



Small businesses and the federal government

Spring 2017



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What we did

After inheriting BusinessUSA, USAGov wanted to identify opportunities to improve how small businesses interact with the federal government. We set out to better understand how small businesses interact with the federal government, directly or indirectly. We focused on an area we already had some insight into: federal grant dollars that are awarded to state or local entities, and which are then issued as contracts with specific small or disadvantaged business requirements. We sought to understand the behaviors, goals, and pain points of those involved with this flow of federal dollars. We also explored the goals and challenges of small businesses interested in contracting directly with the federal government.

We conducted 23 interviews, each of which was about 45 minutes long — five with BusinessUSA stakeholders, seven with small business subject matter experts, seven with federal grants experts, four with prime grantees at state or local entities (government and nonprofit), and five with small businesses who are either currently contracting with the federal government or hope to work on federal contracts in the future.

We also reviewed agency documentation and other resources to better understand what programs and policies shape federal services for small businesses.

We posted our hypotheses, findings, and research artifacts on our [public Github repo](#).

What we learned

We identified three agencies with small or disadvantaged business requirements for state and local contracts supported by federal grants: Housing and Urban Development, the Environmental Protection Agency, and the Department of Transportation. We also learned:

- **Recipients of federal grants with small or disadvantaged business requirements spend a lot of time on outreach using poorly designed systems.**
- **Multiple private sector businesses charge grant recipients and small businesses to help post opportunities or apply for state and local contracts.**

We learned that, despite a direct mandate to include small businesses in federal contracting, it's still a significant challenge for small businesses:

- **It's hard for small businesses to break into government contracting, and the largest hurdle is winning that first award.**
- **Small businesses don't understand how to get started with government contracting – government contracting is a black box.**
- **Government often gives small businesses unhelpful help.**
- **Finding opportunities to contract with the government has a steep learning curve.**
- **Responding to RFPs is difficult and expensive.**
- **RFPs are often poorly structured, especially when they pertain to technology.**
- **Procurement processes that rely on overly formal communication channels discourage small business participation.**
- **When the procurement process relies too heavily on formal communication structures, small businesses struggle to understand an agency's need.**

Findings

We found that small businesses interact with the federal government in five broad themes —

Small business and federal government interactions	The government has money I want. For example, grants, contracts, and loan sureties.
	The government has knowledge I want. For example, educational programs such as the I-Corps or the DoD’s protege-mentor program, or through government-collected data such as the Economic Census.
	The government controls resources I want. For example, licenses and permits for the use of public lands or mineral resources.
	The government regulates something I want to do. For example, regulations on specific industries or environmental regulations.
	I have money or information the government wants. For example, self-employment taxes or filling out the economic census.

Defining small businesses

Small businesses run the gamut from a one-person professional services firm, to a digital services startup, to an established small business prime contractor with a robust network of subcontractors. The government defines what counts as a small business based on number of full time employees, annual revenue, or both, depending on the type of business. There’s limited data on what types of small businesses most frequently contract with local, state, or

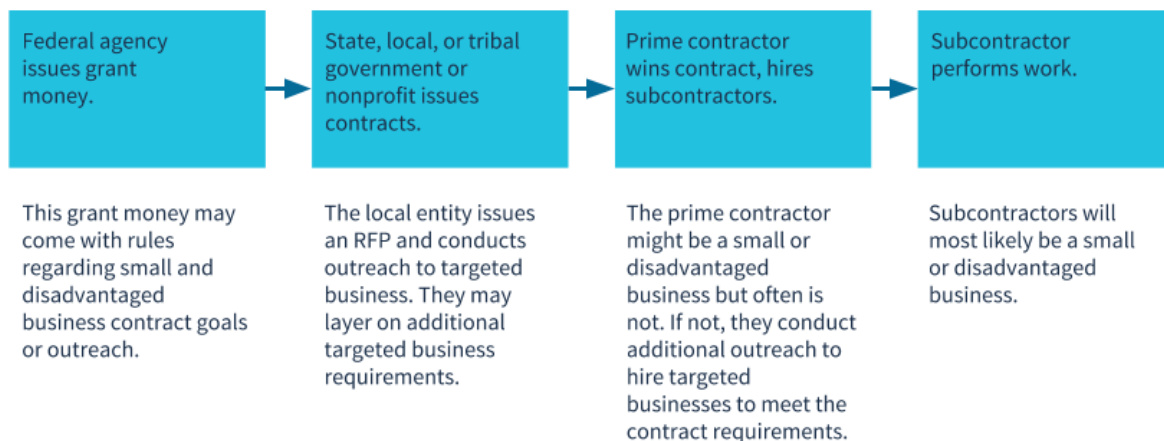
federal government, but it appears that construction, technology, and professional services are the most common.

