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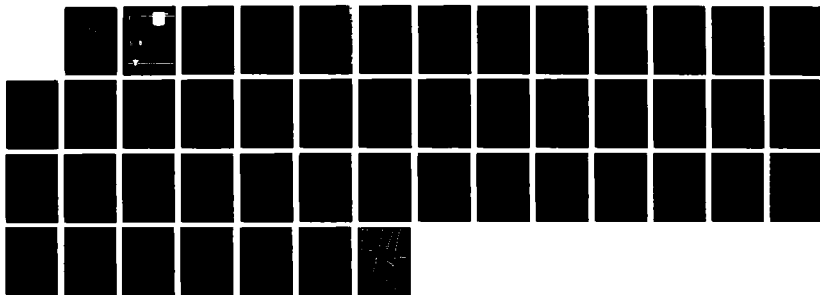
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RESEARCH ANALYSIS, SMALL BUSINESS PARTICIPATION IN FEDERAL PROCUREMENT PROGRAMS

BY

LIEUTENANT COLONEL CLIFFORD L. MASSENGALE
LIEUTENANT COLONEL FLOYD L. TRIMMER

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RESEARCH ANALYSIS, SMALL BUSINESS PARTICIPATION
IN FEDERAL PROCUREMENT PROGRAMS

A GROUP STUDY PROJECT

BY

LIEUTENANT COLONEL CLIFFORD L. MASSENGALE

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US Army War College
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ABSTRACT

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PREFACE

This Survey Research Study Project was produced under the aegis of the US Army War College Research Development and Acquisition Management, Department of Command Leadership and Management. The research design and methodology was designed to analyse SMALL BUSINESS COMPETITION IN FEDERAL PROCUREMENT PROGRAMS. The authors of the study had limited prior experience in Defense Acquisition, but were, however, well versed in research analysis. This analysis was developed with input from 1000 small businesses and interviews with small business administration personnel. Personnel from the Small Business Administration were cooperative and provided timely and accurate information. This information was useful in the development of the questionnaire which was mailed to the small businesses.

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SECTION I

INTRODUCTION

This research was conducted to sample small businesses throughout the United States in an effort to gain some knowledge of how the small businessman views federal procurement policies, practices and procedures. Past procurement practices on the part of all branches of government have been criticized both publicly and by congress. The highly publicized prices of \$436.00 for a small sledge hammer paid by the U.S. Navy and over \$700.00 for a toilet seat paid by the U.S. Air Force were touted as examples of a much abused system. These are not isolated cases, but reflect what many believe to be a consistent pattern of agency mismanagement.

With the recent Gramm-Rudmann budget cutting philosophy and our limited defense budget, there is a need to develop a common approach to the way the federal government does business in order to maximize the defense dollar. Furthermore, the reorganization of the Department of Defense will have a significant impact on the procurement policies. Part of this problem can be attributed to the lack of competition within the federal procurement system. While it is recognized that large corporations will continue to secure prime major end item contracts, the method by which they sub-

contract needs to be examined.

This research project was designed to examine how small businesses view federal procurement, to explore the perceived differences between government and commercial contracts, and to identify ways in which small businessmen feel the system could be improved to better serve the taxpayer. It is important to note here, that of the 1000 surveys distributed over 37% of the small businesses responded. This favorable response to the survey would, in and of itself, indicate some dissatisfaction with the procurement system.

In order to evaluate the Small Businessman perception of his ability and chances to participate in federal procurement contracts we determined that it would be necessary to gather data directly from the small businessman. As a result, we determined that the most accurate method of gathering information would be through a direct mail questionnaire. The direct mail questionnaire is a reliable and proven method for gathering valuable and relevant data on a subject matter provided a significant number of responses are received from the targeted population. As we developed our questionnaire we did so with the anticipation of an eighteen to twenty two percent response from our targeted population. Our plans did not include a second or third mailing of our questionnaire to our population in order to encourage a higher percentage response. Needless to say, we were extremely pleased when our first and only solicitation of data from our targeted population resulted in

an impressive thirty seven percent response. As a result of this thirty seven percent response we unilaterally concluded that our research project was an area of concern and interest to those businesses which received our questionnaire. Also, we subjectively concluded that our questionnaire adequately provided us with original ideas of those who responded. We think our conclusion is accurate since our questionnaire provided the respondents an opportunity to furnish their own responses to several of our questions rather than select from ideas or answers provided by us.

