

Evaluation of the Small Business Procurement Goals Established in Section 15(g) of the Small Business Act: A Report Pursuant to Section 1631(d) of the National Defense Authorization Act of 2013

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Purpose

Each year, the U.S. Small Business Administration (SBA) negotiates goals with each federal agency for procurement from small businesses, as well as goals for important socioeconomic groups or sub-classes: women-owned small businesses, small disadvantaged businesses, small businesses located in historically underutilized business zones (HUBZones), and service-disabled veteran-owned small businesses.

The National Defense Authorization Act of 2013 (NDAA) contained modifications to the Small Business Act, and it called for an independent assessment of small business procurement goals. This assessment reports on:

- The industry, size, and socioeconomic makeup of federal prime contractors, subcontractors, and all domestic business concerns;
- The process of establishing specific procurement goals;
- The quality and availability of data on prime contracting and subcontracting; and
- Barriers within procurement practices that inhibit the maximum practicable utilization of small businesses and small business sub-classes in federal procurement.

The NDAA called for, to the extent practicable, coordination with the Department of Defense (DOD). While Advocacy did coordinate with DOD as required by the legislation, it did not clear the report with DOD, the SBA or any other agency, consistent with Advocacy's independence.

Overall Findings

- Procurement is highly concentrated in a few industries, and the small business procurement rate is relatively low in some of these industries (See Table 1.)
- Procurement rates for socioeconomic sub-classes of small business generally reflect patterns of small-business procurement rates. However, variations among industries and sub-classes make these patterns too complex to summarize briefly.
- Many industries with very low small-business procurement rates have an average share of potential small business contractors as measured by businesses registered in the System for Award Management (SAM).
- Shortfalls of small-business procurement dollars (relative to goals) tend to occur in industries with a high level of procurement, a very low small-business procurement rate, and a high concentration of procurement dollars going to a small number of firms.
- Setting procurement goals is a complex process. Procurement goals balance two criteria—a quantitative target (23 percent for the government as a whole) and a qualitative concept (maximum practicable opportunity of using small contractors).
- The SBA has recently introduced a methodology for estimating opportunity for expanding small-business procurement. The methodology addresses the difficulties of making direct inter-agency comparisons by first breaking procurement down by industry and agency office and then using national and agency procurement rates as benchmarks to estimate opportunities industry by industry. Table 2 shows the top industries in which each federal agency procures goods and services.

Highlights

- Over 80 percent of federal procurement is concentrated in four sectors: Construction; Professional, Scientific, and Technical Services; Administrative and Support, Waste Management and Remediation Services; and Manufacturing. The small-business procurement rate for FY 2012 was below the national goal of 23 percent in all but one of these sectors, Construction. (See Table 1.) Because of their size, increasing small-business procurement in these sectors is essential to improving the overall small-business procurement rate.

- The most serious underutilization of small businesses is not so much in the number of small businesses that are awarded contracts but in the relatively low levels of dollars awarded to small contractors.

- Generally speaking, higher small-business procurement rates tend to be associated with high registration rates in the System for Award Management (SAM, a national database of firms seeking to do business with the government). An anomaly arises when an industry has a high SAM registration rate and a low procurement rate. For example, veteran-owned small businesses have above-average SAM registration rates in Transportation and Housing, and Information; and service-disabled veteran-owned small businesses have above-average SAM registration rates in Wholesale Trade and Information. However, both groups have below-average procurement rates in these industries.

- The industries with the highest levels of procurement often are the industries where large contractors are most heavily concentrated and where the small-business procurement rate is very low. This concentration is a major factor in the failure to meet procurement goals.

- Progress toward meeting small-business procurement goals could be enhanced by an approach that does three things:

1. Fully examines the total value of prime contract awards, without exclusions. (Current data collection practices exclude certain kinds of procurement from the total on which the small business share is calculated.)

