



Subcontracting 101



Position your business to subcontract
with prime contractors in order to do
business with the federal government

Learning Objectives

At the end of this module, you will be able to identify the key elements of subcontracting in the government market.

About FDIC Supplier Diversity Effort

The Federal Deposit Insurance Corporation (“FDIC”) recognizes the important contributions made by small, veteran, and minority and women-owned businesses to our economy. For that reason, we strive to provide small businesses with opportunities to contract with the FDIC. In furtherance of this goal, the FDIC has initiated the FDIC Small Business Resource Effort to assist the small vendors that provide products, services, and solutions to the FDIC.

The objective of the Small Business Resource Effort is to provide information and the tools small vendors need to become better positioned to compete for contracts and subcontracts at the FDIC. To achieve this objective, the Small Business Resource Effort references outside resources critical for qualified vendors, leverages technology to provide education according to perceived needs, and offers connectivity through resourcing, accessibility, counseling, coaching, and guidance where applicable.

This product was developed by the FDIC Office of Minority and Woman Inclusion (OMWI). OMWI has responsibility for oversight of the Small Business Resource Effort.

Executive Summary

Subcontracting is an excellent way to gain experience as a government contractor. It also can significantly reduce the lead-time and investment required to enter the market. For many businesses, it is the only practical way to enter the market. The following module describes how to position your business to subcontract with prime contractors in order to do business with the government.

Introduction

When it comes to small businesses, the federal government is a big proponent of subcontracting. The government directs a fair percentage of its procurement to small businesses, but some contracts are just too large for a small business to handle alone. When this is the case, small businesses can team up with one or more other businesses to collectively perform the contract. Subcontracting is a great way for small businesses to build credibility and demonstrate proficiency to the government and other contractors.

Benefits of Subcontracting

Subcontracting offers numerous benefits to both contractors and clients. These include:

- Satisfying the customer with a single solution
- Increasing competitive edge
- Increasing market share
- Increasing visibility
- Focusing on core capabilities
- Obtaining complementary capabilities
- Integrating different skills
- Offering additional opportunities with customers
- Building direct relationships with customers
- Sharing risks and rewards
- Allowing more opportunities for small and small disadvantaged businesses

Understanding the Government Advantage

Many federal agencies combine or bundle small contracts for different activities or requirements into large contract packages. As a result, several laws have been passed regarding subcontracting to small businesses. These laws require that prime contractors who have contracts exceeding a certain threshold provide as many subcontracting opportunities to small businesses as possible.

Among other things, these laws require:

- **Subcontracting Plans/Goals:** On contracts of more than \$500,000 (or \$1,000,000 for construction of a public facility), large prime contractors must develop subcontracting plans. These plans need to include goals for subcontracting to different types of certified small businesses including: small disadvantaged businesses, women-owned small businesses,

historically underutilized business zone (HUBZone) small businesses, and service-disabled veteran-owned small businesses. Subcontracting plans must be submitted by contractors for review prior to the award of any contract. If a prime contractor selected by the government does not develop an acceptable subcontracting plan addressing all of these groups, it will not be awarded the contract.

- **Equitable Opportunities for Small Businesses:** Subcontracting plans must contain a description of the methods and efforts used to ensure that small business enterprises have an equitable opportunity to compete for subcontracts.

Have your certifications available when you meet with a prime contractor. Being able to prove that you are officially certified could actually tip the scales in your favor over another subcontractor that might still be in the process.

Understanding the Prime Motivation

Prime contractors need small businesses as much as small businesses need them. The reality is that prime contractors, even large businesses, cannot do everything in-house, and they require products or services only qualified small businesses can fulfill. Because of the size of government contracts and the economic situation, many prime contractors cannot manufacture products or service clients like they did in the past. Instead they get the parts or services from other sources, and become the vehicle for the final product. Further, many of the big businesses that receive government contracts are knowledge leaders and managers, not doers. Therefore, they must find capable subcontractors to help get the work done. Your business is as capable as the next.