Our survey was developed with the idea and intent to gather data from businesses who: (1) participate in government contracts and consider themselves successful, (2) small businesses who have participated in government contracts and were not successful, (3) small businesses who would like to participate in government contracts but are not doing so for one reason or another, and (4) small businesses who want nothing to do with government contracts.

Our targeted population of small businesses was obtained from the Procurement Automated Source System (PASS). Presently PASS utilizes information in the form of a computerized directory which describes the profiles of over 142,000 small businesses and over 27,000 female owned firms. Company profiles are on line in the fields of research and development, manufacturing, construction, and services. Our population of small businesses was chosen at random from all ten geographic regions within the United States who were

dealing with manufacturing products and employed 500 personnel or less. Of the over 200,000 businesses in the PASS system, 1000 was selected for the sample. The reason for such a large quantity was to insure that sufficient numbers from each geographic area was sampled.

Developing the questionnaire was probably the most time consuming and difficult. First research into the federal procurement regulations was needed to get a better understanding of the way the system worked. Congressional reports were reviewed in order to determine procurement area problems which had previously been identified by our lawmakers. Three senior administrative officials from the Small Business Administration were interviewed in order to gather additional background information to assist in development of the questionnaire which would be mailed to the businesses. The individuals interviewed were Mrs. Monica Harrison, Associate Administrator for Procurement Assistance, Washington, D.C., a highly recommended field administrator, Mr. Richard Segrave Daly, Assistant Regional Administrator for Procurement Assistance, BALA CYNWYD, Pa. and Mr. Harwood, Small Business Administration, Wash. D.C. Our purpose for interviewing these three people was to let them provide input on problems that they thought businesses might encounter when attempting to secure contracts with the federal procurement agency. Additionally, we provided these three individuals opportunities to pose questions that we should include in our questionnaire which would be mailed to our targeted

businesses. The questions were designed to obtain a better understanding of several areas of concern. First, what techniques did the successful business use to make his business successful that the unsuccessful business was not using? What problems caused the unsuccessful business to fail and were these problems directly or indirectly related to federal procurement policies? Our questionnaire was also designed in a manner which would permit the businessman to identify for us reasons and obstacles which hindered or prevented them from acquiring federal contracts. Finally, if a business had no desire to participate in contracting with the federal government we wanted to determine why they chose not to participate.

SECTION II

Statement of the Problem

The federal government's purchasing practices to obtain spare parts are in desperate need of reform. The records reflect that these reforms have been needed for several years. In an era of Gramm-Rudman budget cutting philosophy and our limited defense budget we need a common approach to the way we do business in order to maximize our defense dollar. This fact is particularly true when it comes to the procurement of spare parts. This reform was brought to the public's attention in 1982 and 1983 when it was discovered that exorbitant prices were being paid for common commercially available replacement parts. Examples of the exorbitant prices were exemplified when it was discovered that the U.S. Navy paid \$436.00 for a small sledge hammer, and the U.S. Air Force paid \$700.00 for a toilet seat. The manufacturer claims that \$426.00, the cost for the hammer, was for overhead allocated to other line item to a kit which included the hammer. The navy alleged that the overhead charges were allocated in more or less equal portions to each item in the kit. These horror stories of paying exorbitant prices for simple parts are not isolated cases, but rather part of a consistent pattern of agency mismanagement. Part of this problem can be attributed to the lack of competition in the federal procurement system.

Federal contracting laws coupled with many complicated regulations and contracting practices make it difficult for small business firms to compete with major firms in doing business with the federal government. Recent studies have proven that small businesses can be competitive in providing the government with major end items and spare parts if they were able to compete for the bidding of available contracts. A single day's letting of U.S. government contracts published in the Wall Street Journal lists the following: General Dynamics Corporation won a \$338.8 million U.S. Navy contract to produce standard shipboard air defense missiles; Chevron Corporation received a \$187.5 million defense logistics agency contract for aircraft jet fuel; Harris Corporation received a \$21.5 million army contract for electronics equipment; McDonnell Douglas Corporation was awarded a \$46 million U.S Navy contract for FA-18 aircraft production. The list goes on and on. The point made here is that each of the firms listed has billions of dollars in assets. Not one of these contracts was awarded to a business meeting the government's criteria to be considered a small business. During the early stages of procurement planning, agencies are not considering future acquisition requirements for spare parts and services needed to support the major system during its service life. Agencies rely on the firm awarded the prime contract to program requirements for all spare parts and associated parts kits which the prime contractor buys from the sub-contractor and resales them to the government at a much higher cost to

