A Growth Strategy for 8(a) Companies

WHITE PAPER

Richard Wagner & Company

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This White Paper provides the executives of 8(a) companies with a strategy for operating in the 8(a) marketplace and as a method for addressing the business realities that a company must deal with when graduating from the 8(a) program. This White Paper is not intended to be a single source for all the answers and challenges that confront 8(a) program participants. It is intended to serve as both a reference point for an 8(a) company to reflect on its current position in the 8(a) marketplace and as a strategic guidepost in planning a company's day-to-day operations and post-8(a) graduation activities. This White Paper presents strategic concepts and components that are helpful in driving growth throughout the development and evolution of an 8(a) company. These strategic concepts, when deployed with consistency and intensity, serve as fuel for successful 8(a) growth.

FOREWORD

As President of Richard Wagner and Company, Inc., I am proud to present this White Paper, "A Growth Strategy for 8(a) Companies". This strategic document presents information and lessons-learned (often the hard way…) for 8(a) companies seeking to evolve, grow, and exist after the nine-year lifespan of their 8(a) certification. The information presented here has been collected through direct interaction with the marketplace over more than a decade. During that time events, information, and experiences served as a relentless teacher of the realities of the 8(a) business environment. Throughout this experience, I was afforded opportunities to sit down with subject matter experts in the U.S. government, in academia, and in the commercial sector to ask a multitude of questions concerning the policy and practices of the 8(a) program. My central focus was to understand how to succeed as an 8(a) company evolving in the various small business programs administered by private and public sector institutions – especially those of the Small Business Administration. I also learned the importance of being in a position to thrive once an organization graduates from the 8(a) program and is sent out to compete among the largest, most skilled, and experienced organizations in the marketplace.

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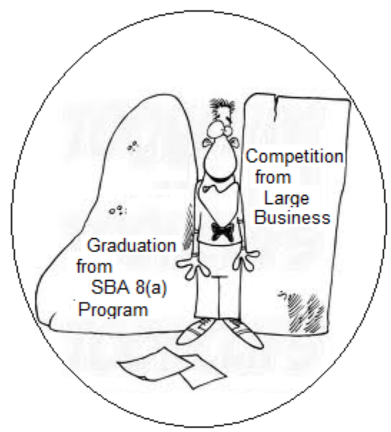
Introduction

Section 8(a) of the Small Business Investment Act of 1958 provides the basis for the “8(a) program”. In brief, the United States Congress established the Small Business Administration (SBA)’s 8(a) program to assist small, disadvantaged businesses in competing in the U.S. federal marketplace by providing selected, socio-economically vetted small businesses with special access to the Federal contract marketplace. The 8(a) program is designed to assist businesses “owned and controlled by socially and economically disadvantaged individuals”. The term “disadvantaged individual” is defined as those persons who are of historically socially and/or economically disadvantaged race, nationally, and/or gender. Companies seeking 8(a) designation must apply to the SBA and go through an extensive qualification, verification, and certification process.

At its core the 8(a) program helps disadvantaged companies by offering assistance to an eligible company for a period of nine years after acceptance into the program. Those companies certified as 8(a) will graduate from the program in one of two ways: (1) over a three-year period the company generates average annual revenues that exceed the small business size standard of its given North American Industry Classification System (NAICS) code or (2) the company’s period of certification in the 8(a) program runs the full course of nine years.

RWCO’s qualitative research, collected over multiple years and across multiple industrial sectors, suggests that many 8(a) firms operate within the SBA framework without a clearly delineated strategy for maximizing the benefits of the 8(a) program. Moreover, many 8(a) firms fail to use the full scope of resources and tools at their disposal; they adopt a passive approach to developing business and driving revenue growth. Obtaining 8(a) certification is a rigorous, time-consuming process that can leave a small business organizationally exhausted after the months or – in some cases – years that the process may take. RWCO notes that many companies feel they have crossed the finished line rather than realize that the 8(a) certification simply places them at the starting line.



It is far too common for companies that have recently graduated from the 8(a) program – or for businesses that are to graduate soon (their eligibility expires within 16 months) – to be unprepared for the competitive landscape they must face without the 8(a) program’s benefits. Companies soon find themselves in between a rock and a hard place: they are stripped of the protections and advantages of the 8(a) program, and they are forced to compete against very large companies in the full and open marketplace. Graduate 8(a) companies must go head to head with much larger, well entrenched rivals who often possess decades of contracting experience, an extensive market presence, and/or seemingly unending business development resources.

