

# AN INTRODUCTION TO GOVERNMENT CONTRACTING

This guide provides a primer on U.S. Government contracting and the benefits of selling to the government. From it you will learn about government spending trends, the market potential for small businesses and how to assess your readiness to sell to the government.

Specific sections of this guide include:

- What Is Government Contracting?
- Five Reasons to Sell to the Government
- Government Purchasing: A Snapshot
- Placement Agency Finds Success in Government Work
- Voice of Experience
- Business Resources
- Quiz: Assess Your Government Contracting Preparedness
- Glossary of Key Terms

## — WHAT IS GOVERNMENT CONTRACTING?

The U.S. Government is the largest consumer of products and services in the world, spending billions of dollars each year on everything from office furniture and airplanes to janitorial work and computer repair services. When many people think of the government, they picture a big, faceless bureaucracy doling out multibillion-dollar military contracts. In reality, the government requires that at least 23 percent of all federal purchases be fulfilled by small businesses.

Selling to one or more national, state or local agencies can provide a significant



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revenue stream to your business. This guide provides an overview of government contracting to assist you in assessing the opportunities for your business. In subsequent guides, we'll provide the basics of selling to the government as well as the information you need to identify potential contracts and properly position your company to win them.

## — FIVE REASONS TO SELL TO THE GOVERNMENT

Government contracting can be lucrative for a small business, particularly during an economic downturn when many revenue streams have diminished. In good times and

bad, the government must continue to serve the public, and a small business has just as much opportunity as a large one to win contracts. In fact, when competing in the government market, small businesses, especially certified small businesses, often operate at an advantage.

Many small business owners have learned that government contracting work can be steady and reliable if they follow the guidelines and make a clear case why their companies are the best choice.

Review the following ways that government contracting is good for small companies and determine if your business might be suitable.

**1. The government wants to work with certified small businesses.**

Federal mandates specify that nearly all government contracts over \$3,000 and under \$100,000 be reserved for certified small businesses. To bid on these contracts, a company must fall within certain parameters, including size of staff and budget.

To participate, your business must qualify as a small business as defined by the Small Business Act. For most manufacturing industries, this means it must have fewer than 500 employees, or fewer than 100 employees for the wholesale trade industry. Revenue must be below \$28.5 million for most general and heavy construction industries; \$12 million for all special trade contractors; \$6 million for most retail and service industries; and \$750,000 for most agricultural industries. The business must be organized for profit, operate primarily in the United States, be independently owned and operated, and not be dominant in its field on a national basis. For specifics on size standards, see the SBA's site at <http://www.sba.gov/contractingopportunities/officials/size/index.html>.

The government especially wants to work with businesses that are owned by women, disadvantaged individuals and service-disabled

## GOVERNMENT PURCHASING: A SNAPSHOT

The U.S. Government buys goods and services in every category imaginable — from toothpicks to spacecrafts, from accounting work to janitorial services — but some categories are growing more than others. Review the list here to familiarize yourself with the agencies that purchase the most as well as what types of products and services the government routinely buys.

### BIG SPENDERS

By far, the Department of Defense is the largest government contractor, awarding \$383.4 billion in 2008. Rounding out the top five are:

- Department of Energy, \$24.6 billion
- NASA, \$14.8 billion
- Department of Veterans Affairs, \$14.6 billion
- Department of Homeland Security, \$13.8 billion

*(Source: USAspending.gov)*

The top five government agencies, excluding the Small Business Administration, with the largest percentage of money set aside for certified small businesses in 2009 are:

- Department of Housing and Urban Development, 66.3 percent
- Department of the Interior, 55.5%
- Department of Commerce, 50.8%
- Department of Agriculture, 49.9%
- Department of Transportation, 43.3%

*(Source: Small Business Administration)*

### TOP SPENDING CATEGORIES

The federal government buys a range of products and services. Examples include engineering services, automatic data processing equipment, lab equipment,

veterans. It mandates that three to five percent of all contracts be awarded to these groups.

