
Realities of Government Contracting

By Richard White



Should your company enter the government?

- Yes, if you are ready to sell

- No, if you want to sit back, take orders and not execute a sales program

The phrases government market and federal market are used interchangeably in this eBook because selling to state and local agencies sales is fundamentally the same as selling to federal agencies.

Government and Commercial Sales, the Same Yet Different

Government sales are fundamentally the same as commercial sales, yet different after the relationship is established. The initial sale is made in the same way as it is made in the commercial sector; a relationship is established with the buyer and the value of the solution is communicated to the buyer, ideally resulting in a sole source or limited competition purchase.

The differences in selling in the government market occur after the customer (end user) has been sold.

1. The government market is huge with hundreds of thousands of buyers so finding buyers is difficult and expensive
2. There are alternatives to using the public bid process to close a sale. The closing methods vary depending on the size and type of purchase and must, according to public purchasing regulation include a degree of competition (or at a minimum the appearance of competition)
3. Government buyer can be resistant to newcomers. Buyer resistance can be offset by (1) purchasing preferences set up by Congress for small businesses, (2) a distinguishing sales message, and (3) a referral from an entrenched contractor. Just stating your qualifications in an email or telephone call is usually not good enough to get in the door.
4. Unique or limited source products and services allow a company to get through the thicket of competitors. The narrower the offering the better.
5. Unlike the commercial sector federal buyers are happy to make referrals to other federal buyers. Market insiders use their customers to help them sell to other federal customers.

It's a Double Edged Sword

Some newcomers fear the mystery of the market and the red tape of contract compliance requirements. Red tape is primarily a procedural matter and it becomes routine quickly, don't let the red tape deter you from entering the government market.

Competition in the government market is intense, particularly from insiders that already have built-in relationships with buyers. Newcomers think that federal agencies want new suppliers and that aggressive sales efforts are not necessary. In fact, federal buyers are resistant to change and don't necessarily welcome newcomers with open arms.

But once a company manages to get in the market, the federal customers tend to be risk-averse and will come back to a solid performer over and over. A single contract can result in a series of add-on contract modifications and new contracts within the customer agency. And agency customers will assist in introducing you to their counterparts in other agencies.

Our message about insiders and competition in the market may be discouraging in many respects. But it only takes one win to become an insider and insiders use their government customers to help them sell to other government customers. So execute and get your hook in by landing a direct federal contract and then using the contract as a basis for selling and growth.

Once you crack the federal market you can parlay customer risk-aversion and loyalty into a prosperous, stable, and growing business. And contrary to popular opinion, federal agencies pay quickly once you learn to master the payment procedures.

Preselling and Best Value

Most federal purchases are made under “best value” rules. Best value rules say that buyers do not have to award to the low priced bidder. Rather, they can consider subjective value considerations like scoring of solution presentation in a proposal, warranties, deliver terms, etc. in awarding a contract at a higher price than the low bidder.

A best value award decision must be documented in the award file (the “file” as its know in the inner circles). The file and what it contains is a major factor in the sales and contract award process. The file is the way buyers justify higher priced awards to companies that have convinced the buyers of their value. The file must pass a government audit and defend a protested award decision from losing bidders.

As discussed earlier, pre-selling to buyers early in the procurement process is encouraged in federal purchasing rules. Most pre-selling is based on relationships, personal trust considerations, reputations, experience, and tailored solutions to the buyer problems. All of these factors are subjective yet important factors in making a buying decision. The subjectivity of buying decisions is the primary reason why aggressive pre-selling is necessary in government contracting.

Stated simply, federal buyers have the latitude to buy from the company that has made the most convincing argument that they offer a low risk solution to their problem. For a recurring contract award the favored pre-seller usually is the incumbent contractor. Incumbent contractors work with government decision makers every day so what better way to establish a relationship.

Are You in a Competition, Maybe?

The appearance of competition in the federal market is as important as actual competition. A lot of the competition that newcomers encounter is not real competition but rather the appearance of competition.



Government buyers may have someone in mind but you just don't know it. They are forced to use competitive purchasing methods even though they may already have someone in mind. They will not tell you what is really happening, i.e., who they have met with and who they know or might prefer.

