Guidelines for Companies New to the Federal Market

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Guidelines for Companies New to the Federal Market

By Richard White

Companies just entering the federal market should take the following steps.

Step 1: Understand Competition and Closing Mechanisms

Sales people take note. You are free to meet with and sell to federal end users. Federal purchasing rules not only allow it but encourage it. How else could end users assess the value of your product or service? Your competitors are also free to make sales call to the same end users you are calling on. This is where the real competition takes place; or ideally does not if you are the only one doing the selling. Does this sound like the commercial sector?

It is but here's the rub: They are not free to buy from you even after the end user has determined that you offer the best value. After all, public money is being spent and we need not waste it. Now you are in the red tape soup. The end user and the contracting officer (from the official contracting office) have to find a way to buy from you under the "rules" governing competition.

Federal purchasing rules require more competition (and documentation showing competition) as the size of procurements increase. Starting with micro-purchases (under $3,000) the rules allow sole source buys made directly by end users using a government credit card. The $3,000 limit can be increased to $15,000 or even larger under emergency or special circumstances. Credit card purchases do not have to go through the official contracting office so the market segment is identical to the commercial market.

All other federal purchases (besides credit card purchases) must be transacted by official contracting officers. Purchases up to $25,000 can be made with simplified purchasing procedures, e.g., three verbal, fax, or emails quotes. Purchases over $25,000 require a full and open competition (public bid) or use of a multi-vendor contract.

So what's a multi-vendor contract?

A multi-vendor contract is a pre-negotiated contract awarded to a number of vendors before specific purchasing requirements are known. Vendors' prices are negotiated up-front and listed in the contract. Thus, the federal rules presume that the competition took place when the multi-vendor contract was negotiated. Neat trick, huh? Now they only have to receive three quick bids for the vendors holding the contract and can avoid a costly public bid (full and open competition).

When the need for a product or service arises, the end user can turn to the list of pre-approved vendors and make a purchase quickly and efficiently. The time and expense involved with a public bid is avoided because the vendors holding this type of contract have agreed-upon price

lists which become the basis for bids on individual task orders (services) or delivery orders (products).
Multi-vendor contracts work like a dream and the federal government would grind to a halt without them. They limit competition but speed up the process and make it cheaper for the tax payer. This is not a bad thing in any way since most expensive public bids are pre-sold by one or more vendors and the real competition is among the pre-sellers. Vendors waste a lot of money on proposals that never had a prayer in the first place when responding to public bids.

GSA schedules are the most widely used and well known of the multi-vendor contracts. Multi-vendor contracts are the most popular way for end users and contracting officers to close (transact) a sale. A closing vehicle is an essential sales tool and without it you cannot sell successfully in the federal market.

The best way to explain contract vehicles is to compare disparate businesses. Our discussion will center on two very different federal market players, (i) a small business new to the federal market, and (ii) a large prime contractor pursuing worldwide federal sales opportunities.

The Small Business

Assume a small business, ABC, Inc., has established a relationship with an end user at a nearby military base. The military base's end user needs to procure approximately $200,000 in information technology equipment. ABC, Inc., which is relatively new to federal sales, does not have any closing vehicles. The simpler ways to close the sale are of question because of the size of the deal.

The base's end user, who is convinced that ABC, Inc. can provide best-value equipment, has several options available to buy from ABC, Inc. Those options are as follows:
The end user can decide to have ABC, Inc. provide the equipment under a subcontractor with the prime contractor presently working at the base (probably the quickest and most practical alternative).

The end user may award the contract to ABC, Inc. under a sole source procurement. Under the federal regulations, solicitations may be limited to one source only if the contracting officer has determined that the vendor at issue is the only source reasonably available. If only one source is solicited, the official order file must be documented to explain the absence of competition. The sole source route isn't really viable in the situation described above or for that matter in most cases.

The end user may announce the opportunity as a public bid. In doing so, the procurement would be opened up to competition and the actual award will be delayed for months on end (the least likely option).

Although the "prime contractor vehicle" described above is likely to be chosen as the most practical avenue, it has two major disadvantages as far as ABC, Inc. is concerned. The base's prime contractor will take a fee for managing the subcontract (as well it should). ABC, Inc. will also be under the thumb of the prime contractor and may well be insulated from its customer. Under this scenario, a GSA schedule would have been an ideal vehicle. However, like most small businesses new to the federal market, ABC, Inc. doesn't have a GSA schedule contract.