the tax payer. The procurement process could be improved if provisions were instituted whereby prime contractors could be bypassed and replacement parts could be purchased directly from the subcontractors that make the parts. This provision would obviously result in significant savings to the U.S. government. Often prime contractors do not do business with small contractors if the prime contractor determines that the small contractor is selling directly to the government. There is no current program within the system that provides credit incentives for reducing procurement costs. The "zero base" budget policy implemented by the Carter administration is not producing its well intended results. Except for providing a general framework requiring all programs to be justified in some manner each year, zero-base budgeting is costing the government a tremendous amount of money in annual re-evaluation of current contracts. In addition, many contractors increase first year cost to offset contracts which are not renewed the following year.

Through this research our intent was to solicit, through a questionnaire, comments from small businesses and to receive first hand information from the business on how the defense department might improve or streamline its procurement policies.

SECTION III

STATEMENT OF HYPOTHESIS

Federal regulations, congressional legislation and supply and procurement officials have failed to substantially increase opportunities for competitive awards of federal procurement contracts to small businesses. This is especially true for those contracts awarded for spare parts and support equipment. Supply and procurement officials have been reluctant to seek competition from the small business at a lower cost because price is secondary, and in most cases it is faster , easier, and safer for them to buy an item from the prime contractor who originally sold the system.

SECTION IV

SUMMARY OF LEGISLATIVE ACTION

Subsequent to passage of the Small Business Act, and the Federal Property and Administrative Services Act of 1949, an abundance of federal legislation and directives have been passed and implemented in an attempt to establish and enhance competition in the small business arena. Congressional legislation has provided provisions to prohibit the SBA from denying a small business access to a Certificate of Competency (COC) based on contract size or nature, and required SBA to accept COC referrals made by federal agencies. Further, it has prohibited federal agencies from refusing to consider bids made by small businesses not listed on qualified bidders or product lists and has attempted to limit sole source non-competitive awards. The intent of this legislation is not being complied with in many instances. In 1983 additional legislation was introduced to revise small business set-aside and labor-surplus programs. Numerous hearings before the House and Senate subcommittees on defense appropriations examined air force and navy procurement programs and found that over-all procurement policies and request for research and development (R&D) was not achieving the intended goals of a competitive market place.

As recently as 1984 the Small Business and Federal

Procurement Competition Enhancement Act was passed to enhance competition in government procurement. This bill required civilian agencies to consider and plan for future acquisitions of spare parts and components in awarding contracts for all major systems. It established procedures for determining and challenging the government's right to use technical data developed in association with federal contracts. It prohibits contracts that result in the government's paying higher prices for items than what the contractor charges the public. The bill also prohibits primary contractors from restricting subcontractors from selling supplies directly to the federal government. Also this bill requires prime contractors to establish procedures for the timely payment of their small business subcontractors and as stated previously it also prohibits the SBA from denying a small business access to a Certificate of Competency (COC). (This provision was meant to strengthen the November 14, 1983 Procurement Act which addressed this same issue.) This 1984 bill also states that small businesses are not required to be on a pre-qualified bidders' or product list. The bill also provides for publication of procurement opportunities in small business mailouts.

SECTION V

METHODOLOGY

The hypothesis of our study will be tested through the following means. Since the intent of our study is to determine from the small businesses what obstacles and difficulties most adversely prevent them from participating in the involvement of government contracts for spare parts and support equipment, we will solicit input directly from one thousand small businesses in all major procurement areas. The majority of these businesses employ 500 workers or less, are located in areas populated with a skilled and technically competent labor force, and are considered capable and qualified to compete in the government defense contracting arena. The input from this number of small businesses should provide ample information to determine the competitive climate in these ten geographic areas. The data received will be analyzed in an attempt to reflect what the small business man considers as problem areas that hinder his chances of obtaining defense agency procurement contracts and what steps can be taken to increase his chances of participating in procurement contracts. Because of time and funding limitations, price sampling will not be accomplished.

As discussed in Section I of this report our questionnaire was designed to solicit information from small

businesses which had various levels of experience with government contracts. Also, we solicited information from businesses desiring to participate in government contracts but were not doing so as well as from those who had no interest at all. Category I of our questionnaire was designed to be answered by businesses who are currently doing business with the federal government and consider themselves doing well. Category II was designed for those businesses who have in the past, done business with the federal government and believe they have not done well. Category III was designed to receive input from those businesses who have not done business with the federal government but would like to. Category IV was for those businesses who had no desire to do business with the federal government.