Finding a Prime

Once you have a clear idea of your business' infrastructure and goals, start looking for prime contractors. Here are some good ways to find prime contractors:

- **Contact government agencies that may benefit from your product:** If you want to do contracting work for the federal government, try to locate a small-business liaison who can answer your questions on government subcontracting. Agencies often maintain lists of their prime contractors, sometimes even posting them on the Internet. If you are specializing in state or local contracting, you should learn who those players are, look for who is successful, and build relationships on that level.
- **Get advice and contact information:** Business development organizations and small business agencies will offer valuable advice and contact information. The SBA Office of Government Contracting (GC) works to create an environment for maximum participation by small, disadvantaged, and woman-owned businesses in federal government contract awards and large

prime subcontract awards. SBA publishes a *Small Business Subcontracting Directory* that lists large federal government prime contractors along with contact information. SBA also has commercial market representatives who help small businesses find subcontracting opportunities.

- Go to <http://www.sba.gov/aboutsba/sbaprograms/gc> for more details.
- **Look at your own industry's resources:** Often government prime contractors are obligated by their contract to recruit small businesses for subcontracts. Here are some ways to find prime contractors (or help them find you) and develop relationships:
 - Trade associations
 - Business development organizations
 - Industry conferences
 - Trade shows
 - Networking events and conferences
 - Local city council meetings
 - Business associations and publications
 - Online message boards and forums
- **Talk to the major players.** A handful of massive government prime contractors control a significant percentage of the government contracting market. To try to work with a prime contractor:
 - **Talk to the subcontracting liaison:** Often large prime contractors have their own small-business liaisons and provide materials explaining how to do business with them. Set up a meeting with that person to introduce yourself and your business.
 - **Get on the Approved/Preferred Vendor List:** Almost every large business, including prime contractors, has a list of the vendors and subcontractors that have been approved by the prime for quality, on-time delivery, and other factors. You need to ensure that you are on these lists because being on them means that you have passed a test that allows you to sell your products or services to that particular prime.
- **Become active on the Internet.** Often contractors, agencies, and other entities post details about government subcontracts online, including current contract awards, sample contracts, subcontracting plans, contact information, and other valuable data. To build an Internet presence:
 - **Build your contact list:** Sign up for social networking sites, such as LinkedIn, Facebook, Meetup, Twitter, Teaming USA, and OPENForum.
 - **Ask for introductions:** When appropriate, ask for introductions to others' colleagues, and offer to do the same for them. Join online groups pertaining to your industry and pose questions.
 - **Provide information to others:** Give answers to others' questions in order to gain a reputation as a knowledgeable expert. Do the same on forums and discussion boards sponsored by industry associations.

- **Network.** Do you have friends or colleagues who have worked as government prime contractors or government subcontractors? Use them as resources for leads and insight on government subcontracting. Ask questions and inquire about other people's work interests and find commonalities. This type of informal networking can help you identify potential partners.

Selling Your Business

Becoming a subcontractor and selling your business' products or services to a prime takes work. Successful selling is: knowing your customer, your competition, and your capabilities.

- **Knowing Your Customer:** Get to know your customer—the prime. Learn everything you can about each prime contractor that might offer some opportunity for you, including how it does business, what it needs, and what it doesn't need. Think of ways that you can fill these needs.
- **Knowing Your Capabilities:** Decide whether your business and the prime are a possible match. Unless you can provide products or services that are an integral part of what the prime contractor needs, you will not be seen as a valuable member of the team. If your capabilities are compatible with what the prime needs, you are a potential fit. If not, move on to the next prime contractor.
- **Knowing Your Competition:** Gather as much intelligence as you can about your competitors, including the type of work they are doing for prime contractors, how much work they are getting, how they work with a particular prime, what they do best, etc. Determine whether you are competitively priced in the marketplace. Unless you know what your business' true costs are and how your competitors are positioned, you cannot really control those costs and determine whether you are actually competitive.

Matchmaking

When evaluating another prime contractor for a potential teaming relationship, determine if its core capabilities, products, and services are compatible with yours. Other key considerations are reputation, past performance, and financial stability.

When dealing with potential teaming partners, assess their culture and communication style. If they are not open during initial discussions, then how will they communicate when there are issues? Everything else could seem exemplary, but if you don't feel like this is someone you can build a strong relationship with, then this is not the best partner for you.

Additional questions to ask when preparing to work with prime contractors:

- What are your business' strengths and weaknesses?
- Where is your business most efficient and cost-conscious?
- How well known are you within your industry and with government prime contractors?

- How highly do you prioritize customer service and support?
- Can you demonstrate to government prime contractors that your products or services are of the highest quality?
- Can you meet prime contractors' deadlines?
- Can you handle unusual rules and regulatory red tape?
- Will subcontracting for government prime contractors take away resources and support from your existing customers?
- Can someone within the business be the lead contact for prime contractors?

