Pachuta said during the presentation that one of the best strategies small firms can use to win new

business quickly is to take advantage of schedule vehicles.

“Any schedule vehicle before the end of the year becomes significantly more valuable as contracting officers look for the path of least resistance and try to find a way to save money,” she said. “In particular, mention to a contracting officer if you’re on a [General Services Administration] schedule.”

But Hewitt said it is probably too late to do this before FY 2014 begins if it means starting from scratch.

“It’s not that easy to get on a multiple-award vehicle because they have on-ramps and off-ramps and they have their own procurement cycles,” she said. “If you’re not on one now, I don’t know how you’re going to get on one by the end of the fiscal year, because I haven’t had one experience where a company has been successful getting on a vehicle other than through competitive means. And even if you’re on one, there are further competitions and there’s no guarantee, so it’s not ideal.”

‘Tight Value Proposition.’ Amos also said that small firms need to clearly communicate the unique value they can provide to an agency. Ideally, he said, they should offer a product or service that the customer can find nowhere else.

“Have a tightly defined value proposition,” he said. “Are you low-cost, and do you have a specific offering that no one else does?”

Hewitt agreed with this advice, but said it can only take a firm so far.

“You have to have a value proposition—otherwise you wouldn’t be in business,” she told Bloomberg BNA. “You have to sell yourself in a way that discriminates you in the market, but that’s what people do with peanut butter. I think what that really translates into is having something no one else has.”

She also said to be specific about what you can offer.

“Be prepared,” she said. “There’s a difference between someone who comes in the door and says, ‘Do you have any work for me?’ and someone who comes in with specifics, like ‘I can work on this contract with these people for this price, and here are all of my contacts.’”

In other words, you have to make it as easy and attractive as possible for an agency to hire your company.

“Connect all the dots for the government so all they have to do is execute the paperwork,” Hewitt said. “You can’t wait for scraps to fall off the table.”

Acting Quickly. Leuthy said in addition to making your value clear, you need to do so quickly to “help the government beat the clock” when it comes to year-end spending. That means staying in close contact with both government acquisition officials and teaming partners.

“The more you stay in touch with your counterparts on the government side, the more you can see what opportunities work for you,” he said. “And you have to not just be quick, but smart. Give yourself a great platform to start fiscal year 2014.”

Leuthy said FY 2014 is likely to begin with a continuing resolution, which will heavily curtail new contract spending.

“Agencies will be really restricted with new starts under a CR,” he said. “So the better job you and your clients do of putting money on contract between now and the end of the year, the better position you will be in.”

Hewitt also stressed the importance of jumping on opportunities as soon as they present themselves.

“Get all the money you can now, because there are so many uncertainties going forward,” she said. “You’ve just got to get in there.”

Leuthy said contractors also should be aware that more agencies are emphasizing pilot programs and modular development because they can be used in FY 2014 without violating restrictions on new starts.

“These are things the government is very interested in because they’re very risk-averse right now” with all of the budget uncertainty, he said. “Contracting officers are being more careful to not get themselves in too deep and then find the money yanked away at the last minute.”

Given all of these factors, Leuthy said no one should expect business as usual next year.

“The first quarter of fiscal year 2014 is going to be really challenging for contractors and the government,” he said. “Fair warning: anticipate a lot of ups and downs.”

Teaming Agreements. If all of this sounds daunting, small companies should realize they don’t necessarily have to go it alone; teaming with a larger firm can bring valuable experience that will pay current and future dividends.

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Pachuta said there is an art to finding a good teaming partner and persuading it to work with you. For one thing, be careful not to spread yourself too thin.

“It is extremely important to show your value to a firm and then become invaluable to that firm, rather than distributing work over a lot of different firms, which raises your overhead,” she said. “Figure out what you can do best right now and which firms align with that, rather than going broad and trying to catch a lot of things.”

In addition, Hewitt said, be discriminating when it comes to choosing a partner.

“It doesn’t make sense to submit to anything that comes along,” she said. “You have to do market research and determine what resources you have to apply to a particular field, as well as what chemistry you have with another company. You have to pursue the opportunities you think are most likely to be successful.”

She also cautioned that many small businesses often fail to negotiate favorable teaming agreements up-front, which can lead to problems later on. For example, she said, prime contractors might not provide as much subcontracting work as their small-business subcontracting partners expect.

As a result, a small business must make sure the teaming agreement specifies how much work it will get and how it will be paid.

“Get at least one or two things in your favor,” she said. “Ensure the contract terms in these two areas are solid and don’t give [prime contractors] wiggle room, which will make it harder for the primes to take work back.”

According to Amos, in times of fiscal austerity, it is all the more tempting for prime contractors to keep work for themselves.

“One of the problems I’ve heard about anecdotally is that when there was less work than expected, primes have hogged it and haven’t passed it to the subs,” he said.

Lowest Price, Technically Acceptable. Finally, the Bloomberg analysts and Hewitt agreed that the government’s push toward LPTA contracts will have significant long-term implications for standing out in the federal marketplace.

“With LPTA, you’re narrowing what the discriminator is going to be,” Hewitt said. “If your discriminator is

that you have the best people in the world, that has now been eliminated because they don’t care about the best people.”

This is not good news for small businesses, she said.

“Bigger companies have greater flexibility to take losses and lower their prices,” Hewitt said. “If you eliminate the technical discriminators and only focus on low cost, you’re really making it hard for small businesses to come to the top of the field.”

Amos agreed that LPTA procurements tend to be one-dimensional.

“LPTA is often to the exclusion of all other criteria,” he said. “Low price is technically acceptable.”

BY JEFF KINNEY

To contact the reporter on this story: Jeff Kinney at jeffkinney@bna.com.

To contact the editor responsible for this story: Jeff Kinney at jeffkinney@bna.com.