Examining Small Business Set Asides: Evidence and Implications for Small and Mid-sized Suppliers in Federal Procurement

Trevor Brown & Amanda Girth
15th Annual Acquisition Research Research Symposium
May 9-10, 2018
Research Motivation

• Supply-side of federal acquisition

• Small business and *not* small business

• “Benefit cliff” for small businesses growing to the middle market
Research Questions

- Is there a small business set aside “benefit cliff”?  
- What explains firm behavior around the cliff?  
- What factors contribute to successful transition to the “middle market”?  
- What policy tools optimize the balance between securing value and equal opportunity?
Conflicting Goals

• Provide competitive marketplace for small businesses
  – Created sheltered market
  – Established agency goals for set asides

• Foster economic growth
Research Design

1. Track the performance of 977 suppliers over a 10-year period (FY2005-FY2014)
   - Random selection of firms with SB set aside contract action in 2005
   - Stratified 60% w/DOD
   - Mix of products and services

2. Interviews
   - Small businesses
   - Mid-sized suppliers
   - Federal acquisition officials

Data Sources: FPDS-NG and Dun & Bradstreet
   - Aggregate FPDS-NG data
   - D&B annually reported

Unit of analysis: Supplier/year

Descriptive method
## Contracting Patterns

<table>
<thead>
<tr>
<th>Description of supplier activity</th>
<th>Number of suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract activity for all years</td>
<td>303</td>
</tr>
<tr>
<td>One year with no contract activity</td>
<td>71</td>
</tr>
<tr>
<td>Two or more continuous years with no contract activity</td>
<td>312</td>
</tr>
<tr>
<td>Irregular contract activity</td>
<td>291</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>977</strong></td>
</tr>
</tbody>
</table>
From 2005 to 2014

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Value in 2005</th>
<th>Value in 2014</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms with contract action</td>
<td>914</td>
<td>424</td>
<td>-54%</td>
</tr>
<tr>
<td>Number of contract actions (mean)</td>
<td>21</td>
<td>40</td>
<td>90%</td>
</tr>
<tr>
<td>Percent of set aside contract actions</td>
<td>68%</td>
<td>44%</td>
<td>-35%</td>
</tr>
<tr>
<td>Diversity in number of PSCs (mean)</td>
<td>2.32</td>
<td>2.96</td>
<td>28%</td>
</tr>
<tr>
<td>Diversity in number of agency customers (mean)</td>
<td>1.67</td>
<td>2.78</td>
<td>66%</td>
</tr>
</tbody>
</table>
Number of Contract Actions

- Services
- Manufacturing
- Transportation
- Wholesale trade
- Retail trade
- Finance
- Construction

2005 and 2014 data comparison
Number of Agencies

- Services
- Manufacturing
- Transportation
- Wholesale trade
- Retail trade
- Finance
- Construction

Comparison between 2005 and 2014.
Discussion & Implications

- SBA focus on the smallest of the smalls
- Meeting one policy goal (sheltered competition) but not growth goal

- Options:
  - Extending the lookback to 5 years
  - Creating unique vehicles for mid-sized suppliers
  - Recognize, encourage mid-tier partners in subcontracting plans

- House Small Business Committee seeking legislative remedy
Acknowledgement of Support

This material is based upon work supported by the Naval Postgraduate School Acquisition Research Program under Grant No. N00244-16-1-0049. The views expressed in written materials or publications, and/or made by speakers, moderators, and presenters, do not necessarily reflect the official policies of the Naval Postgraduate School nor does mention of trade names, commercial practices, or organizations imply endorsement by the U.S. Government.

Brown and Girth are Fellows of the National Center for the Middle Market at the Fisher College of Business, OSU, and acknowledge the Center’s support for this research.