The Prime Contractors

In contrast, experienced prime contractors have every vehicle known to man. If a business truly wants to succeed in the federal market in the long term, it needs to align itself with as many vehicles as possible. In lining up contract vehicles, prime contractors acquire not only federal contracts (such as GSA schedule contracts) but they also build strong business relationships with small and disadvantaged businesses. In fact, using a small business as a conduit for federal sales is encouraged under the federal procurement regulations as long as the small business is the controlling party in the partnership. Those vehicles held by large prime contractors include:

- A GSA schedule for every line of products or services that company offers
- Other multiple-vendor contracts
- On demand partnerships with small businesses of all types (the prime contractor forms alliances with several businesses in each small business preference category)

Prime contractors, like any other vendor or government buyer, will avoid public procurements like the plague. Every prime contractor's goal is to win the business as quickly as possible and with as little competition as possible. Therefore, the primes use their other vehicles to win the business. Nonetheless, situations exist in which the public procurement route is the only method available.

Step 2: Determine Your Eligibility for a Preference Program

Small businesses entering the federal market have the unique opportunity to grow from a point of little or no revenue to hundreds of millions of dollars of revenue in a few short years. The federal government encourages small business participation in the market through a series of preference programs.

Preference Programs

Every business that qualifies should use federal small business programs. Some require only a simple "self-certification" while others require the submittal of time consuming and expensive applications to the Small Business Administration (SBA). Take advantage of the small business set aside programs but view them as a closing mechanism, rather than a direct path to a contract. Relying on them solely to make your sales is unrealistic. Sell the federal end user first and then use the preference program to close your sale.

The preference programs are summarized below.

Small Business Type	**Annual Contract Dollars in Billions (FY 2005)**	**Certification Requirement**	**Competition Rules**
Any small business	$79.6	Self-certified. Small business size standards are based on the company's annual revenue or its number of	All procurements under $100,000 are set aside for small businesses Open competitively to any small business that qualify

		employees (differs by industry classification). Size standards are published by the SBA (http://www.sba.gov/size/sizetable2002.html).	according to the size standards
Small Disadvantaged Business	$10.5 (includes Alaskan Native corporations)	An application for certification must be approved by the SBA. Per federal regulations, 51% of the business must owned by disadvantaged individuals.	Sole-source contracting permitted up to the following limits: $5,000,000 for a procurement within the North American Industry Classification System (NAICS) codes for manufacturing; and $3,000,000 for a requirement within any other NAICS code
Alaskan Native Corporation	(see above)	Applicants certified by SBA	Uncontested sole source awards of any amount allowed
Service-disabled Veteran-Owned Small Business	$1.9	Self-certification but disability certificate required from the Veterans Administration	Same as disadvantaged business (see above)
Business located in a Historically Underutilized Business Zone (HUBZone)	$6.1	Principal office must be, among other criteria, within defined HUB Zones Certification required by SBA based on criteria specified in federal regulations Application for certification sent to SBA	Same as disadvantaged business (see above)
Women-owned Small Business (preference program in the developmental stage)	$10.5	Proposed requirements: 51% owned by women (applies only in industries designated by SBA as substantially underrepresented in federal procurement) 51 % owned by women who are economically disadvantaged (applies only in industries designated by SBA as underrepresented in federal procurement)	Proposed competition rules: Same as disadvantaged business (see above)

New Women-owned Preference Program

Congress enacted new legislation in 2000 authorizing a new small business preference program for women-owned businesses. Nearly eight years have elapsed and we are still waiting on the women-owned small business preference program.

The new program will most likely be modeled on the current small disadvantaged business program, the 8(a) Program. We anticipate that the women-owned small business program will be called the 8(m) Program in honor of the section number of the authorizing legislation. This program will allow contracting officers to make sole-source awards to certified women-owned small businesses with the same limitations as several other small business preference programs.

As usual, the government has made the 8(m) Program much more complex and complicated than it should be. It applies only to two specific industry groups and the eligibility requirements for women-owned small businesses are different for the two industry groups. To make matters worse, the industry groups will not be known until SBA completes a study to determine the industry groups. Specifically, SBA is to determine the industries in which women-owned small businesses are “underrepresented” and “substantially underrepresented” in federal procurement.

A summary of the regulations is presented below.

Type of Business	Certification Requirements	Competition May Be Restricted in Specific Industry Groups
Women Owned Small Business	Must be at least 51% owned by one or more women	Industries in which Women Owned Small Businesses are substantially underrepresented in federal procurement
Economically Disadvantaged Women Owned Small Business	Must be at least 51% owned by one or more women who are economically disadvantaged. In order to be considered economically disadvantaged, a woman’s personal net worth must be less than $750,000, excluding her ownership interest in the concern and equity in her primary personal residence.	Industries in which Women Owned Small Businesses are underrepresented in federal procurement