The sample was selected through the Procurement Automated Source System or PASS, and encompassed all ten regional districts across the United States. The survey was prepared after initial consultations with several individuals associated with the Small Business Administration in order to focus effort where appropriate. As previously indicated, the level of response far exceeded expectations, especially for a survey requiring many handwritten responses.

SECTION VI

ANALYSIS OF DATA

The majority of the successful businesses responding to the survey were small companies employing less than 25 personnel. They primarily supplied goods to the government and attributed their success to the quality of their product and to their efforts toward efficient and aggressive marketing of their product. In most cases, these companies relied upon responding to solicitations received as their method of accessing the federal agency contract system. Many respondents indicated the need for a full time employee to handle government contracts.

For those businesses who did not consider themselves successful, they also dealt primarily with goods rather than services. Forty-five percent employed less than 25 personnel. They also received the majority of their contracts by responding to solicitations. Over 76% attributed their failure to the federal or state government. More specifically, the major complaint was that the federal contract specifications were unclear, too rigid or unrealistic. The second most common complaint was in the

excessive paperwork requirement. Additional factors included contract requirement changes, problems with procurement officers and project managers, and the inability to get a decisions from anybody in the system with whom they dealt.

Of those respondents who were in Category III, most were not familiar enough with the system to comment on the way business was done. Some, however, did indicate that just trying to get into the procurement system was a challenge. Those wanting to do business with the federal or state government also felt very strongly that they could compete with larger companies and provide a better product to the tax payer; a fact, they attributed to less overhead and better quality control.

It was difficult to draw any specific conclusions from Category IV, of the over 300 respondents, only 10 fell into this category. Of those 10 who responded, all employed less than 25 employees and did not want to expand the business to accommodate federal contracting. This could be due to cash flow problems or just a "mom and pop" business. It was not possible to ascertain the specific reason from the survey.

SECTION VII

GOVERNMENT VERSUS COMMERCIAL PROCUREMENT

The vast majority of the successful businesses provided services to both the public and the private sector. With regard to profitability the results were split. Approximately half felt the private sector was more profitable with the remainder feeling there was no difference in profitability between the private and the public sector. Most of the respondents commented on the excessive amount of paperwork associated with government contracts and the difficulties in dealing with unresponsive and insensitive government employees. Changes in their organization had to be made to accommodate the many government regulations with regard to quality assurance procedures as well as special shipping requirements invoked by the government.

More than 83% of the Category II respondents felt the government was more difficult to deal with than was the commercial sector. They also shared the same concerns as did category I with regard to dealing with unresponsive and insensitive government employees. Excessive paperwork and rigid specifications were major contributing factors to their delima.

There appears to be great concern over complex and sometimes antiquated government specifications. The overwhelming

majority of the respondents commented on the need to review the current government established specifications with a view toward considering acceptance of commercial standards where possible. They believe that government contracting officers are not knowledgeable in their product area and that there is no standard procedure across the government agencies in procurement practices and policies.

SECTION VIII

EDUCATION AND TRAINING EXPERIENCE

Successful businesses clearly recognize the need to develop expertise in the government procurement system. Many have participated in conferences and seminars and believe them to be very helpful. Most have been involved with the Small Business Set Aside Program and the Certificate of Competency. They indicate that the greatest benefit to government work is the prompt payment and that government work kept their production lines open. The worst feature expressed most often was the excessive paperwork associated with government contracts and the complexity of the specifications which they feel are, in most cases, unnecessary.

Recommendations by these successful businessmen included simplification of the procurement system. Standardization needs to be promoted throughout the purchasing process. Furthermore, they felt the government specifications should be more realistic and, if possible, follow that of the commercial sector. Quantity buying is another recommendation made in order to obtain production discounts. Cases were cited in which two different agencies were contracting for the same good, each paying top dollar for a limited quantity.

The not so successful businesses generally shared the same views with regard to paperwork and specifications.

Unrealistic due dates, and the inability to obtain information from the government system were main contributors to failure in there minds. Progress payments, contracting terms and the issue of quality assurance had little effect on the unsuccessful businesses.

