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 with prime contractors 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 lacking government experience, 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. Additionally, subcontracting can present small businesses with opportunities that might otherwise be unattainable because of limited resources, staffing, capital, or experience.

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;
- Accessing additional resources;
- Integrating different skills;
- Offering additional opportunities with customers;
- Building direct relationships with customers;
- Sharing risks and rewards; and
- 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 $650,000 (or $1.5 million for construction), large prime contractors must develop subcontracting plans. These plans need to include goals for subcontracting to different types of 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. Typically the subcontracting plan is submitted with the prime contractor’s response to a Request for Proposal (RFP).

- **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.

If your small business is certified (not applicable to all small businesses), 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, especially unique or niche products or services commonly offered by small businesses. Instead they get the parts or services from other sources, and become the vehicle for the final product.

Prime contractors also need small businesses to meet the government’s socioeconomic requirements. But it’s not enough to just be a qualified small business in today’s extremely competitive environment. A prime contractor’s principal concerns when considering a subcontracting relationship include:

- Will this teaming relationship increase the prime’s chances of winning the government contract?
- Will your company’s involvement reduce the prime contractor’s cost?
- Do you know the customer or have information that will enhance the prime’s position?
- Does the prime contractor have first-hand experience with your company?

Small businesses that meet one or more of these criteria certainly present a compelling offer to the prime contractor and increase the chances of being the successful bidder.

**Finding a Prime**

Once you have a clear idea of your business’ infrastructure and goals, start looking for prime contractors whose overall capabilities would be strengthened or are more compelling to the government with your product or service. 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 [sba.gov/about-offices-content/1/2986](http://sba.gov/about-offices-content/1/2986) 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. Meeting the approved/preferred vendor qualifications means 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. While there is no “one-size-fits-all” approach to becoming a subcontractor, this type of informal networking can help you understand what worked for other businesses and identify potential partners.

### Selling Your Business

Becoming a subcontractor and selling your business’ products or services to a prime takes work and a committed attitude. Create a plan of action and then work that plan. But don’t be afraid to modify your plan if you’re not having immediate success. Successful selling is: knowing your customer, your capabilities, and your competition.

• **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. If the prime currently subcontracts with your competitor, ask why. Don’t be afraid to ask if the prime is satisfied with the product or service you are receiving. If the prime is not happy, they will usually tell you, and that may present an opportunity for you to discuss your company’s product or service.

• **Knowing Your Capabilities:** Decide whether your business and the prime are a possible match. Unless you can provide products or services that are integral to what the prime contractor needs and, ultimately, increase the prime contractor’s chances of winning new business, 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. The sooner you can make this determination, the better. Keep moving forward.
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 a 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.

Once you identify a potential prime contractor, additional questions you should ask the prime contractor and be prepared to answer yourself include:

<table>
<thead>
<tr>
<th>QUESTIONS TO ASK POTENTIAL PRIME CONTRACTORS</th>
<th>QUESTIONS POTENTIAL SUBCONTRACTORS SHOULD ANSWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are your business’ strengths and weaknesses?</td>
<td>What are your business’ strengths and weaknesses?</td>
</tr>
<tr>
<td>Where is your business most efficient and cost-conscious?</td>
<td>Where is your business most efficient and cost-conscious?</td>
</tr>
<tr>
<td>How well known are you within your industry and with government agencies?</td>
<td>How well known are you within your industry and with government agencies?</td>
</tr>
<tr>
<td>How highly do you prioritize customer service and support?</td>
<td>How highly do you prioritize customer service and support?</td>
</tr>
<tr>
<td>Can you demonstrate to government agencies that your products or services are of the highest quality?</td>
<td>Can you demonstrate to government agencies that your products or services are of the highest quality?</td>
</tr>
<tr>
<td>Can you meet government agency’s deadlines?</td>
<td>Can you meet government agency’s deadlines?</td>
</tr>
<tr>
<td>Can you handle unusual rules and regulatory red tape?</td>
<td>Can you handle unusual rules and regulatory red tape?</td>
</tr>
<tr>
<td>What is the organizational and reporting structure between the government agency, the prime contractor and the subcontractor?</td>
<td>Will subcontracting for government prime contractors take away resources and support from your existing customers?</td>
</tr>
<tr>
<td>Who is the prime contractor’s lead contact for this subcontract agreement?</td>
<td>Who is the prime contractor’s lead contact for this subcontract agreement?</td>
</tr>
</tbody>
</table>
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:** Committing time, money and staff to preparing a bid can be very costly for small businesses. 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, performance and ability to help the prime win. 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. Also know hard work is generally rewarded by receiving repeat business from the prime.

Developing a Teaming Agreement

In a subcontracting agreement, pay attention to the details. Any ambiguity of contract wording or 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? Will you receive an electronic payment? Have a clear understanding of the payment terms, invoicing requirements, and other payment details. If the prime defaults or is late in paying the subcontractor, the subcontractor has no recourse with the government agency. The terms of the Teaming Agreement are the subcontractor’s only recourse.

**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 by the prime, 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...
Subcontracting 101

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.