This aspect of the government market tends to confound newcomers. Oh, the opportunity is published at the government public bid site so it must be open to all. Yes, it is open, open for an expensive proposal but not necessarily an award. Remember, pre-selling in front of a public bid is encouraged under the rules. You can be reasonably sure that someone has already met with the customer when a public bid is published.

Tell your revenue hungry CEO to slow down when he or she utters "lets take a shot at this, we are infinitely qualified to solve their problem". Most CEOs do not have to work on weekends on losing proposals.

How do they limit competition?

Federal purchasing rules allow limited competition because full and open competition is much too costly and requires six or more months of elapsed time from need to delivery.



The government would grind to a halt if everything were purchased with full and open competition.

As discussed earlier, how the documentation of a purchase (the file) reads about competition and the value of the product or services is critical. It's all about the contract file and what it says about vendor selection. The file protects the buyer and his or her reputation in the bureaucracy, and the reputation of the contractor. The file needs to say that the buyer followed the rules for competition.

Purchasing Mechanisms: The Key to Narrowing Competition

Ask yourself how does my company make purchases or how do I make purchasing decisions personally. Buying complex products and services is almost always done through relationships so you know what you are buying and how it will solve your problem. It is no different with federal buyers.

Federal sales are made after buyers learn from companies the possible solutions to their needs. Buyers then informally select one or more of the favored companies with solutions. Now the hooker: “how does the buyer narrow the competition to one company and contract with the favored company quickly without many months of elapsed time and a mountain of red tape?”

Federal buyers contract with their preferred vendors through “closing or purchasing mechanisms”. Closing mechanisms are difficult to understand because they may be:

- A purchasing rule (a rule about simplified purchasing procedures for small dollar amount buys).
- A preference programs set up to buy from small businesses
- A Multiple Award Contract (MAC) with pre-approved vendors
- A public bid

The answer is in the in Appendix A.

As indicated in Appendix A, purchasing mechanisms are designed to limit competition (supposedly fairly) because open competition with all vendors is impractical except in vey large and publicly visible purchases (military weapons and systems, border fences, etc.).

One of the purchasing mechanisms shown above is used to close a relationship-based federal sale. Sometimes competitors other than the favored company could receive the award depending on the method used.

Small Business Preference Programs

Small business preference programs include small business set-asides, disadvantaged business programs, programs for veterans, women owned business programs, and a HUB-Zone program. Certification requirements for the small business programs are varied and range in complexity from self-certification to complex applications that must be approved by the Small Business Administration (SBA).



In short, small business programs have been catalysts that allowed small business owners to grow exceptionally fast and acquire significant assets. Ideally, the assets were acquired before the small businesses turned into large businesses and lost their preference status.

The subject of small business preference programs is sufficiently complex to be the subject of a companion eBook.

For further explanation about these programs contact the author, Richard White at 301.908.0546.

Distinguish Yourself

Most companies think their competitors are worthless and that they alone have the best product or service known to man. Government buyers have heard "we are the best" so many times that it makes them scream when they hear it. Buyers want to hear simple facts backed with evidence. They have hundreds of vendors barraging them with messages. To get through the flack you need a sales pitch, which distinguishes you from the pack.

Distinguish yourself through your initial message to the customer. Ideally, buyers want to talk to only the companies that sell precisely what they need so they do the best they can to narrow down the field to best value companies. To counter the competition, you need a distinguishing message to get through the glass wall encountered by all sales people, government or commercial.

Your message should not be delivered via a link to a web site or a glossy brochure. Such tactics don't work in today's market. Both give the immediate impression that you don't want to take the time to determine what the federal purchaser needs.

The message must cut to the heart of the customer's problem. The sales pitch must be individually tailored to the federal buyer's specific needs. Otherwise, it will be quickly cast aside or dismissed. And it needs to be best value based.

The Critical Market Entry Questions

Federal agencies buy almost everything in large quantities across the United States at military bases all over the world. The big questions for newcomers to answer are:

1. Can we afford the investment to overcome the learning curve and inherent insider bias and find federal buyers to sell to?
2. Do I have the right marketing and sales people to find the opportunities and the tenacity and patience to sell against competition?