Partnering to Win

Even when a teaming agreement is finalized, the work is far from complete. Use the advice below to increase your chance of becoming a successful subcontractor:

- **Bid selectively and wisely:** Bid only when you are sure that you have a reasonable chance of success:
 - When you have researched the product or service the prime is providing and you are sure that the prime contractor's needs and your capabilities are a match.
 - When your qualifications are a near-perfect match with the requirements.
 - When your price is very competitive but still profitable for you.
- **Focus on providing "best value":** The best value varies from prime to prime, depending on their individual needs and requirements, and lowest price alone just doesn't do it anymore. Often best value is some combination of quality, price, and performance. Communicate with the prime to develop your best value proposition.
- **Improve your chances as a subcontractor:** You can greatly improve your chances of getting the job if you show that you are willing and able to learn the prime's protocols, do the required conferencing and follow-ups, and familiarize yourself with any required contract details and forms. As a subcontractor, timing is crucial and communication is essential. Let the prime know that you are aware of this and are ready to satisfy their needs in these areas as well. Most primes will choose the subcontractor that they think they can work with the easiest and the best.
- **Be what a prime looks for in a subcontractor:** Prepare yourself and your business to look and function at its best so you are ready to take advantage of an opportunity when it comes along. If you are serious about turning the opportunity into a subcontract, be prepared to work long hours and meet high standards.

Developing a Teaming Agreement

In a subcontracting agreement, pay attention to the details. Any ambiguity of wording, any handshake agreement that is not also put in writing, is open for misunderstanding and contention between the

prime contractor and the subcontractor. Most prime contractors choose to work with trusted subcontractors again and again, so it is important that you prevent any issues from arising once work begins. When you receive the subcontracting agreement, review it carefully with the following questions in mind:

- **Compensation:** When will you be paid? When the prime is paid for the contract, or when the subcontracting work is done? Will you be paid by the hour or a flat fee? How will expenses be covered?
- **Hours:** How long will your part of the project take? What provisions are there for exceeding that allotted period of time? If you are being paid on an hourly basis, what is the maximum number of hours the prime is willing to pay you for, and how will that affect the project?
- **Deadlines:** Are all deadlines final? Does the prime contractor want to review your work before the deadline? If so, make sure that benchmark dates are identified throughout the project timeline, and set up review appointments as far in advance as possible. If the prime doesn't review your work until the night before it is due, there won't be enough time to make necessary changes.
- **Legalese:** Be absolutely clear on the terms of any and all noncompete and nondisclosure agreements. Although it is the prime's responsibility to draft these, have your lawyer look them over as well.
- **Communication with the agency:** Some primes will not want you to have any direct contact with agency personnel, while others will make provision for you to receive necessary specifications, etc., from the agency. When is it okay to contact the agency? (Note: In instances of legal/ethical misbehavior, it may be permissible for you to notify the agency regardless of the subcontractor agreement).
- **Intellectual property:** Does any intellectual property resulting from the project belong to you? The prime? The agency?
- **Default:** What happens if you default on the subcontract? What happens to you if the prime defaults on its contract with the agency?
- **Liability/indemnity:** Just as the prime's contract with the government will have provisions for liability and indemnification should things go wrong, the subcontracting agreement will most likely also contain those provisions, as well. Make sure you are familiar with your liability risk under the agreement.

When your business is subcontracting on government projects, your subcontracting agreement is solely with the prime contractor; you have no contractual relationship with the government at all. However, an agency may require that certain sections of the prime's contract also apply to the subcontractor. These are known as subcontract flow-down clauses. Common clauses that are "flow downs" include product/service specifications, scope of work, dispute-resolution guidelines, and federal regulations that must be followed.

Subcontracts often also include a "blanket flow-down" clause in which the entire prime contract is used for the subcontractor as well. This type of flow-down could put the subcontractor in the awkward

position of having to fulfill requirements that do not apply to its work. In addition, the agency may have certain rights with respect to the prime contractor (such as the right to terminate the contract or to receive proprietary information) that the prime should not have with the subcontractor. Read these types of contracts carefully and negotiate any problematic sections before signing. Accepting a blanket flow-down could complicate your partnership with the prime.

