### Do mid-tier companies need a helping hand?

* **By** [Matthew Weigelt](http://washingtontechnology.com/forms/emailtoauthor.aspx?AuthorItem=%7b677B4E4C-11D9-4F02-8664-CA06358939E6%7d&ArticleItem=%7bDF0B934E-FB09-4DDE-A87B-C96C8223D4AA%7d)
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A new industry group is attempting to warn growing small businesses of the cliff they’re approaching as they graduate from federal contract set-aside programs.

Mid-Tier Advocacy (MTA) is a new group of industry executives devised from roughly 18 mid-size companies and small firms that are on the cusp of outgrowing the small-business size threshold. The group’s main concern is whether most small firms are fully prepared to survive in the marketplace without set-aside contracts. A large contract can push a small IT firm beyond the threshold, even though it may not be ready to compete against major corporations.

“Once they’re in the full-and-open competition world, it’s an entirely different environment,” said Tonya Speed, executive director of MTA.

In small-business programs, the government is helping small contractors get acquainted with the federal marketplace and build up the necessary infrastructure to meet regulations, such as accounting standards. Set-aside programs, which lets small companies compete against similarly sized firms, are working as intended.

But MTA doesn’t believe all the companies that graduate are ready for the larger market. Small firms thrive in the set-aside programs, “only to exit and then crash and burn,” Speed said.

The group is trying to drum up support in Congress for legislation that would create a pilot program to give recent small-business grads and mid-tier companies a stepping stone into the world of full-and-open competition.

The program would allow agencies to set aside contracts for mid-size companies, if those companies are mentors to small businesses and have fewer than 1,500 employees. An agency could only award a contract under the program if the contract would not likely be awarded to a small business. The Small Business Growth Act (H.R. 1812) was introduced in March by Rep. Gerry Connolly (D-Va.) and was referred to the Oversight and Government Reform Committee.

The House Small Business Committee will look into the issue of a program for mid-tier companies as well as Connolly’s bill at a hearing Sept. 14. The hearing will analyze the worth of a medium-sized business program and its effects on small businesses.

“In this case, this analysis is especially important, since even with the best of intentions, small businesses may be inadvertently harmed by the creation of a mid-size business program,” Committee Chairman Rep. Sam Graves (R-Mo.) said.

Speed believes the proposed pilot program would protect the government’s investment in small business. The midsize companies are a key element to a well-rounded federal marketplace and even the economy overall, Speed said. The companies are apt to hire more people than small businesses and are often more agile than big corporations. They also have more resources than small firms. She said small businesses are good at inventing products and services, while the medium-size companies are required for the innovation aspect, such as taking new products and services to a mass market.

“A small company does not possess the capacity to truly leverage the economic benefits of an invention. It needs to grow in order to do that. If it cannot grow, innovation is being stifled,” she said.

Still mid-sized firms have faced trouble in contracting through the decades. A 2009 report from Center for Strategic and International Studies said the distribution of contract dollars has squeezed out mid-tier companies. The large contractors continue to merge and acquire smaller companies and the small business have received more attention with the annual contracting goals.

CSIS wrote that middle-tier companies captured 44 percent of the total value of federal professional services contracts in 1995. By 2005, the middle-tier companies were able to capture only 35 percent of that value, and only 33 percent by 2007.

Bill Jaffe, general manager and business strategist for TAPE LLC, said his company has had to scramble to prepare itself for the plunge into the full-and-open marketplace that will happen by the end of 2012, which is six years since its launch. TAPE, which stands for Technical and Project Engineering, won an Army contract in 2007 that almost pushed it to the edge of the size threshold. It’s [No. 25](http://washingtontechnology.com/fast50lists/fast-50-lists/2011/technical-and-project-engineering.aspx) on Washington Technology’s [2011 Fast 50 list](http://washingtontechnology.com/fast50lists/fast-50-lists/2011.aspx), with a 95.58 percent annual growth rate.

TAPE has had to quickly spread its areas of expertise in preparation. Jaffe said companies like his need some more support from government.

“None of us is looking for a forever guarantee of success,” he said. “We just want steps into the full-and-open market, instead of a cliff.”

