



Trends in Federal Contracting for Small Businesses

A Research Summary for the American Express OPEN for Government Contracts Program

While, according to the U.S. Small Business Administration, 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 \$517 billion in fiscal year (FY) 2012, which is down \$35 billion (6%) since FY2009.¹ In FY2011, the most recent year available, contract spending with small businesses amounted to 21.7% of the total – which is less than the 23% procurement goal. How are small business contractors faring in this atmosphere of tightening budgets – have bidding activity or contracting success rates suffered? Have some 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 third survey conducted among active small business contractors for the American Express OPEN for Government Contracts program.² This report focuses specifically on key trends 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, and what lessons can be shared from firms that focus on subcontracting and teaming as a procurement strategy.

Quick Facts

- **Over the past year, the amount of time and money that active small business contractors have invested while seeking federal contracting opportunities has averaged \$128,638 – which represents a 49% increase over the past three years.**
- **Even as the average investment made in seeking federal contracts has risen, bidding activity has declined significantly over the past three years – by 72% for prime bids and 54% for subcontracting bid participation. However, subcontracting success rates have held and prime contracting success rates are up; active contractors are bidding smarter.**
- **Just how active are active contractors? On average, active contractors are currently performing on 2.5 contracts. The level of contracting activity increases with procurement experience, yet currently one-quarter of active contractors are between contracts. And, importantly, the level of reliance on federal contracts has declined – from comprising 38% of total firm revenues in 2010 to just 19% today.**
- **While small business contractors are not currently as reliant on federal contracts for total firm revenue, it is easier than ever before to get that first contract win. While it took those who have been involved in federal contracting for a decade or more 2.9 years and 5.6 unsuccessful bids before their notching their first procurement win, those who have been seeking contracts for three years or less say that it took just 1 year and 3.1 bids to win their first contract.**

¹ See usaspending.gov for additional information. Data as of June 2013.

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 \$128,628 in time and money during the course of 2012 seeking federal contracting opportunities. This represents a 24% increase over their reported investment in 2010, and a 49% increase since 2009.

- It takes an investment of both time and money to seek federal contracting opportunities – and the investment required for contracting success has increased significantly over the past three years. In the inaugural procurement survey conducted in 2010, the average investment was \$86,124. In the 2011 survey, the investment rose by 21% to \$103,827. In the 2013 survey, active small business contractors report that they spent an average of \$128,628 seeking federal contracts in the previous year – fully 49% more than they spent three years previously.

- Who spends the most time and effort seeking federal contracting opportunities? Not surprisingly, the largest firms make the most significant investment. Small businesses with 50 or more employees invested \$257,098 seeking contracting opportunities in 2012, while firms with less than 10 employees spent just \$37,172. And small firms with \$5 million or more in revenue invested \$282,332, while those with less than \$250,000 in revenues invested \$26,115.



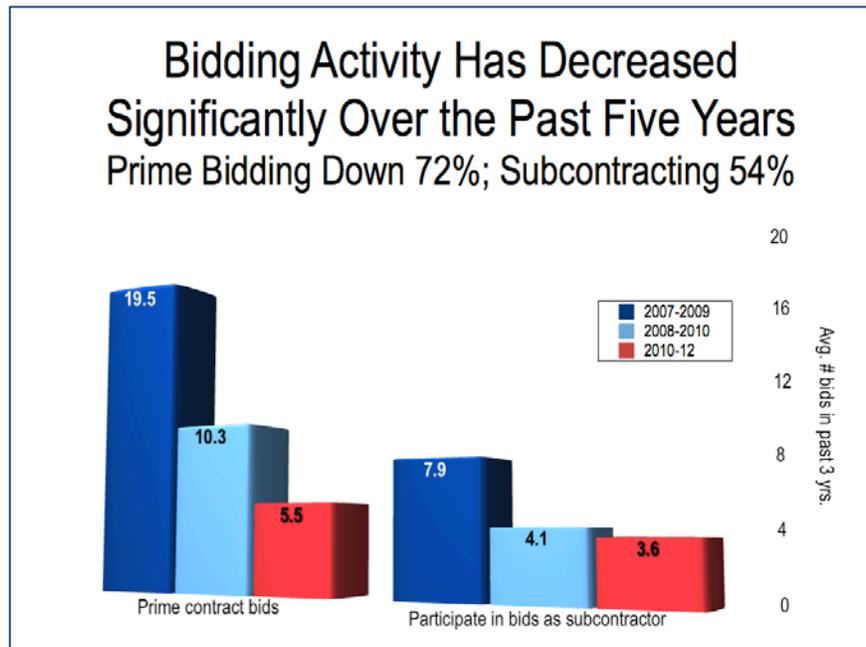
- Another group that invests an above-average amount of time and money seeking federal procurement opportunities are businesses owned by persons of color. In 2012, they invested \$143,356 seeking federal contracts, 17% more than the \$122,256 investment made by Caucasian-owned companies. However, that gap is narrowing somewhat, as the investment that minority business owners are making is up only 3% from two years ago, while the investment made by Caucasian business owners is up 37% from the 2011 survey.
- In each of our procurement surveys, women-owned firms are seen to be spending less time and money seeking federal contracts, but the gender gap is narrowing. In 2012, women-owned firms invested \$112,112 seeking federal contracting opportunities, 82% of the \$137,040 investment made by men-owned firms. In the 2010 survey (inquiring