Step 2: Subcontracting with Prime Contractors

Prime contractors are required by law to subcontract certain portions of their work to small and small disadvantaged businesses. This is a major element in the federal government's small business advocacy program and, like the preference programs described above, it works.
The majority seem to believe that mandatory subcontracting is a good approach but small businesses beware. There is an inherent flaw in the system in that prime contractors agree to use small business on paper but do not do so in practice. It is not surprising that prime contractors operate in such a manner as to preserve their own self interest. The way to keep the primes honest is to force the prime contractor to sign an airtight teaming agreement which obligates the prime contractor to send small companies the work outlined in the bid proposal.
Most small businesses start out in the federal market by serving as subcontractors to federal prime contractors. These companies are forced to do so because they don't have the closing mechanisms discussed in previous chapters. Perhaps more importantly, most likely didn't know about or are not eligible for GSA Schedule contracts until they had been in the game for six months or more.

In contrast, there may be limited scenarios under which the prime contractor will welcome you with open arms. They are as follows:

- Your sales staff has sold your company's services to an end user at a military base near your hometown. The end user wants to do business with your company and has money to spend. You don't have a closing mechanism, such as a GSA Schedule contract, so the base referred you to the contract manager for their favorite prime contractor. Under this scenario, the prime will embrace your company because you have brought an unforeseen opportunity to its attention and also because it will make a handsome profit by marking up your fees and costs.
- You have a unique capability that the prime contractor needs and therefore can't find elsewhere.
- Someone in your network of contacts knows a decision maker in the prime contractor's organization and has made a strong referral for you.

Beginning as a subcontractor to a prime is a good way to get your foot in the door because it is fast and relatively painless. The major drawbacks are that the prime contractor will try to insulate your company from the customer, take credit for your staff's superior performance, and attempt to grab the bulk of any new work you uncover. Although at first glance this may seem to be a gross injustice, your business will most likely do the same when it becomes a prime contractor.

The Use of Preference Programs by Prime Contractors

It is not uncommon for a large prime contractor to act as a subcontractor to a small business which has won a federal contract through one of the government's preference programs. In the situation described above, the terms of the federal contract will most likely specify that at least fifty percent of the contract's personnel costs must be spent on work performed by employees of the prime contractor (the small business) or personnel of other small businesses. This stipulation is in place to keep prime contractors from using small businesses and preference programs as fronts when closing sales. Large prime contractors may legally participate in small business preference contracts as long as this stipulation is strictly adhered to. Detractors say that in spite of the fifty percent rule, the small business is still a front for a large business. All in all, the practice works in favor of small businesses so the rules are not likely to change.

Large prime contractors maintain “stables” of different types of tested small businesses for use should a need arise. They have a thick Rolodex stocked with the names of small businesses, small disadvantaged business, veteran-owned small businesses and the like. Nonetheless, a small business should take great pains to inform the primes of its preference status. Keep in mind that the primes are a tough sell because they already have hundreds of preference partners.

On the other hand, doing business with a prime becomes a slam dunk if you have federal business in hand and are looking for a prime to help you close the deal. Imagine how high the prime contractor will jump if the end user, its valued and prized customer, has told the prime that she wants to do business with you.

Go After Small Opportunities in Your Locale

Small businesses do reasonably well within the Beltway because of the vast amounts of money available for contracts in the region. However, the overabundance of contract opportunities is offset by the level of competition. The Washington metropolitan area is home to the very largest prime contractors and small businesses are playing in their backyard. Small businesses hoping to do business near the Beltway must learn to play nice with the large primes or they run the risk of being shut out of the market.

Many small businesses emerge and prosper by staying close to home where the competition is not as intense. There are countless federal facilities located throughout the U.S. and overseas. Such facilities include military bases, research centers, Veterans Administration and military hospitals, and regional offices of various federal agencies. Take a peek at your local blue page telephone directory or peruse the federal agency web sites for contacts. Federal facilities located outside of the Beltway prefer, for political and social reasons, to work with local companies.

Local businesses are also perceived by federal officials to be more cognizant of delivering value. It is not uncommon for a small business owner to meet an end user from a local federal facility at a social occasion or at a networking event. He or she can then turn the contact into a relationship and ultimately a sale.

Administrative Procedures for Entering the Market

We are frequently asked, "What procedures should be followed by small businesses eager to participate in the federal market?" The answer to this question is that a small business should implement an aggressive federal sales program and simultaneously work toward obtaining a GSA Schedule contract. The latter should be of highest priority. A Schedule contract is the only practical way a small business can obtain a pre-approved price list under a multiple-vendor contract.

Many of the GSA Schedule solicitations covering services require that a company demonstrate that it has the background or corporate experience necessary to provide the services it is offering to the government. This presents a problem to new companies that have no corporate experience to draw upon. Start-ups hoping to offer products to GSA also face a hurdle because GSA requires that a company submitting an offer prove that it has sold the product in the commercial marketplace. Either of these factors can impact upon the time at which your company may submit its GSA Schedule offer.