2. Adequately understands and considers inherent differences.

3. Refrains from adjusting size standards unless changes are required to reflect market conditions.

- The consolidation inherent in procurement today is problematic. For example, eight six-digit NAICS

industries have average small-business shares of contractors and account for 40.1 percent of procurement, yet these industries have a collective small-business procurement rate of 11.8 percent. This shortfall from the national goal of 23 percent equates in dollar terms to \$22.8 billion during FY 2012.

- Industries with higher small-business procurement rates tend to have more small-business contractors. And those with high small-business procurement rates are smaller markets, averaging less than two-thirds the procurement of industries with low or intermediate procurement rates.

- The majority of procurement dollars are in industries with very low small-business procurement rates, but the potential for expanding small business procurement may lie in industries that are above the 23 percent goal. Market research is necessary to identify fruitful opportunities and match small businesses with them.

- Inadequate market research is a major barrier to small-business procurement. Good market research is essential to determine whether and where small business capabilities match procurement requirements. This is true for all industries, but the need is particularly acute in industries with high concentrations of procurements from large firms. The goal of market research in these industries would be to analyze large contracts and break off pieces that would be suitable for small contractors to compete for.

- Subcontracting is another way for small businesses, including those in socioeconomic sub-classes, to participate in federal procurement. Small business and sub-class procurement goals also extend to subcontracting by large prime contractors. However, industry data on small and sub-class business subcontractors are not available. Collecting such data may require new legislation.

- An increase in the government-wide goal should not be considered until the current goal has been achieved more than once. (Advocacy notes that any change in the government-wide goal would result in SBA's re-examining individual goals for each agency.)

Methodology

The study relies on data from the Federal Procurement Data System-Next Generation (FPDS-NG) and the System for Award Management (SAM). Data were transformed into measures (counts and percentages) of the involvement of businesses that

Table 1. Federal Procurement by Sector, FY 2012

NAICS	Sector	All Procurement (\$1,000)	Small Business Procurement (\$1,000)	Small Business Share (%)
31-33	Manufacturing	\$197,552,121	\$23,036,883	11.7
54	Professional, Scientific and Technical Services	\$141,155,310	\$31,748,665	22.5
56	Admin. and Support, Waste Mgmt. and Remediation	\$43,086,067	\$9,175,501	21.3
23	Construction	\$35,438,556	\$15,861,614	44.8
42	Wholesale Trade	\$21,972,047	\$6,043,615	27.5
48-49	Transportation and Warehousing	\$17,691,430	\$3,167,692	17.9
52	Finance and Insurance	\$14,053,064	\$334,182	2.4
51	Information	\$11,616,152	\$2,684,146	23.1
62	Health Care and Social Assistance	\$6,913,478	\$2,188,050	31.6
61	Educational Services	\$5,696,328	\$1,366,983	24.0
44-45	Retail Trade	\$3,874,977	\$1,603,754	41.4
81	Other Services	\$3,688,231	\$826,632	22.4
22	Utilities	\$2,448,202	\$138,221	5.6
53	Real Estate and Rental and Leasing	\$1,605,089	\$520,720	32.4
72	Accommodation and Food Services	\$1,367,222	\$289,799	21.2
11	Agriculture, Forestry, Fishing and Hunting	\$459,608	\$321,433	69.9
21	Mining, Quarrying, and Oil & Gas Extraction	\$222,497	\$93,557	42.0
71	Arts, Entertainment, and Recreation	\$73,649	\$50,729	68.9
55	Management of Companies and Enterprises	\$715	\$70	9.9

Source: Microeconomic Analysis, Inc., *Evaluation of the Small Business Procurement Goals Established in Section 15(g) of the Small Business Act*, U.S. Small Business Administration, Office of Advocacy. Based on data from the Federal Procurement Data System-Next Generation. May 2014