about their investment the previous year), women-owned firms invested 76% of the amount made by men-owned firms.

- Other subgroup differences of note in the level of contract investment are seen by region and industry. Making the highest investment in seeking contracts are firms in the construction industry (\$172,058) and information services (\$169,948), as well as firms in the Mid Atlantic region (NJ, NY, PA - \$183,317). At the other end of the spectrum, firms in the East North Central region (IL, IN, MI, OH, WI) are investing the least amount of time and money seeking federal contracts (\$90,355).

Even as the average investment made in seeking federal contract opportunities has increased, the level of bidding activity has declined. Over the past five years, the number of prime contracting bids declined from 19.5 in the 2007-2009 period to just 5.5 during the 2010-2012 period. Subcontracting bids declined from an average of 7.9 in the 2007-09 three-year period to 3.6 over the 2010-12 period. Success rates have held, though, with respect to subcontracting, and are improved for prime contracting activity. With fewer bidding opportunities, active small business contractors are bidding smarter.

- While the investment that small firms have made in seeking federal contracts has increased, their bidding activity has fallen. Over the 2007-2009 period, active small contractors reported submitting 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

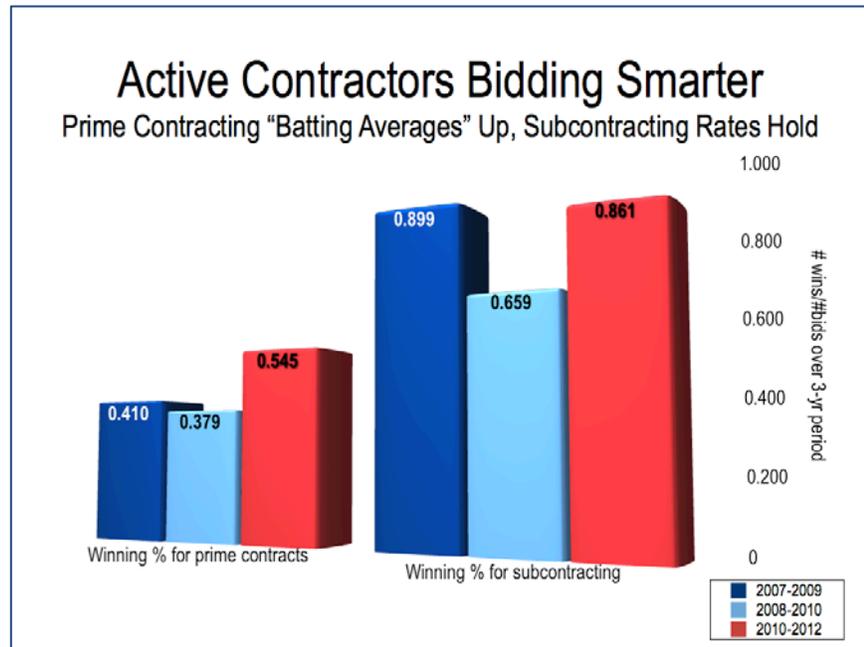


most recent three-year period (2010-2012), the average number of prime contract bids has dropped by 72%, to just 5.5 bids, and the number of bids participated in as a subcontractor similarly fell by 54%, to 3.6 bids over the three-year period.

- One reason for a drop in bidding activity may be reductions in government spending – the US government has significantly trimmed spending in recent years in an effort to help reduce the US budget deficit. The US government spent \$541.8 billion on contracts in fiscal year 2008, \$541.2 billion in FY09, \$539 billion in FY10, \$537 billion in FY11, and \$517 billion in FY12 – a 5% reduction in spending on external contracts over the past four years.³

³ Source: usaspending.gov. Data as of June 2013.