In addition to small businesses, government requirements target other categories such as socially and economically disadvantaged, woman-owned, minority-owned, and veteran-owned businesses. Most disadvantaged businesses are also small businesses, but not all. The diversity of this field makes it difficult to find broadly applicable themes.

Federal grants

The federal government awarded [over \\$650 billion in grants](#) to state, local, and tribal governments in 2016. Grant recipients, in turn, often use this funding to issue contracts for work they can't complete themselves. Many state and local governments have their own small or disadvantaged business requirements for contracting. In addition, [2 CFR Part 200 §321](#) stipulates that when these grant recipients issue contracts, they should follow six best practices for awarding contracts to small or disadvantaged businesses.

Flow of federal grant dollars to small and disadvantaged businesses



We identified three agencies with specific programs and requirements for ensuring that grant-funded contracts are awarded to small or disadvantaged businesses – Housing and Urban Development, the Department of Transportation, and the Environmental Protection Agency.

Agencies with small and disadvantaged business requirements for grant-funded contracts

Housing and Urban Development	HUD's Section 3 business program requires grant awardees to spend a certain percentage of contracting dollars on Section 3 businesses.
Department of Transportation	DOT's Disadvantaged Business Enterprise (DBE) program requires grantees of FHA, FAA, and FTA to award a certain percentage of contract dollars to DBEs.
Environmental Protection Agency	EPA's DBE program (based on DOT's) requires grantees perform 'Good Faith Efforts' to hire disadvantaged and woman-owned businesses.

Seventeen other agencies also issue grants, but we were unable to confirm that those agencies had programs to ensure that grant-supported contracts are awarded to small or disadvantaged businesses.

Recipients of federal grants with small or disadvantaged business requirements spend a lot of time on outreach using poorly designed systems.

State and local purchasers reach out to small businesses using a number of systems, which are often duplicative and hard to use. Many buyers visit five or more small or disadvantaged business registries and manually update their own internal outreach list every time they issue a request for proposal (RFP), a process that can take an entire day. Many of these registries have incomplete data (for example, they don't indicate if a business produces quality work) or simply inaccurate data (which erodes trust).

In some cases, state and local purchasers will post an opportunity on a system in order to fulfill outreach requirements (one of the 'good faith efforts') without knowing if that system is generating any leads.

The multiple systems also create duplicative work for small businesses, who must register on each system in order to be notified of contract opportunities. In many cases, the process of registering or getting certified is so complicated that state and city staff have to help them through the process. One person we talked to has business owners come to her office so she can walk them through the process; another city official spends a significant part of his job meeting with business owners to explain Section 3 businesses and how to register as one.

Multiple private sector businesses charge grant recipients and small businesses to help post opportunities or apply for state and local contracts.

Grant recipients often use private sector services to post bid opportunities and send alerts to targeted businesses that are also registered with those services. In some cases, the small businesses must pay to access these opportunities. Sometimes a business will pay a private sector company to help them through the process of getting certified as a small or disadvantaged business, especially if they are unaware of free resources that could help.

Federal contracts

Most federal agencies issue contracts for work they cannot perform themselves. Small businesses can win these contracts either as the prime contractor (prime k) or a subcontractor (sub k) working for the prime k. Federal agencies and their prime contractors are *required to spend a certain percentage* of their contracting dollars on small and disadvantaged businesses [15 U.S. Code § 644] (unlike grants to state and local governments, which generally don't have specific quotas). The Small Business Administration evaluates how agencies do against these requirements and each agency's Office of Small and Disadvantaged Business Utilization focuses on meeting these contract requirements.

It's hard for small businesses to break into government contracting, and the largest hurdle is winning that first award.

Small businesses are caught in a chicken and egg paradox, in which they can't win contracts unless they've built up good past performance, but they can't get past performance without winning contracts. They also perceive (perhaps correctly) that it is difficult to win contracts

with agencies or prime contractors that they haven't worked with before — agencies and primes will usually only hire small businesses they already know.

Small businesses don't understand how to get started with government contracting – government contracting is a black box.

Small businesses struggle to understand the norms and processes of government contracting, and easily get overwhelmed with trying to learn how to navigate the space. They are often not aware of the tools or opportunities that could help them and lack a clear path forward.