Like any critical question in business there are no easy answers. The decision boils down to confidence in your company, available investment dollars, and indicators of market size.



Top Down Market Indicators

Federal market statistics are notoriously confusing, incomplete, and difficult to find and analyze.

GSA schedules are the biggest and widest multiple award contracts. GSA schedule sales are reasonably accurate; around \$ 40 billion annually for all schedules, and represent about 20% of new contract awards. They can be used as a measure of the federal market for most products and services.

A rough estimate of the annual market for what you sell is five (5) times GSA schedule sales. This is a gross measure and should be considered as a guideline only. But the measure is better than other contract award statistics published by the federal government.

Top down market analyses (government-wide or at an agency level) will only tell you that federal agencies buy what you sell in gross amounts. They don't tell you what specific products and services were bought or who bought them.



Bottom-up Market Research

The following types of questions are difficult but not impossible to answer. Bottom-up market analysis is circular and frustrating because the data sources are inadequate federal procurement databases that hide end user data and specific requirement information.

1. What specific products and service are they buying within an industry sector?
2. Where are they buying your product or service?
3. How often are they buying it and in what amounts?
4. Who are they buying it from?
5. What procurement mechanisms are they using to buy it?

The primary databases used for bottom-up research are Google, USA.gov, FPDC.gov and FBO.gov.

Bottom-up market analysis can help answer the question: can we afford the investment to overcome the learning curve in federal sales and the inherent bias to contract insiders? And more importantly, can we find federal buyers to sell to?

Bottom-up market analysis is difficult but doable if a company has the time, desire, and focus to do Internet research and cold calling to prospective buyers. Some bottom-up research may be required to make a market entry decision. The research methods and depth depend on the industry, the amount of federal contacts a company has (if any), the known competitors in the market, and the products and services offered by the company.

An example of how an information technology services company located outside Washington, DC would do bottom-up research is described in the steps below.

1. Use the Internet and business network contacts to determine what business the company's competitors are doing in the company's geographic area. Knowledge of what your competitor is doing in the government market is worth its weight in gold.
2. Use the Internet to find the military bases, federal offices, and other federal facilities within a hundred miles radius of the company's office.

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3. Find the contracting office contact listings within the home pages federal facilities (where available).
 4. Supplement your Internet research with telephone research to find contact information for contracting officers and information technology end users within the facilities.
 5. Make calls to any contacts the company may know at the federal facilities including reference information collected from commercial customers, business network contacts, the company's employees, friends, etc.
 6. Meet with contracting officers to determine what they have bought in the past, from whom, how often, and ask for the names and contact information for decision makers (end users). Also ask which procurement mechanisms are used to make purchases, e.g., GSA.
 7. Make warm and cold calls to prospective buyers, arrange for personal meeting and telephone sales calls, and perform sales IOI.

A product company that ships anywhere would use the same Internet and contact sources but focus nationwide and more heavily on what competitors are selling to federal agencies.



It's Sales 101 and Time and Money

Intense focus, time and money are required to enter the government market; not to mention fortitude and patience. Patience is not a virtue of CEOs and even less so for CEOs losing commercial revenue. But leads times of 6 months to more than a year may be required to make a first government sale.

For small businesses a rough guess of the investment required to enter the federal market ranges from \$ 20,000 to \$ 50,000 and probably 5 to 20 times these amounts or greater for a large business.



Multiple Award Contracts: The Wave of the Future

Federal agencies are experiencing more and more difficulty in awarding contracts to a single company to meet a specific requirement. Public bids for single requirements are too expensive and take unrealistic amounts of time.

As a result, the purchasing procedure of choice in the federal market is gradually becoming blanket contracts awarded to more than one company. These types of contracts are called Multiple Award Contracts (MACs) or Indefinite Delivery /Indefinite Quantity (IDIQ) contracts.

MACs and IDIQ contracts are designed to meet future requirements on an order-by-order basis. In the simplest terms, IDIQs are three- to five-year contracts that are awarded to several large and small businesses based primarily on experience and pre-negotiated pricing, with no funding or orders until a specific need arises. Orders are competed among the winning companies (awardees) only, when the need for the product or service occurs.

In the commercial sector MACs and IDIQs might be call blanket or general purchasing agreements.