Pricing Your Work

Take into account the following requirements, costs, and other subcontract pricing factors before you sign a contract:

- **Subcontract pricing history:** Find out what your competitors are charging for similar services or contact a Procurement Technical Assistance Center (PTAC) to ask if it has any history of what subcontractors were paid for projects that required similar services. You can also ask to look at a few past contracts to see what was required of the subcontractor, and to make a fair evaluation of the subcontract pricing structure.
- **All special requirements:** Extra requirements, such as special deliveries, can add up. If you are simply adding on a percentage of your overall subcontract price, be aware that you will need to factor in gas, mileage, and the delivery person's fee to accurately estimate delivery costs.
- **Quality requirements:** If certifications or acknowledgements are required, will there be an added cost to your subcontracting business? See what additional fees may be involved with getting the needed certifications or acknowledgements, and how that will affect the ending subcontract price.
- **Overhead and profit:** Although the bidding process can be very competitive, remember that you need to make a profit. Bidding on a contract just to win does not make good business sense if you will not profit in some way.

Until you know your true subcontracting costs, you will not be sure if you're actually making money in certain areas or not. Even if you see an increase in sales, it does not mean that you have an increase in profit. If your cost information is not accurate, then you will not have a competitive price.

Moving from Sub to Prime

Suppose your business has identified a large opportunity that requires your capabilities and much more. Or, that you have a relationship with an end-user who would like to work with you in solving an agency's problem. In such situations, it may make sense for you to put the team together and be the prime contractor.

Large contractors usually prefer to prime, so your success in bringing them onto your team will depend on your convincing them: (1) that you have a strong relationship with the end-user; and (2) that your capabilities are a critical component of successful contract performance. Whether you are the prime or

the sub also depends on the size of the opportunity and the uniqueness of your capabilities. Becoming a prime contractor is a power game and how you play it depends on what you have in your favor, e.g., government relationships, knowledge of the requirements of the customer, uniqueness of your capabilities, etc.

Small Business Resources for Contracting

Small Business Administration (SBA), www.sba.gov

SBA - Small Business Certifications, <https://sba8a.symlicity.com/applicants/guide>

Small Business Administration, Small Business Resources www.sbaonline.sba.gov

The CCR, www.ccr.gov

House of Representatives , Small Business Committee www.house.gov/smbiz

Business.gov, Small Business Assistance www.business.gov

BusinessFinance.com, www.businessfinance.com

Surety Bond Associates, www.suretybondassociates.com

About.com, Small Business Information www.sbinformation.about.com/od/legal

Womenbiz.gov, Women-Owned Business www.womenbiz.gov

The Minority Business Development Agency, <http://www.mbda.gov>

Onvia – Subcontracting, <http://www.onvia.com/b2g-resources/subcontracting>

Top 20 Federal Contractors

FEDERAL CONTRACTOR	TOTAL \$ AWARDS FOR 2008
Lockheed Martin Corporation	\$27,320,616,068
Boeing Business	\$20,861,418,122
Northrop Grumman Corporation	\$16,769,641,721
General Dynamics Corporation	\$11,472,032,565
Raytheon Company	\$10,411,293,336
L-3 Communications Holding Inc	\$5,039,851,151
United Technologies Corp.	\$4,574,841,469
General Electric Co.	\$2,933,412,010
Computer Sciences Corporation	\$2,763,028,827
ITT Corporation	\$1,746,012,846
Textron Inc.	\$1,664,145,663
Honeywell Inc.	\$1,543,035,227
Alliant Techsystems Inc.	\$1,267,797,253
Booz Allen Hamilton Inc.	\$1,224,531,249
The Alliance Contractor Team	\$999,318,445
Oshkosh Truck Corp.	\$947,223,894
General Motors Corp.	\$806,377,723
General Atomics Technology Corp.	\$676,008,667
McKesson Corp.	\$670,352,054

Aerospace Corp.	\$653,969,926
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Key Takeaways from This Module

- Subcontracting on a government contract can be a profitable experience as well as a growth opportunity that can help you enhance your qualifications and become more competitive to perform as a prime contractor yourself.
- Before you reach out to anyone, make sure you know your industry and your capabilities. Networking is an essential building block for government contracting. Locate relevant events and make time to attend.
- Be sure to conduct a thorough background check on any potential business partner; having complementary products, services, and culture will help both of you.
- Make sure you understand the terms and conditions of your contract with the prime contractor so that you can stay in compliance.
- Be smart about potential opportunities and put your best foot forward with all potential primes.

Sources and Citations

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- American Express Company, *Teaming Toward Success*
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