- While flat or reduced federal agency spending has reduced small business bidding activity, it has not negatively impacted small firm contracting success rates. While our analysis showed a decline in success rates in our 2011 survey, active small business contractors appear to be bidding smarter, and their “batting averages” – their success rates comparing contracts performed on versus number of bids submitted – have recovered from the decline witnessed two years ago. At present, the prime contracting success rate is 55% on average (a batting average of .545), up from 41% three years prior, and the subcontracting success rate is 86%, down just slightly from the 90% seen in the 2007-09 period.



- What firms are finding greater contracting success than their peers? As expected and as seen previously, contracting success rises with procurement experience and firm size. Firms that have been engaged in federal contracting for 10 years or more have a prime contracting success rate of 70% and a subcontracting success rate of 89%, compared with success rates of 53% and 74%, respectively, among firms with three years or less federal contracting experience.
- In addition, both prime and subcontracting success is greater among women-owned firms (56% and 99%, respectively⁴) than among their men-owned counterparts (54%, 80%), and is lower among minority-owned firms (51%, 81%) than among Caucasian-owned firms (56%, 89%).

Just how active are active contractors? On average, they are currently performing on 2.5 contracts. While the level of contracting activity increases with procurement experience, one-quarter of active contractors are between contracts at the moment. And, importantly, the level of reliance on federal contracts has declined – from accounting for 38% of total firm revenues in the 2010 survey to just 19% today.

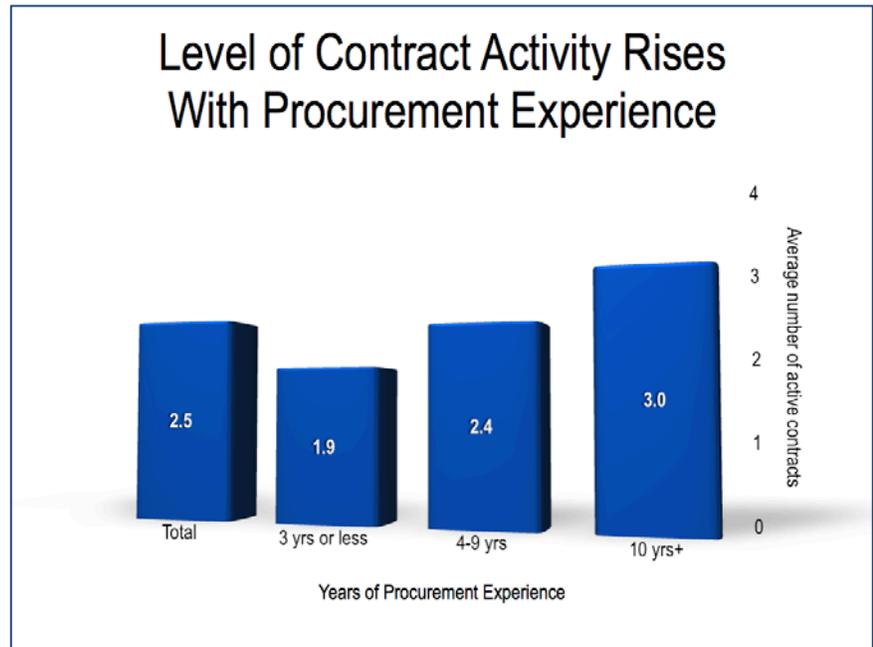
- This year, for the first time, we explore the level of federal contract activity among active small business contractors. Active contractors are defined as those firms that have performed on at least one federal contract (whether prime, subcontract or teaming arrangement) within the past five years. Interestingly, only 13% of those responding to the survey met that test – meaning that there are a very large number of businesses

⁴ While this figure appears artificially high, success rates are determined by dividing the number of contracts performed on in a given three-year period with the number of bids made during that same period. Individual contracts are not matched with individual bids.

registered on the federal System for Awards Management (SAM; the first step necessary for any firm seeking to sell their goods or services to a federal agency) that have never won a contract.

- Among those firms that did meet that test, three-quarters (74%) are currently performing on at least one contract: 27% have one contract, 15% have two, and 32% are performing on three or more – for an overall average of 2.5 contracts.

- What firms are juggling more contracts? Not surprisingly, contracting capacity rises with level of procurement experience and with firm size. Firms with three years or less contracting experience are performing on 1.9 contracts, while those with 10 or more years of experience are currently handling



3 contracts. Firms with 50 or more employees are juggling 4 contracts, compared to just 1.6 among firms with fewer than 10 employees. Minority-owned firms are currently performing on 3.2 contracts (with African American firms pulling the toughest duty with 3.6 contracts) while Caucasian-owned firms are averaging 2.2 contracts. There is no difference in the number of active contracts being performed on by men- and women-owned firms; each is handling an average of 2.5 contracts.