SECTION VIV

CONCLUSIONS/RECOMMENDATIONS

In drawing conclusions from the research it is necessary to remember that the data only reflects the views of the small business community. The research, however, does provide valuable insights into areas where further investigation may prove warranted. There were many cases in which common trends were surfaced in each category of the respondents.

There is considerable dissatisfaction with the complexity of the government specifications. Many respondents felt that they were often too rigid and in many cases antiquated. They believe much of the high cost for such goods is directly attributable to these often unnecessary requirements. It may prove beneficial to take a close look at this area of procurement with the view toward revising the specs where possible. Justification might be a requirement when the specification exceeds that of the commercial product. This would tend to focus the attention of the requirements community on a more practical and economical approach.

There seems to be a strong perception among the small businesses that there is favoritism in the government procurement arena. Whether this is true or not, the perception is there. In order to get the best possible price

for goods or services it is vital that the system be fair and impartial and to be perceived as such. There may be many producers out there that are not participating in the competitive bid process. A strong effort should be made to investigate this allegation and take corrective action if necessary.

The complex bureaucracy in which the system operates is a criticism that has been widely held. The reorganization of the Defense Department may address this problem in the Defense procurement system. For a small business to compete fairly, the administrative requirements should not be an impediment. Hiring personnel just to service the administrative requirements just adds to the end cost. The lack of standardization of procedures within the various agencies was also mentioned as a problem. The bureaucracy may be a contributor to this problem. This is certainly a subject worthy of further investigation.

One last concern which bears further investigation involves the comments concerning lack of expertise on the part of the project managers and procurement officers. These key people must have the necessary training and expertise for the procurement system to operate effectively. Furthermore, they must have the confidence of the business community. Many comments were made concerning the lack of responsiveness and insensitivity on the part of government employees and the inability to get a decision. If this be the case, it is no wonder the government is overcharged for a particular product

or service.

There are many initiatives currently underway to revamp the procurement system, the results of which are sure to have a vast impact on the business community. The results of this research certainly indicate the small businessman is vitally interested in the outcome, not only for the potential market, but also as a concerned taxpayer interested in getting the best product for the lowest cost.

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APPENDIX 1

QUESTIONNAIRE/RESULTS

Category I Currently participating in government prime or sub-contracting and consider company doing well.

Number of responses received: 120

General Information

Question: What type product do you produce?

Results: Goods	69%
Services	9%
Goods and Services	22%

Question: Number of personnel employed?

Results: 0-25	40%
26-50	18%
51-100	16%
101-250	13%
251-500	13%

Question: Marketing method used to access the Federal Agency Contract System?

Results: Responding to solicitations rec'd	50%
Full time employee	25%
Paid representative (outside source)	8%
Commerce Business Daily	7%
Bidding service	3%
Other	7%

Question: Reasons for success?

Results: The results were fairly evenly distributed. 27% felt that efficient and aggressive marketing targeted to the needs of the consumer was the single most important factor. While 26% attributed their success to a quality product coupled with very competitive bidding. Another 24% stated that just plain hard work and dedication led to their success. The remaining 23% provided a very specialized service which they felt gave them the edge.

Government versus Commercial Procurement

APPENDIX 1

Question: Does your company provide services to the private and public consumer?

Results: Yes 93% No 7%

Discussion: Only 10% felt that dealing with the public sector was more profitable, while 46% felt the private sector was much more profitable. The remaining 44% believed that there was no difference in profitability between the public and private sectors.

Question: How does your government work differ from your commercial work?

Results: The vast majority, 58%, complained about the excessive paperwork and the complex military specifications required by government contracts. Only 22% felt there was no difference between the public and private sector. 10% commented that the low bid criteria failed to take into account the importance service to the customer provided. Others complained about the difficulty in placing responsibility at the various government agencies and that government employees were not responsive to their needs.

Question: Did you have to change your method of operation to comply with federal requirements?

Results: Yes 48% No 52%

Discussion: Eight of the respondents indicated that major changes had to be made in complying with the quality assurance standards and procedures. Additionally, they indicated that they had to make changes in the packaging procedures to meet special federal requirements. Also, security clearances were required in some cases.

Question: What changes, if any, have you had to make in your work force or in your production line to deal with federal contracts?