If you have not worked with or reviewed subcontracting agreements previously, you may want to consider having an attorney review the agreement prior to signing. At a minimum, the attorney can explain what your company’s accountability will be.

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. Be sure to consider all overhead costs when calculating your end prices, including salaries, insurance, lease payments, utilities, postage charges, etc.

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.

While large contractors usually prefer to prime, there are times when taking the prime role gives your company the greater advantage: (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. It may take some convincing to get a larger contractor to be the subcontractor to a small business. Proving it’s beneficial or profitable to them either monetarily or in experience should make their decision easier.

Small Business Resources for Subcontracting

Small Business Administration (SBA), sba.gov  
System of Award Management (SAM), sam.gov  
SBA – 8(a) Business Development Program, sba.gov/category/navigation-structure/contracting/contracting-support-small-businesses/8a-business-development  
SBA – HUBZone Program, sba.gov/hubzone  
SBA – Contracting Support for Small Businesses, sba.gov/category/navigation-structure/contracting/contracting-support-small-businesses  
SBA – Subcontracting Network (SUB-Net), web.sba.gov/subnet  
Federal Business Opportunities (FedBizOpps), fedbizopps.gov  
House of Representatives, Small Business Committee, house.gov/smbiz  
BusinessUSA.gov – Small Business Assistance, business.usa.gov  
BusinessFinance.com, businessfinance.com  
Surety Bond Associates, suretybondassociates.com  
About.com, Small Business Information, sbinformation.about.com/od/legal  
The Minority Business Development Agency, mbda.gov  
Onvia – Subcontracting, onvia.com/b2g-resources/subcontracting  
Procurement Technical Assistance Centers (PTACs) – dla.mil/smallbusiness/pages/procurementtechnicalassistancecenters.aspx
Top 20 Federal Contractors

<table>
<thead>
<tr>
<th>FEDERAL CONTRACTOR</th>
<th>TOTAL $ AWARDS FOR 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Lockheed Martin Corp.</td>
<td>$14,947,961,000</td>
</tr>
<tr>
<td>2 Northrop Grumman Corp.</td>
<td>$8,566,522,000</td>
</tr>
<tr>
<td>3 Boeing Co.</td>
<td>$7,131,867,000</td>
</tr>
<tr>
<td>4 Raytheon Co.</td>
<td>$6,110,641,000</td>
</tr>
<tr>
<td>5 Science Applications International Corp.</td>
<td>$5,988,489,000</td>
</tr>
<tr>
<td>6 General Dynamics Corp.</td>
<td>$4,658,261,000</td>
</tr>
<tr>
<td>7 Hewlett-Packard Co.</td>
<td>$4,337,990,000</td>
</tr>
<tr>
<td>8 Booz Allen Hamilton</td>
<td>$3,946,218,000</td>
</tr>
<tr>
<td>9 Computer Sciences Corp.</td>
<td>$3,156,945,000</td>
</tr>
<tr>
<td>10 L-3 Communications Corp.</td>
<td>$2,535,283,000</td>
</tr>
<tr>
<td>11 DynCorp International</td>
<td>$2,263,021,000</td>
</tr>
<tr>
<td>12 CACI International Inc.</td>
<td>$2,207,441,000</td>
</tr>
<tr>
<td>13 Harris Corp.</td>
<td>$2,054,146,000</td>
</tr>
<tr>
<td>14 Verizon Communications Inc.</td>
<td>$2,011,065,000</td>
</tr>
<tr>
<td>15 ManTech International Corp.</td>
<td>$1,947,779,000</td>
</tr>
<tr>
<td>16 Fluor Corp.</td>
<td>$1,935,182,000</td>
</tr>
<tr>
<td>17 AT&amp;T Inc.</td>
<td>$1,646,000,000</td>
</tr>
<tr>
<td>18 BAE Systems Inc.</td>
<td>$1,643,080,000</td>
</tr>
<tr>
<td>19 Dell Inc.</td>
<td>$1,582,009,000</td>
</tr>
<tr>
<td>20 United Technologies Corp.</td>
<td>$1,567,079,000</td>
</tr>
</tbody>
</table>

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. Talk to other small businesses that have been in business longer about lessons learned.
- Be sure to conduct a thorough background check on any potential business partner; having complementary products, services, and culture will help both of you win business.
- Make sure you understand the terms and conditions of the prime contractor teaming agreement so that you can stay in compliance.
- Be smart about potential opportunities: do your research and understand the government’s procurement rules before you start any work.
Sources and Citations

- Small Business Administration, *Understand the Basics: Subcontracting*
- Womanowned.com, *Government Resources: Teaming*
- Business Owner’s Toolkit, *Another Huge Opportunity*
- Onvia, *Resources: Subcontracting*
- Minority Business Development Agency, *GSA Schedule: Marketing and Teaming*
- American Express Company, *Teaming Toward Success*
- Aaron R. Jones, ProSidian Consulting, LLC, *Subcontracting 101*
- Shirileen Payne, ProSidian Consulting, LLC, *Subcontracting 101*
- fedmarket, *Doing Business with Prime Contractors*
- WashingtonTechnology.com, Top 100 Federal Contractors