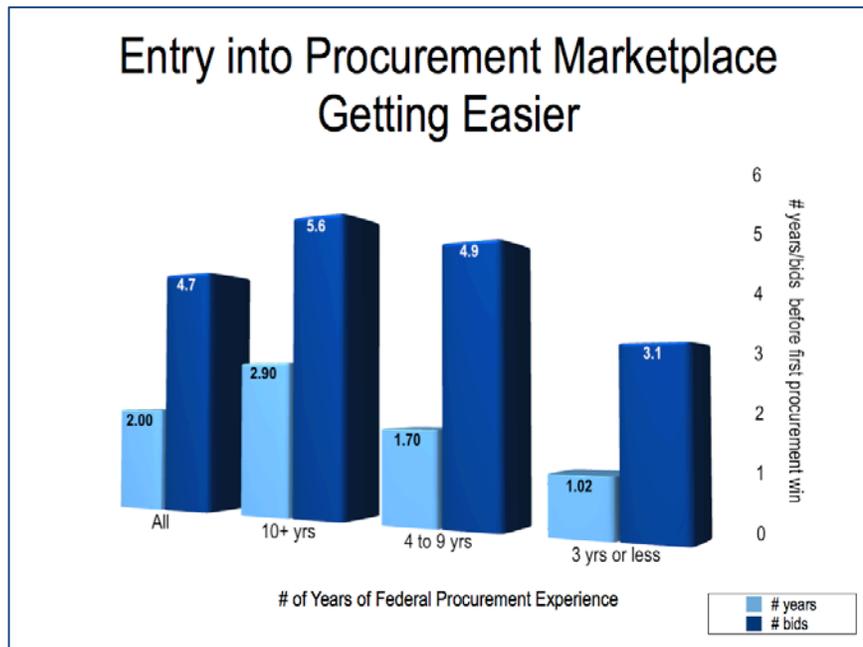
- Federal contracts are contributing a declining share of revenues to active federal contractors. Between 2009 and 2012, the share of firm revenues accounted for by federal contracts dropped from 38% to 19%. In its place are more sales to non-profit organizations (up from 3% to 6%), state or local governments (up from 11% to 14%), and sales to individuals (up sharply from 8% to 23%). The decline in federal revenue is similar regardless of level of procurement experience, but its replacement is likely to come from sales to individuals among those with less federal procurement experience, and from sales to state or local governments among those with more federal government procurement experience.
- Interestingly, among the 87% of firms that were screened out of our survey because they are not active contractors, 57% say they are “just getting started and learning the ropes,” 35% have registered on SAM “just in case” but admit that they have not invested much time in seeking contracts, 6% say they have been trying for years without success, and just 3% say they have had contracts in the past but are in between them at the moment. Who are these inactive potential contractors? A 53% majority has registered on SAM

within the past three years, and 51% are women. Perhaps this population has been boosted through the efforts of the [Give Me Five™](#) program, which was launched by American Express OPEN and Women Impacting Public Policy (WIPP) to help encourage more women to register to do business with the federal government. These inactive women-owned firms that are registered on SAM can benefit from the recently-announced [ChallengeHer](#) collaboration among American Express OPEN, WIPP, and the U.S. Small Business Administration – to help advance from SAM registration to increased contracting activity.

While small business contractors are not currently as reliant on federal contracts for total firm revenue, it is easier than ever before to get that first contract win. While it took those who have been involved in federal contracting for a decade or more 2.9 years and 5.6 bids before their first procurement victory, those who have been seeking contracts for three years or less say that it took just 1 year and 3.1 bids for their first contract.

- Of those surveyed, it can take active federal contractors on average 24 months and 4.7 unsuccessful bids to notch their first federal procurement victory. This is up somewhat from the 2011 survey, when active contractors reported taking 16 months and 4.4 unsuccessful bids to win their first contract.

- Looking back even longer, though, at the market entry experiences of active contractors by the length of time they've been in federal contracting finds that entry into the federal marketplace is currently much easier than in decades past. Those who have been engaged in



contracting for a decade or more report that it took them fully 2.9 years of trying, with an average of 5.6 unsuccessful bids, before winning their first federal contract. Those who have been contractors for between four and nine years say that it took them 1.7 years and 4.9 unsuccessful bids before notching their first contract win. Currently, among those who have entered into the federal marketplace within the past three years, contractors say that it took them just 1 year and 3.1 unsuccessful bids before landing their first federal contract.

