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Escape the small business set-aside trap

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Most small-business owners work day and night to grow their company. Their goal is to get bigger, and small-business and other set-aside contracts appear to be an easy way to do that.

But in the long run, those contracts, the glittering fool's gold of government contracting, can become a growth-limiting addiction.

To get big you must escape from the trap of thinking and acting like a small business even though it is uncomfortable, risky and difficult. I know because I had to do it.

My company, RGS Associates, began in 1984 with two subcontracts with different prime contractors. It was a common startup strategy: Parlay client relationships from prior jobs into quasi-directed subcontracts.

The problem was both subcontracts covered only my services. For the first two years, my company had no other employees. The challenge was to stop selling myself and start building a company.

There is a simple and repeatable process for that. First, I became a valued adviser by helping clients plan their programs, justify budget increases and implement them. They routinely asked for my analysis and recommendations on major decisions.

Soon our relationship was stretched in three ways: I didn't have time to do everything they wanted; they needed expertise I didn't have; and they found my hourly rate too high for some simple tasks.

Each of those situations was an opportunity to expand the level of effort and hire a new employee.

In the next few years, we gradually transformed the relationships into multiyear, small-business set-aside contracts that we won competitively, sometimes with a big-business subcontractor.

It was easy to ride the set-aside express train for growth. Having built a critical mass and a reputation, we were able to expand and compete successfully for vehicles and set-aside contracts in other agencies.

As the company neared the revenue limit for small-business competitions, I knew it was vital for us to escape from the comfortable cocoon of set-aside contracts. Besides wanting to grow revenue and

expand staff capabilities, I wanted to maximize the company's value for a sale because my retirement was only a few years away.

Because the value of a government-services firm is a multiple of revenue, sustained growth was essential. But buyers devalue set-aside contracts, or avoid buying companies whose business base is set-aside contracts.

I had to wean myself and my management team off our dependence on small-business contracts. At the time, our eight largest client relationships were either set-aside contracts or quarter-to-quarter, sole-source purchase orders.

We faced the dragons of change.

The idea of risking bread-and-butter client relationships in full and open competition was frightening: What if we lost?

The first step in the process was for the management team and I to accept that risk. We got professional help to devise a strategy and tactics, and positioned our work in high-visibility, high-growth client programs by delivering high-value services.

We were already on General Services Administration Schedule 70, but we added Management, Organizational, and Business Improvement Services and SeaPort Enhanced as additional vehicles, and nurtured strategic partnerships with big companies that supported the same agencies.

Government clients were surprisingly receptive to conducting full-and-open competitions. They defined requirements that were broader than our original statement of work, increased the ceiling to accommodate emergent requirements and issued requests for proposals under a vehicle for which we could compete.

They were relieved to avoid the time-consuming contracting actions associated with putting quarterly purchase orders in place, and were happy to fold



several small efforts into one better-managed contract.

For the early RFPs, we hired a consultant to help us develop quality proposals, kept our fingers crossed and prayed during the evaluation period. We won seven of eight, five as the prime contractor and two as a subcontractor when our previous work was folded into an omnibus statement of work.

The process of re-competing our set-aside contracts and sole-source purchase orders under full-and-open terms and conditions took about three years.

The benefits of converting client relationships to full and open contracts were enormous.

The resulting contracts were larger, we developed an effective process for preparing competitive proposals and we formed a set of lasting strategic teaming relationships.

As if that weren't enough, our contract portfolio was valued highly when I sold my ownership interest in the company a short time later.

You can do it, too. Start today!

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