Government often gives small businesses unhelpful help.

There is a disconnect between what the government thinks small businesses need and what they actually need. Small businesses complained that much information out there is too broad or vague, is overwhelming (there's too much of it), is written in legalese and therefore hard to comprehend, and in some cases takes a patronizing tone.

Finding opportunities to contract with the government has a steep learning curve.

Searching opportunities on FedBizOpps is challenging and has a steep learning curve, making it difficult for new small businesses to use the tool. In addition, small businesses feel that once an opportunity hits FedBizOpps it's too late — they want to find out about opportunities in advance. Until a small business owner understands the federal landscape, it's difficult to know how to do this.

Responding to RFPs is difficult and expensive.

Responding to RFPs requires significant time, effort, and specialized knowledge, and often requires additional staff or outside help. Small businesses struggle to easily understand dense legalese in RFPs without the benefit of time and experience, or the support of an in-house counsel. They also need to learn how to recognize whether an RFP is a good fit for their business, they describe this skill as an 'art form.' On top of all this, missing minute details

when responding can easily disqualify you, making it not just an expensive but also a risky endeavor. As a result, small businesses learn to be extremely strategic about which RFPs to respond to.

RFPs are often poorly structured, especially when they pertain to technology.

Many program and contracting office staff don't understand technology, which contributes to RFPs being poorly written or structured. This places an extra burden of client education on small businesses when they ask questions or submit a response. RFPs are often written in ways that are so prescriptive they limit opportunities to propose better solutions. Other times RFPs are structured in a way that they undermine the very thing they're asking for, such as listing agile processes as a requirement but requiring everything to be planned in advance.

The deadlines for responding to RFPs are often too short for a small businesses to find partners or write a proposal. Even if they win a contract, the timeline is so long between the deadline and the contract start date that the small business struggles to balance staffing and other contracts. Lastly, government or prime contractor payments take so long that small business struggle with cash flow.

When the procurement process relies too heavily on formal communication structures, small businesses struggle to understand an agency's need.

Small businesses want to have human-to-human conversations to better understand the needs of an agency, but some program and procurement offices force communications through formal structures that result in questions going unanswered. Small businesses view building relationships with the right people in the agency as key to winning their first contract. When a small business is used to a more friendly and relaxed culture in the private sector, that small business may decide not to pursue government contracting.

Design opportunities

Even with a brief exploration of this vast and complicated space, we identified several areas of dissatisfaction and opportunities for improvement. Some opportunities may be a better fit for USAGov than others —

How might USAGov provide actionable, specific, easy-to-understand advice that fits the needs, limitations, and concerns of small business owners?

How might USAGov provide a clear path forward for small or disadvantaged businesses that are just starting out in federal contracting?

How might USAGov reduce small businesses barriers to finding and responding to RFP's?

How might USAGov make it easier for businesses to register as small or disadvantaged across multiple platforms?

How might USAGov make it easier for small and disadvantaged businesses to connect with the state and local entities who might contract with them?

How might USAGov make it easier for for state and local governments to find small and disadvantaged businesses who can fulfill their contract needs?

Outstanding questions

We also identified a number of outstanding questions that we were unable to answer in this round of research —

Are there better opportunities in the interaction patterns we weren't able to explore, for example, through simplifying how small businesses find regulations, or how they apply for permits?

How similar are contracting requirements for small and disadvantaged businesses across various state and local governments?

Do different types of small businesses face different types of challenges? Are there challenges that are common to all types of small businesses? Do small businesses at different maturity levels experience different challenges?

Do small businesses value state and local contracts differently than federal contracts? Are state and local contracts easier to get? How common is it for small businesses to move from state and local contracts to federal contracts?

We heard some reports that small businesses, particularly start ups, can find easier sources of funding than the government, but struggle more with business acumen, networking, and managing growth. Can the government fill this gap, and is it the government's role to do so?

How does TTS' mission and funding authorities affect USAGov's ability to further explore this space?

Appendix: Acronyms

ACDBE – airport concession disadvantaged business enterprise.

BE – business enterprise

DBE – disadvantaged business enterprise

MOSB/MBE – minority-owned small business or minority business enterprise.

OSDBU – pronounced “ozdiboo,” Office of Small and Disadvantaged Business Utilization.

SBE – small business enterprise, aka a small business.

SBC – small business concern, aka a small business.

SDVOSB – service-disabled veteran-owned small business.

WOSB/WBE – woman-owned small business or woman business enterprise.

VOSB – veteran-owned small business.

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