What do you do while you are waiting to submit your GSA offer or are waiting for a submitted offer to be evaluated? The offer evaluation process can take three to nine months so you have plenty of time to do other things. We suggest that your company undertake the following steps: Immediately begin an aggressive sales program to sell directly to federal end users. Do this on Day 1.

Provided you qualify, apply for small disadvantaged and/or service-disabled veteran-owned status. Prepare your application and get it submitted within the first thirty days. Try to work through prime contractors to obtain subcontracts as the way to close your sale. Use credit card transactions (under $2,500) or purchase-order transactions (under $25,000) to close your sales and get your foot in the door.

For deals that exceed $25,000, tell the federal customer that you are working on your GSA Schedule offer or that it has been submitted and it is in the evaluation stage. Larger deals take six to twelve months to sell so your GSA Schedule contract could be awarded by the time you are ready to close the deal. If it isn't, knock on the door of the prime contractor serving the agency.

Even if you fit within the parameters of one of the small business preference programs, approach selling to the government as if you didn't have such a status. Sell aggressively and effectively. Then use your preference edge to help close the deal. Get started today. Start making sales calls as soon as possible.

Administrative Steps

Selling should be your highest priority task. The following administrative steps should be started in parallel on day one.

1. **Obtain a GSA Schedule**

Start the work required to obtain a GSA Schedule contract on Day One. The big difference between the federal and commercial markets is that you must have a closing mechanism in the federal market because federal procurement regulations require that public money be spent wisely, and that awards occur only after a competition has been held (at least from a public perception). Such contracts are the only effective way for companies new to the market to compete for federal prime contracts.

2. **Learn How Federal Proposals Are Written and Develop a Proposal-Writing Capability**

(Applicable to Professional Services and Information Technology Companies)

Professional services and information technology companies have a unique problem in the federal market. They have to respond to complex, publicly-announced Requests for Proposals even if they have established a strong relationship with the customer. In order to close your sale, you must submit a strong, customer-centric proposal.

Proposal writing can be an Achilles heel for many companies -- even those experienced in the federal market. It is a unique and often chaotic process that is far more expensive and difficult to tackle than most people realize. Writing a winning federal proposal is creative and, at the same time, requires a structured management process. The management process must be systematic and integrate sales and proposal development. The creative part is in selling the customer and then writing the solution that you pre-sold in a way that it is clearly understood by the customer. Both are difficult tasks.

3. Assign an Administrative Person to Complete Red Tape Processes (Jumping through the Hoops)

As discussed above, federal procurement red tape can be a psychological deterrent to direct federal sales. It shouldn't be, however. A newly-hired college graduate with patience or someone in your accounting organization can get through all of the processes necessary to do business with the government. It seems daunting at first but with patience and tenacity the person assigned the task will find out that it is not rocket science. Red tape becomes second nature after the first time through the process.

The designated person should take the following initial administrative steps on Day One. Although mechanical and frustrating at first, taking these steps will help to familiarize you with the federal bureaucracy. Keep in mind that conquering red tape is not sales. It is merely a matter of jumping through hoops. It has nothing whatsoever to do with generating revenue. Outsiders often misunderstand this.

Critical steps to undertake are as follows:

1. Obtain a Dun & Bradstreet Number (DUNS Number) (See http://www.dnb.com/US/duns_update/index.html).
2. Register at the federal Central Contractor Registration site (See http://www.ccr.gov/).
3. Register at the Online Representations and Certifications Application (ORCA) site (See https://orca.bpn.gov/login.aspx).
4. Sign up to receive e-mails about federal opportunities at the central Federal Business Opportunities site (See http://www.fedbizopps.gov/).
5. Do companies need to enlist the services of an attorney when they do business in the federal market? Lawyers have a role to play in the federal market just as they do in the commercial market. The trick is to realize when you need one and when you don't. Don't assume you need one for every little thing you don't understand.
6. Are special accounting systems required when doing business with the federal government? Yes, at some point but not in the beginning. A somewhat generalized accounting package, such as QuickBooks, will do to start. As your involvement in the federal market grows and your revenue increases, you will need to invest in a specialized system.

In summary, we receive frequent inquiries from companies who tell us they have addressed all of the administrative tasks listed on federal web sites but have failed to receive any federal business. They ask why the orders aren't flowing in from various federal agencies. Our response to such inquiries is to be proactive, locate an end user and call them just like you would a commercial customer. The federal buyers aren't actively seeking you out. Decide to make the investment in establishing one-on-one customer relationships or don't waste your money, time and effort.