This reality is a very real concern and should be at the center of an 8(a) company's business strategy beginning the day it receives its 8(a) certification. Consider the following data:

- Approximately 60 percent of all 8(a) businesses are out of business after the nine-year period of acceptance into the 8(a) program.
- Approximately 70 percent of small businesses (national average) fail during a similar time span.[1]

One may argue that the resources, tools, and protections of the SBA exist to buy the 8(a) participant time to get its competitive house in order and that participation in the program does not provide any guarantee of longevity. The key to a successful 8(a) business is the same as the key to a successful small business or a viable large business: strategy, execution, and dedication. ***The SBA 8(a) program is a gateway to long-term success rather than a destination.***

The growth strategy presented in this White Paper reflects RWCO's experience over more than a decade of learning what works and what does not work, what useful tools and resources an 8(a) company must have, and what steps are necessary to access those tools and resources. The result of our knowledge and experience in the 8(a) arena is the construction of this strategy based on coordinating the three defined stages of an 8(a) company's lifecycle with four specific components that define the action items, goals, and objectives in each stage of an 8(a) company's operating life.

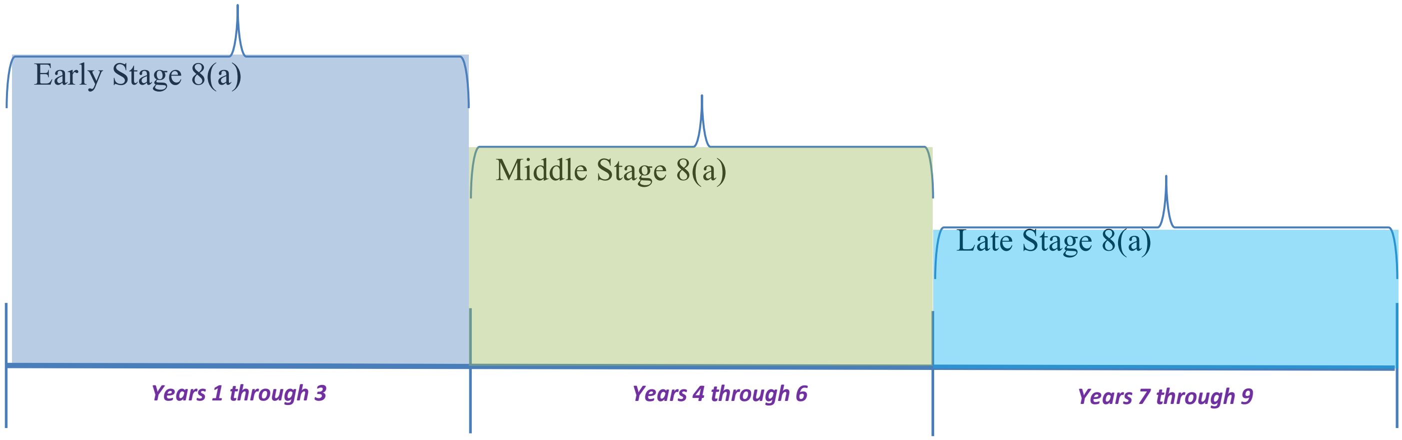
The Three Stages of an 8(a) Company's Lifecycle

To understand how to navigate the 8(a) program, with the intent of emerging from the program ready to compete against large businesses, an 8(a) company must understand where it currently is in the 8(a) lifecycle. Its position in the nine-year 8(a) window drives the various strategic options that will provide the greatest positive impact during the remaining 8(a) program time. A common dilemma among early-stage 8(a) companies is that they lack the resources and experiences to compete effectively in the 8(a) market, let alone worry about what to do upon graduation from the program nine years in the future.

Many late-stage 8(a) companies that are on the verge of graduation feel the need to secure as much 8(a) work as possible to buy time during their post-8(a) life. They wrongly believe that they can "figure it out later" when it comes to developing a growth strategy. This type of thinking fails to recognize that the various components at a company's disposal during the three stages of the 8(a) program lifecycle can be adjusted to position the company for a greater probability of success after graduation from the program.