Results: Over 90% of the comments indicated the need to hire on additional personnel to deal with the government contracts whether it be with direct sales, shipping, or handling the accounting requirements associated with the contracts. Other responses related to the need for streamlining procedures and improving work habits to com-

APPENDIX 1

pete effectively. With respect to changes on the production line, most comments related to the changes necessitated by the quality control requirements. One comment, dealing with the medical field, suggested having one agency procure the item in bulk to obtain a production quantity discount.

Question: Do you feel government specifications are more difficult to meet than commercial specifications?

Results: Yes 70% No 10% Same 20%

Discussion: All of the responses felt the specifications were lengthy and contributed to unnecessary paperwork. Some felt the CORS were not knowledgeable in their product area. Furthermore, they cited cases in which each agency had their own specifications for the same product contributing to higher prices.

Question: Do you feel that difficult specifications are more expensive to the taxpayer?

Results: Yes 85% No 15%

Discussion: The majority of the comments recommended the government look at accepting the commercial specifications to see if it is adequate to government needs. Several examples were cited where the same product used by both the private and public sector had unnecessary specifications required for the government product. Other comments related to the unnecessary shipping requirements for government products.

Question: In general, how would you compare dealing with the federal government to that of your commercial contracts?

Results: More difficult	62%
Less difficult	33%
Same difficulty	5%

Education, Training and Experience

Question: Do you consider yourself or someone in your

APPENDIX 1

firm an expert on government contracts?

Results: Yes 53% No 47%

Discussion: More than 80% of those indicating yes, felt that expertise in government contracting was necessary to being successful in dealing with federal agencies.

Question: Have you or representatives of your firm participated in any conferences or seminars on federal acquisition?

Response: Yes 60% No 40%

Discussion: 77% of those responding yes indicated that the conferences and seminars were very helpful.

Question: Do you have basic resource material on federal acquisition such as the Purchasing and Sales Directory?

Results: Yes 50% No 50%

Question: Are you aware that federal buying activities have Small Business Specialists on site to assist you?

Results: Yes 70% No 30%

Question: While dealing with federal agencies, in which programs have you been involved?

Results: Small Business Set Aside	68%
Certificate of Competency	22%
Size Protest	5%
SBA Guarantee Financing	3%
SBA Surety Bond Guarantee	2%

Question: What is the greatest benefit received in dealing with the Federal Procurement Agency?

Results: The majority, 60%, indicated the greatest benefit to dealing with the government was prompt payment. Some 30% stated that government contract helped to keep their production lines running. Others felt that there

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was a high degree of fairness in dealing with the government.

Question: What is the worst feature in dealing with the Federal Procurement Agency?

Results: Over 60% complained about the specifications and the excessive paperwork required for government contracts. 15% recommended there be better communications between government agencies. They felt there is no standardization in procedures. 10% felt that government employees were insensitive and unresponsive to their needs.

Question: What single change would you recommend in the way government does business in the procurement arena .

Results: Over 60% recommended simplifying the procurement system. They felt there needs to be more standardization of the purchasing process. Specifications should be standardized wherever practicable and that commercial standards be explored first. Quantity buying by one agency to obtain production discounts should be encouraged. And also better training for procurement specialists was recommended.

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QUESTIONNAIRE/RESULTS

Category II Have participated in government or sub-contracting and do not consider themselves doing well.

Number of responses received: 71

General Information

Question: What type of product do you provide?

Results: Goods	67%
Services	14%
Goods & Services	14%
Other	5%

Question: Number of personnel employed?

Results: 0-25	45%
26-50	18%
51-100	18%
101-250	11%
251-500	08%

Question: Marketing method used to access Federal Agency Contract System?

Results: Responding to solicitation received	71%
Full time employee	26%
Commerce Business Daily	26%
PASS	21%
* Other	18%
Bidding Service	15%
State/local Econ Development	02%

* Personal solicitations, GSA contract pricing, Bid rooms, SBA set-asides, Newspaper, Tech magazines.

Discussion: Of the 71 responses most businesses utilized more than one marketing source.

Question: Did the federal or local government contribute to your bad experience?

Response: Yes 76% No 24%

Question: Reasons for bad experience?

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Response: The reasons were overwhelming; over 57% indicated that the specifications were not clear, too rigid or unrealistic. 12% of the responses contributed their bad experience to the bureaucracy and the tremendous amount of paperwork required. The remaining responses were evenly distributed over other problems such as procurement officer/inspector problems, minority quotas took away business, failure on the part of the government to provide timely up-dated correct documentation causing down time and dollar overruns.

Question: Did progress payments contribute to your bad experience?