**2. Government spending is consistent.**

Unlike spending in the private sector, government spending is somewhat predictable year over year. For example, in 2008, federal agencies spent nearly \$518 billion on government contracts. In 2007, agencies spent \$456 billion, and in 2006, that number was \$423 billion.

**3. The government pays its bills**

While slow collections and some unpaid debts are part of working in the private sector, the government typically pays within 30 days if you follow billing specifications. In addition, some agencies use electronic funds transfers to speed payment or purchase cards (similar to credit cards) for micropurchases. In terms of a guarantee to collect what you are owed, the government's promise to pay is good.

**4. Decision making is transparent.**

Unlike private sector buying, the government's purchasing system is extremely transparent. Government agencies buy many of the products and services they need from suppliers who meet certain qualifications. They apply standardized procedures to purchase those goods and services. If you are willing to spend the time required to familiarize yourself with these guidelines, contracting can become a lucrative business. Some agencies even offer classes to help you learn the system.

**5. Location doesn't matter.**

Federal offices are located around the country, so you typically do not have to live and work near Washington, D.C., to do contracting work for the federal government. State and local governmental entities — including cities, counties and school districts — actually purchase more goods and services cumulatively than does the federal government.



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**GOVERNMENT PURCHASING:  
A SNAPSHOT (continued)**

furniture, books, office machines, advertising services, writing services, tires, toiletries, athletic equipment, medical equipment, housekeeping services and more.

The top five spending categories in 2008 were:

- Professional, administrative and management support services, \$64.1 billion
- Research and development, \$57.8 billion
- Construction of structures and facilities, \$42.3 billion
- Aircraft and airframe structural components, \$31.1 billion
- Motor vehicles, trailers and cycles, \$29.6 billion

*(Source: USAspending.gov)*



Because of size and scale, local government contracting is sometimes a better fit for small businesses. For example, it's easier to maintain computer equipment for City Hall than for the entire Defense Department. While your local standing in the community may not assist you in earning a national contract, local government officials may take this into account when making a decision.

— **PLACEMENT AGENCY  
FINDS SUCCESS IN  
GOVERNMENT WORK**

Learning how other business owners have succeeded in government contracting may help you to determine how suited and prepared you are for pursuing government business yourself. For California-based job training and placement agency Human Potential Consultants (HPC), the key to success was planning ahead, documenting success and staying connected.

HPC helps people with little to no work history to find jobs that provide them with financial and social stability. For example, the company has assisted prison parolees and soldiers returning from combat duty to find gainful employment that can sustain them and their families. Since Dr. Garnett Newcombe founded the company 11 years ago, HPC has flourished as a government contractor and now has annual revenues of more than \$5.7 million. Dr. Newcombe shares her strategies for success.

**Lay the groundwork.** Before she was awarded her first contract, Dr. Newcombe prepared her team to support the government's needs. She identified internal skill sets that could be leveraged once they began doing business with the government. Next, she improved workflows to ensure that the right systems and processes were in place to quickly deliver as promised.

**Do your homework.** "Make sure you understand the whole process of government contracting so you know what you're getting into and can be well-prepared," Dr. Newcombe says. She



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**VOICE OF EXPERIENCE**

There's a reason people use the expression "Hindsight is 20/20." If we only knew what to ask before we jumped into a new endeavor, everything would go much more smoothly. If you're thinking about government contracting, here is some information you will benefit from knowing ahead of time.

- 1. Focus is a key to success.**  
Companies that succeed in government contracting concentrate on a manageable number of agencies whose business they are most likely to secure.
- 2. Subcontracting represents a huge opportunity in many sectors.**  
As the number of companies selling to government agencies grows, there may be more of a need for the product or service you sell. Some small businesses begin their government contracting careers through subcontracting because it allows them to gain

recommends talking with counselors at the Small Business Administration and, for female and minority business owners, Women Impacting Public Policy to gain a comprehensive understanding of the end-to-end contracting process.

**Secure working capital.** Develop relationships with financial sources so that once you win a contract you have a line of credit to support it. It may be 30-45 days after you complete a project before you receive your first payment from the government. Get your financials in order so you have the necessary working capital.