The three distinct, three-year stages of a company's 8(a) lifecycle are shown in the chart on the following page.

[1] Los Angeles Business Journal, 2003. RWCO data collected from 2017-2018 suggests this finding remains accurate.



Core Activities

- Develop and participate on teams as prime and subcontractor
- Search for and team with large businesses
- Undertake dedicated "search letter" campaigns
- Ensure that 95 percent of all bids are for 8(a)/small business set asides
- Ensure that 5 percent of all bids are for full and open bids

Core Activities

- Develop/participate on teams as prime and subcontractor
- Find a large business mentor
- Form SBA Joint Ventures
- Undertake dedicated "search letter" campaigns
- Ensure that 75 percent of all bids are for 8(a)/small business set asides
- Ensure that 25 percent of all bids are for full and open bids

Core Activities

- Find early stage 8(a) participant partners
- Establish foundation for future Mentor position
- Team with large businesses
- Team with small businesses
- Subcontract portion of existing 8(a) portfolio
- Undertake dedicated "search letter" campaigns
- Ensure that 50 percent of all bids are for 8(a)/small business set asides
- Ensure that 50 percent of all bids are for full and open bids

Four Components of an 8(a) Company's Growth Strategy

RWCO has identified four components that are integral to a successful growth strategy for 8(a) companies over the short and long term. These components apply in varying degrees at varying stages of the 8(a) company's certification lifecycle (see "Three Stages" chart above). They ensure that an 8(a) participant obtains contract wins during the program, protects its contract portfolio during the later stages of 8(a) eligibility, and expands the reach of its 8(a) contract portfolio after graduation.
The four components of RWCO's 8(a) Growth Strategy are listed and discussed below.

- SBA Mentor/Protégé Program and the Formation of 8(a) Joint Ventures
- The SBA Search Letter
- Participation in Full and Open Competitions
- Extension of the 8(a) Reach After 8(a) Program Graduation

1. SBA Mentor/Protégé Program and the Formation of 8(a) Joint Ventures

For many 8(a) companies, 8(a) certification is riddled with new challenges. Issues such as infrastructure, start-up/contract transition financing (including the inability to garner significant lines of credit to float payroll during post contract award periods and contract transitions), limited capabilities, and limited past performance experience provide significant barriers to winning a contract as a prime contractor. A key strategy to mitigate the barriers of infrastructure, financial resources, capabilities, and past performance is to participate in the SBA's Mentor/Protégé program.

The Mentor/Protégé program and its benefits are summarized below. (This discussion does not include the separate issue of entering the Mentor/Protégé program).

- The 8(a) company and the mentor organization can form contract-specific, paper-based Joint Venture(s) based on an approval document from the SBA allowing the 8(a) company and the mentor organization to bid as a single organization, complete with one Joint Venture-assigned DUNS number and SAM.gov filing, for the purposes of a specific bid opportunity. This approval is provided in the form of an SBA letter authorizing the two parties to "form" a Joint Venture (JV) – using a JV agreement template provided by the SBA – that can respond to competitive 8(a) set aside opportunities.[2]

- Protégé companies gain access to additional capabilities and past performance qualifications through the capabilities of the mentor organization. That is, the past performance of the 8(a) company's Mentor becomes the past performance of the Protégé for purposes of the JV bids.

- The benefit to the Mentor is based on two basic features of the Mentor/Protégé JV: (1) the large Mentor business gains a business development opportunity in the set-aside environment without undertaking complicated teaming structures and (2) the large Mentor business is authorized, under the Mentor/Protégé program, to perform up to 60 percent of the work (on any JV projects).

The timing of forming a Mentor/Protégé relationship is crucial to the relationship reaching fruition. Because of the length of time involved in the application, evaluation, and approval process, seeking to become part of a Mentor/Protégé relationship too late in the 8(a) program lifecycle only results in failure.

The optimum time to begin the Mentor/Protégé process is in the Middle Stage of the 8(a) lifecycle (years 4 through 6). Under most circumstances the relationship should be initiated absolutely no later than two years before the 8(a) company's graduation from the program. Entering into a Mentor/Protégé relationship too early (in the Early Stage – years 1 through 3) may result in the 8(a) company becoming too dependent on the Mentor and not spending enough time and resources building its own infrastructure.