- When they won their first contract, 50% say that it was a small (under \$100,000) contract in which they were the sole contractor, 26% won a contract over \$100,000 in which they were the sole provider of goods or services, 19% were involved as a subcontractor, and 6% of first-time contracts were teaming arrangements. In this most recent survey,

contractors say that 46% of their recent federal contracting activity consists of performing on prime contracts as a sole provider, 15% of contracts are prime contracts in which they sub out some elements of the contract, 26% of the time they are acting as subcontractors, and 14% of contracts are teaming arrangements.

Methodology Note

A total of 684 small business owners responded to an online survey fielded in February and March of 2013. 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 System for Award Management (SAM) database.

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 +/- 3.5%. This means that, 95 times out of 100, the survey findings will be within 3.5% of true population values.

About American Express OPEN

American Express OPEN is the leading payment card issuer for small businesses in the United States and supports business owners with products and services to help them run and grow their businesses. This includes business charge and credit cards that deliver purchasing power, flexibility, rewards, and savings on business services from an expanded lineup of partners and online tools and services designed to help improve profitability. Learn more at www.OPEN.com and connect with us at openforum.com and twitter.com/openforum.

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The American Express OPEN for Government Contracts 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. Their interactive web site, 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.

Summary Tables

The investment that active small business contractors are making in order to seek federal contracting opportunities has risen significantly over the past three years.

<i>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 (2009/2010/2012)?</i>	2010	2011	2013	% Change
Total	\$86,124	\$103,827	\$128,628	+49%
<u>Gender</u>				
Men	92,308	112,107	137,040	+48
Women	70,512	86,643	112,112	+59
<u>Race</u>				
Caucasian	79,055	89,334	122,256	+55
Business owners of color	108,368	139,709	143,356	+32
<u>Region</u>				
Northeast	53,129	85,503	165,314	+211
Midwest	76,462	130,450	101,042	+32
South	102,095	131,900	120,905	+18
West	81,721	64,146	130,244	+59
<u>Industry*</u>				
Goods-producing	84,799	116,186	148,946	+76
Professional/Scientific/Technical services	124,555	111,594	129,317	+4
Other services	67,717	80,369	69,463	+3
<u>Employment Size of Firm</u>				
Less than 10 employees	33,162	41,432	37,172	+12
10-49 employees	103,516	126,609	142,737	+38
50+ employees	157,564	283,284	257,098	+63
<u>Revenue Size of Firm</u>				
<\$250,000	12,146	25,541	26,115	+115
\$250,000-\$999,999	39,133	49,393	78,345	+100
\$1-4.9 million	72,675	98,807	167,560	+131
\$5 million+	155,486	267,559	282,332	+82
<u>Years of Contracting Experience</u>				
3 years or less	--	64,172	55,370	
4-9 years	--	89,223	163,991	
10+ years	--	153,521	134,731	

* Includes only those industries with 50 or more respondents.

Bidding activity has been declining for active small business contractors ever since the 2007-09 period, yet success rates have held or improved.

<i>Over the past three years, how many times have you ...</i>	2007-09	2008-10	2010-12	% Change, 07/09-10/12
Submitted a bid for a prime Federal contract	19.5	10.3	5.5	-72%
Won a prime Federal contract	8.0	3.9	3.0	-63
Participated in a bid as a subcontractor for a Federal contract	7.9	4.1	3.6	-54
Contributed products or services as a subcontractor	7.1	2.7	3.1	-56
"Batting average" for prime contracting	.410	.379	.545	+33
"Batting average" for subcontracting	.899	.659	.861	-4

Active contractors are currently performing on an average of 2.5 contracts. Their performance capacity increases with contracting experience and business size.				
<i>How many contracts are you performing on at the present time, either as a prime contractor, subcontractor, or member of a teaming arrangement?</i>	Total	Years of Contracting Experience		
		3 years or less	4-9 years	10 years+
None	26	26	26	26
One	27	39	25	21
Two	15	13	15	18
Three or more	32	22	34	35
Average number of contracts	2.5	1.9	2.4	3.0

The length of time and number of bids it took to notch their first federal contract is lower for newer entrants into the federal marketplace.				
<i>Length of time and number of bids it took to win first federal contract</i>	Total	Years of Contracting Experience		
		3 years or less	4-9 years	10 years+
Average number of years	2.0	1.02	1.7	2.9
Average number of months	24	12	20	35
Average number of unsuccessful bids before first contract	4.7	3.1	4.9	5.6