Response: No 78% Yes 22%

Discussion: The majority of the responses dealt with the time it took to receive their payments. This varied from over a year to the average of 90 days. Others indicated problems with DD Form 250, and other administrative errors. (On both sides)

Question: Did contracting terms contribute to your bad experience?

Response: No 70% Yes 30%

Discussion: Two major problems had to do with sub-contracting and contract interpretation, 76% of those responding yes had a contract dispute of some sort. The remainder of the problems dealt with first article testing and method of distribution of goods or services.

Question: Were due dates realistic?

Response: Yes 74% No 26%

Discussion: Of those who experienced problems with due dates most 56%, were contributed to late receipt of bid package. The due dates were not slipped accordingly and this caused short response times. Others suggested that more time should be given to submit proposals. This will allow them to solicit valid sub-contracting estimates.

Question: Were there problems with quality assurance

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indicators?

Response: No 79% Yes 21%

Discussion: Major problems were encountered with project managers or inspectors not qualified to administer the inspection 50%. The remaining results were fairly evenly distributed over administrative problems and indicator changes without notification.

Question: Did you experience requirement changes?

Response: No 80% Yes 20%

Discussion: Of the small percentage of those who did experience requirement changes, all were contributed to pre-award contract not the same as final award or changes after production testing was completed. A major factor causing these changes was unclear initial requirements.

Question: Did federal or agency bureaucracy contribute to your bad experience?

Response: Yes 84% No 16%

Discussion: This is the major area which needs some attention. Over 50% of the responses indicated a major problem with procurement officers and project managers. Comments such as un-professional, incompetent, retired on active duty looking for a job, and other such criticisms were common in the responses. A major complaint was the fact that if information was needed, no one was available that could give you an answer or authorized to give a response without going through several layers of bureaucracy.

Question: Compare past experience with federal contracts to that of commercial contracting.

Response: 83% More difficult 05% Less difficult
11% About the same

Discussion: Here again most responses contributed the difficulty with federal bureaucracy and specifications too difficult or overstated.

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Question: Does the federal procurement system provide the tax payer a fair return for the dollar?

Response: No 65% Yes 29% Not sure 06%

Discussion: Most responses clearly indicated that the tax payer could buy the same product much cheaper on the market due to un-realistic or un-needed specifications. In addition the administrative cost to administer the required paperwork is added to production costs. A final contributor was cost overruns due to specification changes after production started.

Question: Would you consider doing business with the federal/state government in the future?

Response: Yes 98% No 0% No response 2%

Question: What changes would you recommend the federal or state government make to help make doing business more attractive and benefit the tax payer?

Discussion: The vast majority of responses suggested a major overhaul of the contracting system 49%. This included such things as developing a contracting system broken down in commodity areas. Making federal representatives more professional and insure that they understand their job. An equal number of responses recommended that a better system be developed that would not require so much paperwork 40%. Other suggestions included more use of small businesses and a greater number of set a side bids. A final comment that did surface on more than one occasion was that there existed a need for the federal government to take a close look at un-authorized under the table payments, book padding at all levels and the so called buddy bidding program. This is evidently a familiar system taking place and known to all.

QUESTIONNAIRE/RESULTS

CATEGORY III Businesses who are interested in doing business with the federal procurement agency.

Number of responses received: 174

Characteristics of businesses which responded:

Seventy seven percent of the one hundred seventy four businesses which responded indicated that they had not participated in US Government federal prime or sub-contracting, but are interested in doing so, are small companies employing fewer than twenty five personnel.

Forty nine percent of these one hundred seventy four businesses produce goods; seventeen percent percent provide services, and the remaining thirty four percent not only produce goods but also provide services.

General Information:

Question: Has your business ever participated in US Government federal prime or sub-contracting?

Response: 100% No

Question: What type product do you produce?

Response: 49% Goods 17% Services 34% Both

Question: Number of personnel employed?

Response:	0-25	77%
	26-50	13%
	51-100	6%
	101-250	4%

Question: Do you think that your business is in an industry where there is an opportunity for you to participate?

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Response: Yes 96% No 4%

Question: Do you feel a company of your size can perform a government contract?

Response: Yes 99% No 01%

Question: Is there anything specific about government contracts that generated an interest to get involved?

Response: 43% Opportunity for large market.
28% Ability to provide a variety of quality goods.
6% Nothing specific.
23% Did not respond.