2. The SBA Search Letter

The SBA Search Letter is one of the most powerful tools available to an existing 8(a) company. The effective use of this tool, championed by an SBA Business Development Specialist, can be a game changer. While powerful, it is also labor intensive and is not used as much or as effectively as it should be. This is due, in part, to the overwhelming work load of many SBA-provided Business Development Specialists. If

[2] For more information, please see Code of Federal Regulations (CFR): 13 CFR 124.513.

an 8(a) company does not receive active support on its business development activities, including development of Search Letters, from its SBA-provided Business Development Specialist, it should request that any denial of services be sent to them via mail or email. This may be enough to elicit a positive response from the Business Development Specialist. If the company does not receive a reply, the next prudent step is to schedule a meeting with the SBA representative to present the request for a Search Letter support in person.

The Search Letter is a *formal request* by the SBA to a federal agency asking for cooperative efforts between the SBA and an agency in matching the agency's requirements with the capabilities of 8(a) firms to establish a basis for the agency to contract with the SBA's 8(a) program. [3]

Selection is initiated in one of three ways:

a) *The SBA advises an agency contracting activity, through a Search Letter, of an 8(a) firm's capabilities and asks the agency to identify acquisitions to support the firm's business plans.*

b) *The SBA identifies a specific requirement for a particular 8(a) firm and asks the agency contracting activity to offer the acquisition to the 8(a) Program for the firm(s.*

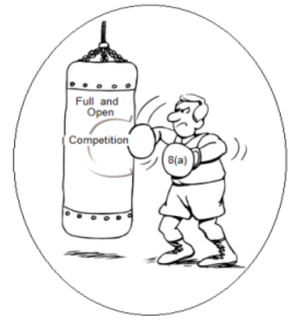
c) *Agencies may review other proposed acquisitions for the purpose of identifying requirements which may be offered to the SBA.*

A request for a Search Letter can be rejected by the SBA and/or an agency's OSBDU if the incumbent is a small business. The logic is that the SBA should not take potential business away from another small business. Although Search Letters can be a very powerful tool, there are few opportunities to generate them, and timing is everything. Search Letters are most successful toward the end of the Federal Government's fiscal year (ending September 30); however, it is highly recommended that an 8(a) company have a continual cycle of Search Letters over the entire year to provide maximum exposure to Search Letter-relevant opportunities.

More information on Search Letters can be found in the Federal Acquisition Regulations (FAR) Section 19.803.

[3] The SBA has access to a comprehensive listing of Federal contracts set to expire (sorted by time parameters) and by NAICS codes. Each Government agency provides a designated representative via the Agency's Office of Small Business Development and Utilization (OSBDU) to coordinate small business contract activities.

3. Participation in Full and Open Competition



All small businesses, regardless of socio-economic designation, are by definition resource constrained. Time, experience, operating history and money are all in relatively short supply when compared to larger, more-established businesses. Because of this, many 8(a) firms opt to compete only within the protected and limited "set-aside" environment. The 8(a) then is competing against similar businesses with similar challenges and resource constraints. However, in doing so, the 8(a) also is maintaining a false sense of security that does not serve them well after graduation from the program.

No business likes to lose competitive bids. Therefore, in the analysis of opportunities, 8(a) businesses tend to steer away from "full and open" procurements because the probability of losing – from limitations on experience, capital requirements, bid requirements, pricing capabilities, operating resources, and internal expertise – is greater than if the company simply competed within the 8(a) marketplace. However, 8(a) companies will garner valuable experience and have a real-time snapshot of how their business stacks up against other competitors outside of the 8(a) environment if they make calculated and controlled efforts to bid on full and open opportunities.

Bidding on full and open opportunities should be considered a training and development exercise with the upside of winning new business and at least garnering valuable full and open competitive awareness and experience; the downside is that the bid may be unsuccessful. The feedback from post-award debriefings will provide an unbiased appraisal of the company's strengths and weaknesses in comparison with larger businesses. For 8(a) firms that are relatively new to the 8(a) program, this knowledge – obtained in the comfort of 8(a) protection and well in advance of it being a life or death situation – enables the organization to focus on the business elements that are required to compete more effectively in the future. For soon-to-graduate 8(a) firms, the exercise will enable the company to accurately identify gaps in capabilities that may be addressed through near-term teaming.