**Improve your networking skills.** “Networking is an important part of government contracting. To do it well, you need to learn that it isn’t always about what you want, but how you can help the other person,” explains Dr. Newcombe. Remembering to listen and find out what others need is critical.

**Document success.** HPC developed an internal tracking model to continually gather data and provide hard evidence of the impact they have had in each engagement. This is particularly helpful for winning new business, as contracting officers rely heavily on past performance when evaluating vendors.

**Be visible.** Take advantage of events hosted by the SBA, Department of Labor and other agencies to meet contracting officers and learn exactly what their needs are. ■

## VOICE OF EXPERIENCE (continued)

government experience while preparing to bid on their own contracts.

- 3. Green is the future.**  
Not only must government agencies base purchasing decisions on their specific missions, but Presidential Executive Order 12873 (relating to acquisition, recycling and waste prevention) directs them to identify and give preference to the purchase of products and services that put fewer burdens on the environment. Green purchasing includes the acquisition of recycled content products, environmentally preferable products and services, bio-based items, energy- and water-efficient products, alternative fuel vehicles, items using renewable energy and alternatives to hazardous or toxic chemicals.
- 4. Don’t bite off more than you can chew.**  
It’s expensive and time-consuming to submit proposals and a misuse of resources to pursue those for which you’re not qualified. Not being selected frequently because of insufficient qualifications is as bad as not bidding at all, and nonperformance will potentially tarnish your reputation.

## BUSINESS RESOURCES

Federal, state and local governments offer businesses the opportunity to sell billions of dollars worth of products and services. Here are some useful resources to help you get started.

### **Business.gov**

<http://www.business.gov/>

The official business link to the U.S. Government.

### **Central Contractor Registration (CCR)**

<http://www.ccr.gov>

The primary registrant database for the U.S. Government, CCR collects, validates and disseminates data in support of acquisition missions.

### **Department of Defense Office of Small Business Programs**

<http://www.acq.osd.mil/sadbu/>

This organization is committed to maximizing the Department of Defense (DoD) purchases through small businesses. The site includes the basics of doing business with and marketing to the DoD, as well as details about various small business programs.

### **D&B D-U-N-S Number**

[http://www.dnb.com/US/duns\\_update/](http://www.dnb.com/US/duns_update/)

A D&B® D-U-N-S® Number is a unique nine-digit sequence used to identify and keep track of more than 100 million businesses worldwide. You must have a D-U-N-S Number to do business with the government.

### **Federal Agency Procurement**

[http://acquisition.gov/comp/procurement\\_forecasts/index.html](http://acquisition.gov/comp/procurement_forecasts/index.html)

A list of forecasts for agency procurement.

### **North American Industry Classification System (NAICS)**

<http://www.census.gov/eos/www/naics/>

NAICS is the standard used by federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing and publishing statistical data related to the U.S. business economy.

### **Procurement Technical Assistance Centers**

<http://www.dla.mil/db/procurem.htm>

Free assistance for vendors planning to do business in the federal civilian and/or DoD marketplace.

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## BUSINESS RESOURCES (continued)

### **Office of Federal Procurement Policy**

[http://www.whitehouse.gov/omb/procurement\\_default/](http://www.whitehouse.gov/omb/procurement_default/)

This office plays a central role in shaping the policies and practices federal agencies use to acquire the goods and services they need to carry out their missions.

### **OPEN Forum**

<http://www.OPENForum.com>

This site offers a wealth of business resources including videos, articles and expert blogs on growing your business; success stories and advice from business owners; and networking opportunities to publicize your business.

### **Small Business Administration Office of Government Contracting and Business Development**

<http://www.sba.gov/aboutsba/sbaprograms/gcbd/index.html>

SBA contracting experts can be an invaluable resource, whether you're new to government contracting or are currently doing business with the government and need advice on a particular issue.

### **Women Impacting Public Policy**

<http://www.wipp.org/>

A bipartisan public policy group that advocates for and on behalf of women and minorities in business in the legislative processes.