There are currently thousands of MACS and most are agency specific rather than government wide - 20 to 30 new MACs are published daily at FBO.gov.

Individual agencies issue within agency MACs and in special cases government wide MACs. The General Services Administration (GSA) and the Defense Logistics Agency (DLA) issue most MACs. DLA MACs are used by the Department of Defense agencies and GSA MACs are used by all federal agencies (DOD and civilian).

GSA Schedule Contracts

Companies deciding to enter the federal market entry should assume that obtaining a GSA schedule contract is a prerequisite (there are exceptions like construction services) for winning federal contracts for the following reasons.

1. GSA schedules are government wide MACs used by any federal agency and in some cases state and local governments.
2. GSA schedules cover almost all commercial products and service.
3. Annual contract awards using GSA schedules total about 20 % of all new contract awards. (See Appendix B)
4. GSA schedules are unique in that they are always open for an offer from a company to obtain a contract award. This makes GSA schedules an ideal way for newcomers to the market to obtain a closing mechanism (a multiple award contract).
5. MACs (other than GSA schedules) have a set bidding period (usually 60 – 90 days). Companies have to elect to submit a proposal during the bidding period and then be selected as one of the awardees to participate in the market covered by the MAC (the contracts often add up to billions over the course of the 5 year contract). Only awardees participate in the market cover by the MAC and all other any other companies are shut out of the market.

Companies with federal customers should ask if GSA schedule contracts are used by their Contracting Office to make buys.

Newcomers to the federal market should submit a proposal for a GSA schedule contract when they are confident that they are going to enter the market. The proposal should be submitted as soon as possible because the lead-time to obtain a schedule can exceed six months. Waiting can cause a sale to be lost because the buyer cannot wait for the seller to obtain a closing vehicle.

A buyer can accelerate evaluation of a GSA schedule proposal with a telephone call or email to GSA if the availability of a schedule is instrumental to the buyer in awarding a contract.

Do You Qualify for a GSA schedule contract?



Select the Schedule and Special Item Number (SIN) (part of a schedule) that applies to your company.

[Click Here](#)

Call 888.661.4094, Ext. 2, if you are unsure of schedule or SIN and one of our specialists will assist you in making a selection.

Find GSA schedule sales by:

- [Click Here](#) to Find Competitor GSA Sales
- [Click Here](#) to Find Sales by Schedule and SIN

The Keys to Winning Federal Contracts

Newcomers Need Customers as a Basis for Federal

Simplistic as it may seem, the secret to success is sell to your federal customers or use your customers to help you sell to other federal customers. The problem for most newcomers is that they don't have federal customers to use as the basis for their sales program.

The real obstacle to market entry is not the mysterious procurement process but rather finding and then selling to buyers who have both the money available and the need for what you sell. Real buyers are buried in the bureaucracy and hard to find. When found, aggressive, one-on-one sales are required to win contracts because everyone is knocking on their doors.

Professional and other technical services (including technology-based products of all types) have to be sold by the company itself and there is little anyone outside the company can do for you. Not lobbyists, ex-generals, Congresspersons, or small business specialists. And knowledge-based and technology companies must have a distinguishing message that sets them apart from the intense competition in this world—like competing against IBM. Just saying you have the experts and have done it for others is not enough.

Start Small and Grow from Within

Newcomers should use any means they can to land a small deal to get their hooks into the market. That could include cold-calling (ugh), pitching to anyone you know in the federal government or anyone who likes you and knows someone in the government, begging a prime contractor for a subcontract, or begging a federal contracting officer to introduce you to an end-user.

Getting the first one is tough. Use any means you can and dig into your street smarts to land something, and the customer will help you sell if you perform for them. The new revenue possibilities include:

- Extensions to your first, small contract
- New contracts to meet the customer's future requirements
- Introductions to end-users with money in their agency
- Introductions to end-users in other agencies who manage a similar type of program that your customer manages

About Fedmarket

Fedmarket assists companies in obtaining federal contracts by providing training and consulting services and online market intelligence services.

Please call me at personally at 301.908.0546 if you would like to discuss any aspect of federal sales, or call Fedmarket's sales team at 888-661-4094, Ext. 2.