4. Extension of 8(a) Reach After 8(a) Program Graduation

Many 8(a) companies are unprepared for life after graduating from the 8(a) program. Without the competitive protections provided to them by the 8(a) designation, these organization often enter the "full and open" marketplace in a position of weakness from a lack of robust/large scale past performance and limited economies of scale that enable more competitive, aggressive pricing.

The Mentor/Protégé program (discussed previously) is a proven vehicle for emerging and recently-graduated 8(a) business to use to buy more time. Consider this scenario: An 8(a) company, Graduate Co, that has existing 8(a) contracts, graduates from the 8(a) program. It then forms a Mentor/Protégé relationship with a company, Proto Co, that offers a similar service or product and that currently is in the 8(a) program. Ideally, the protégé company will be within the first stage of its development (refer the RWCO's Three Stages section).

Graduate Co then allocates various small pieces of its existing contract portfolio, preferably those that were awarded as an 8(a) preference, to Proto Co in the form of a subcontracting relationship. Now Graduate Co and Proto Co have accomplished the following:

- A Mentor/Protégé relationship.
- A foundation for constructing targeted, contract-specific Joint Ventures.
- An existing working relationship, through subcontracting, that is proven in a contract setting.
- Past performance (capabilities) between the Mentor and Protégé that are in alignment with each other.

The key benefit, however, is that Graduate Co has installed an 8(a) partner on an existing 8(a) set aside contract. Proto Co now will be in an incumbent position, thanks to Graduate Co, when the existing Graduate Co 8(a) work runs its contract lifecycle. Moreover, as part of the Mentor/Protégé program, Graduate Co (via a JV with Proto Co) will have an opportunity to perform up to 60 percent of the contract's value in next the generation procurement of that contract.

A key component of this strategy is for the graduating 8(a) company to identify a viable 8(a) participant well before graduating from the 8(a) program. Doing this while a current member of the program accelerates the process because, as an 8(a)-certified firm, a company has greater access to information, events, and resources in which they may be introduced to other 8(a) businesses. If the 8(a) business has recently graduated the program, the strategy is still viable but simply requires a greater investment of time to properly identify potential 8(a) protégé partners.

Using the strategy of Mentor/Protégé structures and Joint Ventures, the graduated 8(a) company can then bring onboard the new 8(a) partner as the protégé and provide work share opportunities. This increases the re-award profile substantially as the mentor and protégé provide the Government with a stable 8(a) option while mitigating transition and operational risk.

Summary

This White Paper serves as a growth strategy for companies currently operating within the 8(a) program. The four components of this strategy, discussed in the context of the three stages of 8(a) lifecycle, serve as core areas for an 8(a) company to consider while navigating the 8(a) marketplace and the post-8(a) competitive landscape.

About Richard Wagner & Company

Richard Wagner & Company (RWCO), a strategy and business development firm headquartered in the Washington, DC metropolitan region, was founded in 2009. The firm's mission is to help companies navigate the complicated and hyper-competitive process of winning business from federal/state/municipal governments, public-sector institutions, international organizations (non-governmental), foreign governments, and in regulated markets. Since its inception, the firm has established a track record of delivering value to clients large and small. For the year ending in December, 2014, RWCO clients enjoyed a win rate of more than 72 percent and had contract wins totaling more than $1.75 billion dollars.

Founder Richard Wagner currently serves as an independent consultant to emerging small businesses, 8(a) companies, and many industry-leading large businesses across diverse market sectors. Mr. Wagner has assisted more than 100 8(a) companies and small businesses navigate the competitive marketplace of public-sector contracts, and he has consulted with these companies to plan their growth strategy while in the 8(a) program and after graduation from it.

Mr. Wagner's expertise includes business development, marketing, public-sector opportunity capture, research, proposal development/management/writing, operations, and private equity/venture capital. He holds an undergraduate degree, with honors, from Mercyhurst University. He earned an MBA in Marketing and Finance and an MA in International Affairs from the American University (Washington, DC).