

Characteristics of Recent Federal Small Business Contracting

Eagle Eye Publishers, Inc., Fairfax, Virginia. 64 pages. Under contract SBAHQ-09-M-0271.

This study documents the role and impact of federal procurement programs on small businesses. It further provides a backdrop to evaluate the impact of the American Recovery and Reinvestment Act (also known as the ARRA, the Recovery Act, or the Stimulus) on small business contracting.

Overall Findings

The report has two main findings. First, agencies that achieve their small business procurement goals have three factors in common: they have a high utilization rate of new small businesses; small firms make up a larger share of these agencies' contractors compared to agencies that fell short of their goals; and a large share of their contract actions are fixed-price contracts. Second, procurement initiated under the Recovery Act successfully utilized small contractors, both in terms of number of entities and dollars spent. Of the \$51.7 billion spent on Recovery Act contracts by 28 agencies from February 2009 through December 2010, 25.5 percent of the total, or \$13.1 billion, was expended through small business contracts.

Highlights

Each year, the U.S. Small Business Administration (SBA) negotiates goals with each federal agency for procurement from small businesses, as well as goals for important socioeconomic groups: women-owned small businesses; small disadvantaged businesses, HUBZone small businesses, and service-disabled veteran-owned small businesses.

The statutory small business and socioeconomic goals are important because they make contracting officials aware of the full range of businesses willing to perform the work. When an agency achieves its small business and socioeconomic goals, it receives high marks on its SBA scorecard. But benefits

stretch beyond this, in the form of more small businesses in the federal marketplace, more small business innovation, and heightened price competition. The government, the purchaser of the goods and services, obtains better services at more competitive prices, that is, a better value for the dollars spent.

- In FY 2009, 35 percent of agencies met or exceeded their negotiated small business procurement goals; on average, these agencies surpassed their small business utilization goal by 12 percent. Sixty-five percent of agencies fell below their negotiated small business goals; the average shortfall was 13.8 percent. The agencies that achieved their negotiated small business goals used small businesses at a rate that was 10 percent higher than the agencies that missed their goals.¹

- Agencies meeting their small business procurement goals were more successful at breaking up large requirements into projects addressable by small businesses. These agencies also had higher levels of set-aside procurements, and they awarded more actions through open competition.

- The small business share of Recovery Act–funded procurement over two years measured 25.5 percent; this is 4.2 percent higher than the 21.3 percent small business procurement share achieved by agencies in FY 2009 (including FY 2009 Recovery Act dollars).

- Five agencies met all their goals (including Recovery Act procurement actions): Department of Agriculture, Department of Defense–Air Force, Department of Defense–Army, Department of State, and Federal Communications Commission.

¹ The SBA–certified numbers for FY 2009 show that of the 24 agencies covered by the Chief Financial Officers' Act, 33 percent met their FY 2009 goal, surpassing it by an average of 12 percent, while the average shortfall was 5.08 percent.

- The three agencies that spent the most Recovery Act funds—the Departments of Energy, Health and Human Services, and Defense—Army—significantly exceeded their negotiated small business goals. In fact, all major participating branches of the Department of Defense exceeded their small business goals issuing Recovery Act contracts. While the Department of Education exceeded its goal by the highest percentage point difference, the Departments of Energy, Health and Human Services, and Defense made the highest dollar impact.

- Only eight of the 28 agencies that actively participated in Recovery Act procurement met their service-disabled veteran-owned small business goals; 18 agencies met the small disadvantaged business goal; 13 agencies met the HUBZone goal, and 13 met their women-owned business goal.

Representative Agency Case Studies

The authors analyzed small business procurement practices at 28 agencies, and they gave detailed assessments of a representative large, medium, and small agency (Army, U.S. Agency for International Development, and Nuclear Regulatory Commission, respectively). The primary conclusions follow:

In FY 2010, the Army met four out of five small business statutory goals. While falling short of its 5 percent women-owned business goal, the Army is experiencing success with its small business outreach, as indicated by its 150 percent increase in the dollar share of vendors new to the federal marketplace. The Army's set-aside and GSA schedule contracts are below government-wide averages. Outreach to an experienced network of small businesses in the areas of interest could raise the agency's small business utilization.

The U.S. Agency for International Development exceeded its goals in three out of five statutory goal categories in FY 2010. Shares of agency expenditures devoted to small business, small disadvantaged business, and HUBZone fell, leading to a 9 percent drop in its small business goal achievement. Every set-aside category's small business dollar, company, and transaction share was below the government-wide set-aside ratio. These are all potential areas for increased activity and research into source selection.

The Nuclear Regulatory Commission's small business dollar share grew in four out of the five statutory goal categories. The four-fold increase in the dollar share of its new small vendors combined with the increase in new small business utilization are indicators of NRC's successful small business outreach efforts. NRC's small business dollar share of GSA

schedule contracts is five times greater than the overall government share, but this share has fallen slightly year-over-year.

Additional Findings

- Fifteen percent of all Recovery Act contract dollars were awarded under set-aside conditions. The most popular set-aside program was the 8(a) program, followed in popularity by small business set-aside, service-disabled veteran-owned small business, and HUBZone.

- The federal contracting marketplace undergoes significant small business turnover each year. In terms of small business births, for the period FY2005–FY2009, an average of 17.6 percent of all small vendors were new to the federal marketplace. The agencies that met their small business goals lost fewer small vendors (18.4 percent) than the agencies that fell short of their goals (21.5 percent).

- For FY 2009, the analysis shows that 13.8 percent of contract awards in manufacturing went to small businesses.

Scope and Methodology

The data for this study come from the FY2009–FY2010 Federal Procurement Data System-Next Generation (FPDS-NG). To render the data in this study consistent with the way the SBA analyzes its small business procurement goal achievement, the researchers applied the SBA's exclusion process to all the spending data. This process excludes certain categories of spending from the overall universe of spending data against which small business procurement achievement is measured. This report was peer reviewed consistent with Office of Advocacy data quality guidelines. Information on this process can be obtained from the director of economic research at advocacy@sba.gov or (202) 205-6533.

Ordering Information

Research from the Office of Advocacy is online at www.sba.gov/advocacy/847. For email delivery of Advocacy's newsletter, press, regulatory news, and research, visit <http://web.sba.gov/list>. Copies of this report are available for purchase from:

National Technical Information Service
5285 Port Royal Road
Springfield, VA 22161
(800) 553-6847 or (703) 605-6000
TDD: (703) 487-4639
www.ntis.gov

Order number: PB2012-109165