Question: Have you recently lost business in the commercial market place?

Response: Yes 70% No 30%

Question: Do you have a competitor who is doing well in the federal contracting arena?

Response: Yes 49% No 40% Don't Know 11%

Question: What has prevented you from participating in federal contracting in the past?

Response: Fifty five percent of the responses indicated that they had attempted to participate in federal contracting in the past. The primary reasons given for not being able to participate are as follows:

Not enough capital	46%
A recently formed business	16%
Lack of knowledge	18%
Process too confusing	20%

Discussion: Thirteen percent of the responses indicated they had no interest to participate. Twenty five percent indicated they have recently expanded and can now handle

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indicated they have recently expanded and can now handle federal contracting. Seven percent did not respond to the question.

Question: Do you feel that small businesses are afforded the opportunity to compete with larger businesses?

Response: Yes 41% No 50% No response 09%

Discussion: The eighty seven businesses who answered this question "no" gave the following examples:

53% Limited capital and personnel to pursue opportunity.

20% Process too complicated.

18% Unaware of opportunity.

09% Competitive buying power is limited with small businesses.

Question: Do you think that small businesses can produce a product at a production cost less than a larger business?

Response: Yes 90% No 10%

Discussion: 60% indicated that they had a lower overhead than big business. 20% indicated that small businesses manage better. 10% indicated that small business produces a better product. 10% gave no response.

Question: Do you feel that small businesses should be given a certain percent of federal contracts other than set-asides?

Response: Yes 74% No 26%

Discussion: 53% indicated that the percent should be in the less than 50% range while 33% indicated it should be equal 50% and 4% said it should be more than 50%.

Question: Do you think that prime contractors are seeking sub-contracts with small businesses on a competitive basis or on who they know or have done business with in the past?

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04% On a competitive basis

Discussion: Of the 54% who responded sub-contracts went to businesses that they knew. Collectively they gave 43 examples where sub-contracts were awarded on a who you know basis and not on a competitive basis.

Question: Are you aware of the Procurement Automated Source System?

Response: Yes 60% No 40%

Discussion: Of those aware of the PASS system, 92% indicated that they were entered in the system. This is a difficult response to understand since our sample was taken from the world wide PASS system.

Question: Do you feel that government procurement regulations are too complex, and not understandable?

Response: Yes 52% No 20% Not Familiar 28%

Question: Are you aware of any programs or services in your area conducted by the Small Business Administration assist you in obtaining federal contracts?

Response: Yes 32% No 68%

Discussion: Of those who answered that they were aware of programs and services provided by the SBA to assist them in obtaining federal contracts gave the following examples:

<u>Program/Service</u>	<u>No of Responses</u>
SBIR	6
Marketing	7
PASS	6
SCORE	3
Seminars	33

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Question: Can you provide any additional information that may assist us in determining problem areas in the federal procurement system?

Results: Yes 43% No 57%

Discussion: 43% of the respondents identified five problem areas in the federal procurement system. These five areas and the number of times each was mentioned is listed below:

Complicated procedures	40
Lack of proper guidance from federal procurement system.	23
Specifications too complicated and difficult.	21
Contract opportunities not publicized.	16

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QUESTIONNAIRE/RESULTS

Category IV Businesses with no desire to participate in government contracting.

Number of responses: 10

General Information

Question: What type of services do you provide?

Results:	Goods	5
	Services	1
	Both	4

Question: Do you feel your product is marketable to the federal government?

Response: Yes 8 No 2

Government versus commercial

Question: Do you feel that your firm is successful in the commercial arena?

Results: Yes 8 No 1 New Business 1

Question: What prevents you from participating in the federal or state procurement contracting?

Results: 3 responded that bureaucratic red tape kept them from participating in federal procurement, 3 felt that their company was too small and 1 felt the profit margin was too low. Other reasons are listed below:

Contract difficulties	4
Do not know how	3
Too costly	4
Specifications difficult	2
Lack of capital	2
Known bad experiences	1
Regulations not understandable	1

(Some respondents gave more than one reason)

Discussion: Although the two most used reasons why the

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company did not participate in federal contracting was contract difficulties and bureaucratic red tape, the underlaying condition seemed to be they felt there company was not large enough to become part of the federal/state procurement contracting system.

Summary: It is impossible to draw any valid conclusions from such a small response. Therefore this will be included as an annex only and information contained in these responses will not be included in the overall conclusions/recommendations.

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