Table 2: Procurement Spending and Industry Shares by Agency, FY2012

Agency	Small Business Procurement Goal (%)	Total FY 2012 Dollars (\$million)	Share of Agency Procurement Spending (%)				
			Construction	Manufacturing	Professional, Scientific, and Technical	Administrative and Support	Other Industries
Agency for International Development	11.0	3,359	0.8		99.1	0.1	0.0003 ^a
Agriculture, Department of	53.5	758	6.5	0.9	88.5	4.1	0.0040 ^b
Commerce, Department of	39.0	1,233	1.1	1.8	90.6	6.5	0.0002 ^b
Defense, Department of	22.5	239,902	6.5	52.8	30.9	4.6	5.1464 ^c
Education, Department of	18.5	248			99.7	0.3	e
Energy, Department of	10.0	16,588		d	47.3	52.6	e
Health And Human Services, Department of	20.5	8,015	1.7	0.3	74.8	8.0	15.2359 ^c
Homeland Security, Department of	32.0	5,175	4.1	24.8	61.4	9.6	0.0014 ^b
Housing and Urban Development, Department of	37.0	331			99.0	1.0	e
Interior, Department of the	51.5	1,487	13.6	1.6	81.0	3.9	0.0032 ^c
Justice, Department of	29.0	2,117	1.8	1.3	80.3	11.0	5.6418 ^c
Labor, Department of	33.5	434	7.0	0.1	91.7	1.1	e
State, Department of	35.0	3,534	40.9	9.8	38.5	10.0	0.7038 ^c
Transportation, Department of	38.0	3,192	3.9	11.7	80.6	3.8	0.0009 ^a
Treasury, Department of the	32.0	1,421	2.1	d	95.0	2.8	0.0727 ^a
Veteran's Affairs, Department of	34.0	7,200	29.7	0.1	29.5	0.5	40.2659 ^a
Environmental Protection Agency	42.0	420	5.2	0.2	89.5	5.2	e
General Services Administration	30.0	5,020	24.2	0.2	67.3	8.2	0.0008 ^b
National Aeronautics and Space Administration	15.2	11,432	0.8	21.3	71.8	6.2	e
National Science Foundation	20.0	389	0.1		56.8	43.1	e
Nuclear Regulatory Commission	29.0	84	3.2	d	95.4	1.3	e
Office of Personnel Management	19.5	133	4.4		92.3	3.3	e
Small Business Administration	67.0	65	0.3		99.3	0.4	e
Social Security Administration	32.0	430	1.5	d	92.1	6.3	e

Source: Office of Advocacy calculations based on goaling data and agency goals supplied by the U.S. Small Business Administration. See www.sba.gov/content/small-business-goaling.

a. Finance and insurance. b. Wholesale trade. c. Finance and insurance and wholesale trade. d. Agency's share of procurement in this industry is less than 0.05 percent. e. Agency has no procurement in other industries.

are small or in socioeconomic sub-classes of small businesses at different stages of procurement.

Subcontracting data from the electronic Subcontracting Reporting System (eSRS) were examined, but they do not include the necessary industry data. The data sources used had several limitations. FPDS-NG was the only data set with easy access adequate for research, however these data contain internal inconsistencies in their reporting detail. In addition, the FPDS design makes it difficult to distinguish individual small contracts from task orders on multiple task or delivery order contracts.

As a result of limitations on the data available for the present study, the author made three recommendations for improvement:

1. Consider adding a consistent contract identification variable to FPDS-NG,
2. Authorize the collection of industry data on subcontractors, and
3. Improve quality control of FPDS-NG data.

This report was peer-reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research by email at advocacy@sba.gov or by phone at (202) 205-6533.

Additional Information

This report is available on the Office of Advocacy's website at www.sba.gov/advocacy/7540. To receive email notices of new Advocacy research, news releases, regulatory communications, publications, and the latest issue of *The Small Business Advocate* newsletter, visit www.sba.gov/updates and subscribe to the Small Business Regulation & Research Listservs.