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# QUIZ

## ASSESS YOUR GOVERNMENT CONTRACTING PREPAREDNESS

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**Many small companies can succeed in procuring government contracts with the right attitude, marketing and preparation. Still, even though you may have an established business, government work often requires a separate set of procedures. Use the following quiz to help identify your company's areas of strength and what opportunities may be applicable to your business — so you can make the necessary modifications and increase your odds of success in winning a government contract.**

**Answer “yes” or “no” in three key categories and check your readiness score by tallying your answers.**

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### SKILLS

Tapping into the opportunities offered by the government necessitates following its procedures to the letter. Strong organizational habits can help in this endeavor. Assess the skills you and your team possess, and identify areas where some changes are needed.

Yes	No	
<input type="checkbox"/>	<input type="checkbox"/>	Do you and/or your staff currently follow clearly defined steps for project procurement or completion?
<input type="checkbox"/>	<input type="checkbox"/>	Do you have a system in place for delivering projects on time?
<input type="checkbox"/>	<input type="checkbox"/>	Do you keep records that enable you to find and track information easily?
<input type="checkbox"/>	<input type="checkbox"/>	Do members of your staff have strong organizational skills?
<input type="checkbox"/>	<input type="checkbox"/>	Do members of your staff possess good information gathering skills?



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# QUIZ

## ASSESS YOUR GOVERNMENT CONTRACTING PREPAREDNESS

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### POSITIONING

Businesses that clearly differentiate themselves and are able to articulate their unique value do best in government contracting. Answer the following questions to determine what modifications might be in order to help you make your company stand out.

- | Yes                      | No                       |  |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | Can you clearly communicate what makes your service or product compelling?   |
| <input type="checkbox"/> | <input type="checkbox"/> | Do you have a good value story to tell (e.g., why your price and offering are a compelling combination)?           |
| <input type="checkbox"/> | <input type="checkbox"/> | Do you have proven success in your area of expertise to provide credibility that you can deliver what you promise? |
| <input type="checkbox"/> | <input type="checkbox"/> | Do you have a fully developed business plan?   |
| <input type="checkbox"/> | <input type="checkbox"/> | Are you aware of how competitors position themselves and sell, so that you can carve out a unique position?        |

### READINESS

The government has certain requirements for all companies it buys from. While none are difficult to comply with, you need to have key information on hand and be willing to take on certain tasks to make you eligible to sell.

- | Yes                      | No                       |   |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | Do you know your NAICS (North American Industry Classifications System) category?                           |
| <input type="checkbox"/> | <input type="checkbox"/> | Do you have a D-U-N-S (Data Universal Numbering System) Number?   |
| <input type="checkbox"/> | <input type="checkbox"/> | Do you have a Taxpayer Identification Number (TIN)?   |
| <input type="checkbox"/> | <input type="checkbox"/> | Are you willing to learn how to prepare and present bids and quotes based on government requirements?       |
| <input type="checkbox"/> | <input type="checkbox"/> | Do you have the technology in place to accept credit cards, online payments and electronic funds transfers? |

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# QUIZ

## ASSESS YOUR GOVERNMENT CONTRACTING PREPAREDNESS

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### SCORING

Tally all of your “yes” answers and then read here to learn what changes might be required if you choose to pursue government contracting.

- **If you have 10 or more “yes” answers:** Congratulations, you have many of the skills and proper business systems in place to compete for government contracts. As you learn more about the opportunity and what niches within it are best for you, you can continue to build upon this solid foundation.
- **If you have between five to nine “yes” answers:** You may need to make some key changes, but they are within your reach. A willingness to make the modifications required by the government will enable you to open up this vast market to your small company.
- **If you have fewer than four “yes” answers:** You most likely have some important changes ahead of you in the way you manage information and present your company’s strengths. You might find that these changes are good for business overall, in addition to making your company more equipped to sell to government agencies. Work with your staff to create a task list as a first step towards considering these shifts in company procedures and marketing.

## GLOSSARY OF KEY TERMS

Government terminology can be confusing for the uninitiated. Use this glossary so you may be better able to speak the language.

**Basic Ordering Agreement (BOA):** Written agreement between a buyer and a seller outlining the terms, specifications and prices of the goods or services to be supplied. A basic ordering agreement is not a contract.

