



DMS Group, LLC

The Small Business Fight On The Home Front

In Support of the American Warfighter

Small Business Challenges of Defense Contracting

- Insurances
- Financial Limitations
- Proposal Preparation
- Past Performance

Insurances

- Getting required insurances is proving harder in down U.S. economy
 - Smalls perceived to present more risk to the insurer
 - Higher rates impact competitiveness
 - Workers comp
 - Classifications (Insurance companies fear risk of certain skill classifications)
 - Claims
 - State regulations (some may not require)
 - DBA affordability overseas

Insurances (cont)

- H&W
 - Medical insurance rates higher if do not meet group rate requirements
 - Harder for smalls to retain personnel without comparable benefits provided by the large primes
 - Paying H&W hourly allowance vice providing insurance benefits not attractive to the workforce

Insurances (cont)

- SUI
 - Employer operating in a state for the first time imposes high SUI rates
 - Experience of unemployment claims can be high for defense contractors needing to surge and then layoff in support of rapidly changing government requirements – causes higher rates

Financial Limitations

- Primes and U.S. Government evaluate smalls on Dnb info and current financial statements
 - Need to consider funding facilities commitment to increase financial support upon contract award
 - Otherwise, it is very difficult for a small to win an award of any size that promotes growth beyond current workload

Financial Limitations (con't)

- Primes vetting process of smalls
 - Provides prime exposure to the smalls rates
 - May be a team member on one pursuit, but competitors on another
 - Smalls hesitant to disclose all to primes
- Rate structure of smalls
 - Overhead and G&A costs are a higher % for smalls due to the smaller base available to recover costs against making it difficult to compete on a per hour basis with large primes in full and open competition.

Financial Limitations (con't)

- Cash Flow
 - Billing once a month with net 30 payment terms in essence means a 60 day float of payroll and ODCs
 - Invoice at the end of a month after incurring 4 weeks of labor and ODCs will pay net 30
 - Pay when Paid is a burden being imposed from large primes to a small sub
 - Line of Credit needed to float net terms
 - Interest charges are unallowable in rates per FAR

Financial Limitations (con't)

- Invoice factoring
 - Need clear DCAA ruling if this practice falls under Cost of Money FAR clause, as financing of assets, and cost incurred is therefore allowable
- Winning margins are so low in this industry many are bidding no profit
 - This practice is forcing creative management during execution of an award
 - Not beneficial to mission support
 - “Best Value” is nearly always second in consideration to price currently

Proposal Preparation

- Teaming with large primes is the most common means of growing a small business and gaining past performance
 - Current practice is for large primes to bid small partners, but not executing the contract with the small partner to the extent bid
 - Suggest “floor check” type audits include review of team compliment percent being performed by smalls

Proposal Preparation (con't)

- Current practice by some large primes is to “strong arm” the small partner to bid dangerously low, in order to get overall price down, or to allow prime to collect their full profit margin in the pass thru %
 - Results in small not being able to perform at a profit during execution and walks away from it
 - Suggest award evaluation segregate the small’s bid from the large and either exclude small portion from the evaluation or develop a different weighting system for the small’s portion

Proposal Preparation

- RFP or RTOR Modifications
 - Government should take into consideration, the more revisions/extensions there are, the more it costs all bidders which drives up G&A rates
 - Impacts all companies (large and small) deeply. Budgets for labor are allocated to each pursuit. When there are numerous extensions and revisions this adds to labor costs and negatively impacts all the bidders

Proposal Preparation (con't)

- Proposals for customer identified requirements that emerge from marketing
 - Contractors fully understand the requirements imposed on Contracting Officers or TOCOs to fairly compete a requirement within regulations
 - Government, in evaluating an award, should provide a small weighting factor to the bidder who made the marketing investment to visit the customer and provide guidance on the use of the multiple award schedules as a potential solution to his required need

Past Performance

- Catch 22 for smalls:
 - Cannot bid on a contract without relevant past performance
 - Cannot gain relevant past performance if not eligible to bid on a contract due to lack of
- Many small businesses are developed from former military personnel and experienced defense contracting personnel
 - Fully qualified, but cannot demonstrate past performance within their newly formed entity

Conclusion

Small Businesses Should Not Be Fighting
Government Regulations, When We
Should Be Supporting the Needs of our
Warfighters and Providing Jobs for
Americans at Home