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APPENDIX A
PURCHASING MECHANISMS ALLOWED BY FEDERAL BIDDING REGULATIONS

Amount of Order	Purchasing Mechanism	Number of Bids Required	Type of Mechanism
Up to \$ 3,500	Government credit cards	1	Purchasing rules allow sole source credit card purchases under \$ 3,500.
Up to \$ 25,000	Small purchases made with purchase orders (telephone call and minimum documentation)	3	Purchasing rule allows informality, simplified documentation, and a limited justification for purchases under \$ 25,000.
Up to \$ 150,000	Small business set-asides	1 to several	Almost all buys under \$ 150,000 are set-aside for small businesses
Unlimited	Small business preference buys made with certified small businesses including disadvantaged businesses, veteran owned, women owned, HUB Zone, etc.	1 to 3	Special purchasing programs set up for small businesses of various types
Unlimited	Agency specific multiple award contracts	1 to several	Multiple award contract with pre-approved vendors (orders placed over term of contract).
Unlimited	GSA schedule product buys (government-wide multiple award schedule contracts)	1 to several for products 3 bids received for services	Multiple award contract with pre-approved vendors (orders placed over term of contract).
Unlimited	Subcontracts to existing contracts with large prime contractors	Usually 1	Informal rule under the assumption that the prime contractor will ensure competition
Unlimited	Public bids requiring months of elapsed time and huge files to justify award decisions	Unlimited	Purchasing rule

APPENDIX B
GSA ANNUAL SALES BY SCHEDULE

Schedule Number	Schedule Name	Annual Sales (in millions)	Estimate of Federal Market Size (5 x GSA sales, dollars in billions)
00CORP	The Consolidated Schedule	\$820	\$4.1
23 V	Automotive Superstore	240	1.2
36	The Office, Imaging & Documents Solutions	680	3.4
03 FAC	Facility Maintenance	440	2.2
48	Transportation, Delivery & Relocation Service	600	3.0
51 V	Hardware Superstore	720	3.6
56	Building & Building Materials/Industrial Services & Supplies	570	2.9
58 I	Professional Audio Visual Telemetry/Tracking, Recording, Reproducing & Signal Data Solutions	760	3.9
66	Scientific Services & Equipment	170	0.9
67	Photographic Equipment- Cameras, Photographic Printers & Related Supplies & Services	40	0.2
70	General Purpose Commercial Information Technology Equipment, Software & Services	17,200	86.0
71	Furniture	1,600	8.0
71 IIK	Comprehensive Furniture Management	50	0.3
72	Furnishings & Floor Covering	80	0.4
73	Food Service, Hospitality, Cleaning Equipment & Supplies, Chemical Supplies & Services	240	1.2

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Schedule Number	Schedule Name	Annual Sales (in millions)	Estimate of Federal Market Size (5 x GSA sales, dollars in billions)
75	Office Products/Supplies & Service & New Products/Technology	740	3.7
76	Publication Media	120	0.6
78	Sports, Promotional, Outdoor, Recreation, Trophies & Signs (SPORTS)	320	1.6
81 IB	Shipping, Packing & Packing Supplies	130	0.7
84	Total Solutions for Law Enforcement, Facilities Management, Fire, Rescue, Clothing, Marine Craft & Emergency Disaster Response	2,600	13.0
520	Financial & Business Solutions	1,400	7.0
541	Advertising & Integrated Marketing Solutions	430	2.1
599	Travel Services Solutions	180	0.9
736	Temporary Administration & Professional Staffing	130	0.7
738 II	Language Services	130	0.7
738 X	Human Resources & Equal Employment Opportunity Services	240	1.2

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GSA ANNUAL SALES BY SCHEDULE

Schedule Number	Schedule Name	Annual Sales (dollars in millions)	Estimate of Federal Market Size (5 x GSA Sales, dollars in billions)
75I	Leasing of Automobiles & Light Trucks	3,300	16.5
87I	Professional Engineering Services	2,900	14.5
874	Mission Orientated Business Integrated Services	5,200	26.0
874 V	Logistic Worldwide	1,200	26.0
899	Environmental Services	500	2.5
	Total Sales	\$40,000 (approximate)	\$200