**Bid Protest:** Challenge by a bidder against the awarding of a government contract.

**Blanket Purchase Agreement (BPA):** Simplified way to fill anticipated repetitive needs for services and products.

**Capability Statement:** Document that summarizes a company's background, certifications, experience, capabilities, expertise, past performance and pertinent codes, such as D-U-N-S, CAGE, etc.

**Central Contractor Registration (CCR):** Primary vendor database for the federal government. All individuals or companies wanting to be awarded government contracts must be registered in the CCR.

**Certified 8(a) Firm:** Business eligible to receive government contracts under the Small Business Administration's 8(a) Business Development Program because it is owned and operated by socially or economically disadvantaged individuals.

**Change:** Any action that requires a revision to the original requirements in a contract.

**Change Order:** Written order directing the contractor to amend a contract.

**Commercial And Government Entity (CAGE) Code:** Five-character ID number that identifies government contractors.

**Commercial Marketing Representative (CMR):** Individual who works with prime contractors to locate subcontractors.

**Contract:** Mutually binding legal agreement that obligates the seller to furnish supplies or services and the buyer to pay for them.

**Contracting Officer (CO):** Individual who has the authority to enter into, administer and/or terminate contracts and makes related decisions regarding the contract.

## GLOSSARY OF KEY TERMS (continued)

**Default:** Failure by a party to fulfill a contract or to comply with the requirements set in the contract.

**D-U-N-S (Data Universal Numbering System) Number:** Nine-digit number issued by Dun & Bradstreet that the federal government uses to identify a contractor and list its address, telephone number, employee size and other information.

**FedBizOpps:** Online entry point for government procurement opportunities over \$25,000. Buyers are allowed to publicize their opportunities directly at the web site (<http://www.fedbizopps.gov>).

**Federal Acquisition Regulation Council:** Governing body that makes FAR interpretations and rulings.

**Federal Acquisition Regulations (FAR):** Set of rules that government agencies must follow when purchasing goods and services.

**Full and Open Competition:** Refers to the rule that all appropriate suppliers may compete for a contract.

**General Services Administration (GSA):** Independent agency that establishes procurement policy and secures the buildings, products, services, technology and other workplace essentials for government agencies.

**Invitation For Bid (IFB):** Method used to accept a sealed bid and includes a description of the product or service to be acquired, bidding instructions, packaging, delivery, payment, contract clauses and deadline.

**Mentor:** Individual or business who creates a program to advance strategic relationships with a less experienced business.

**Negotiation:** Bargaining process that precedes an agreement between two or more parties. A successful negotiation usually results in a contract.

**North American Industry Classification System (NAICS):** Set of categories developed by the United States, Canada and Mexico to classify businesses in the three countries. This classification replaces the old SIC code.

**Prime contractor:** Individual or business contracted to perform a specified piece of work.

**Procurement Technology Assistance Centers (PTACs):** Located across the United States, these centers help small businesses complete the steps to work with the federal government.

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## GLOSSARY OF KEY TERMS (continued)

**Protégé:** Individual or developing business who cooperates with another more experienced individual or company to improve its capabilities.

**Request for Proposal (RFP):** Government document outlining the criteria and requirements to evaluate offers.

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**Sealed Bidding:** Procurement method involving solicitation of bids and awarding of a contract to the individual or company whose bid benefits the government most, considering price and price-related factors.

**SCORE, Counselors to America's Small Business:** Nonprofit association that provides entrepreneurs with free, confidential face-to-face and email business counseling.

**Small Business Administration (SBA):** Independent agency chartered to protect the interests of small businesses and maintain free competitive enterprise.

**Standard Industrial Classification (SIC) Code:** See NAICS.

**Subcontractor:** Individual, business or corporation hired by a prime contractor to perform a specified piece of work required as part of an overall contract.

**Taxpayer Identification Number (TIN):** Number assigned to a business by the IRS that is needed to complete CCR registration.

**Women-Owned Small Business (WOSB):** Small business that is at least 51 percent owned and controlled by a woman.





# NOTES

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