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### Going from 'small' to 'other than small' is too big?

Small companies can win big contracts for work they are quite capable of handling. However, that one contract can rocket those companies out of the small-business set-aside programs that are designed ease them into the bigger, tougher market.

Bill Jaffe, general manager of TAPE LLC, a service-disabled veteran-owned, woman-owned small engineering firm, said the 8-year-old company will have crossed the threshold into the full-and-open competition marketplace by December. The firm had a 233 percent annual growth rate in 2008 and 95.58 percent rate in 2010. TAPE earned $1.5 million in 2006 and $16.6 million in 2008. In 2010, the firm brought in $21.6 million in revenues. Now it will face off against the biggest worldwide contractors such as Lockheed Martin and Northrop Grumman.

Jaffe is confident in his company's success to come because it has been preparing itself by broadening its services and expertise.

“Companies do go through the process and survive,” Jaffe said, “but many of them do not survive.”

Jaffe, is one of the leaders of a new industry group that promotes mid-tier companies in a tightening market. The Group, Mid-Tier Advocacy wants to bring attention to companies that are too big to be small, yet too small to be big.

It is bringing attention to a possible pilot program that would help in the transition from the small-business set-aside program to the broader market.

The situation of midsize companies highlights several important questions, including:

* At what point does a company need to grow up and face the realities of the federal marketplace?
* Should agencies avoid awarding large contracts to small businesses if a contract would rocket a firm out of the set-aside program too quickly?

These questions might get some attention. The House Small Business Committee has scheduled a hearing on Sept. 14 to consider a proposed pilot program to aid midtier companies and how it might affect the small businesses that set-asides were intended for.

Posted by **Matthew Weigelt** on Sep 12, 2011 at 10:07 AM

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* **By**[**Matthew Weigelt**](http://washingtontechnology.com/forms/emailtoauthor.aspx?AuthorItem=%7b677B4E4C-11D9-4F02-8664-CA06358939E6%7d&ArticleItem=%7bB13762B0-9664-463A-BF0A-AC59BDFA8041%7d)
* **Jun 28, 2010**

For a long time, Kim Nguyen has felt a growing pressure in the federal information technology marketplace, and there’s been no let-up.

Pragmatics Inc., where Nguyen is vice president of special programs, has developed into a successful, midsize IT company with annual revenues reaching $145 million. However, it’s stuck between two strong and growing forces in the marketplace: Small businesses and big corporations. He said he fears the effect on his business and other companies that are similar in size, which, experts say, is a key component of a well-balanced market. Nevertheless, experts also foresee little chance of change.

Pragmatics’ annual revenues have increased beyond the federal government’s $25 million revenue threshold for small businesses. At the same time, its revenues are nowhere near the annual revenue of the top IT corporations. In that position, he said he’s being pinched out.

“The government is best served by having a spectrum of business in the industrial base,” Nguyen said.

On one side, government officials are pushing agencies to break up large bundled contracts and award more individual contracts that are set aside solely for small business. Some policy-makers even have proposed boosting the overall federal small-business contracting goal from 23 percent to 30 percent.

In fiscal 2008, agencies spent $93.3 billion with small companies, an increase of nearly $10 billion since 2007. That dollar amount represented 21.5 percent of total contract spending that officials are driving agencies toward.

Meanwhile, the top 10 federal IT integrators gathered $71.3 billion in fiscal 2009, while the Top 100 IT companies received a total of $129.9 billion in prime contracts, according to Washington Technology’s 2010 Top 100 list. In fiscal 2008, the government awarded $119.6 billion in prime contracts to the Top 100 companies, $68.5 billion going to the top 10 companies, based on WT’s 2009 Top 100 list.

Looking more broadly, middle-tier companies received 44 percent of the total value of federal professional services contracts in 1995. By 2004, though, the midtier companies got only 29 percent of that value, according to a 2006 report from the Center for Strategic and International Studies.

Business executives and groups, such as the Professional Services Council, have talked to policy-makers and various congressional committees. Government officials have listened to the concerns, but nothing has happened.

In a statement, the Small Business Administration said it’s not an issue that falls under its jurisdiction.

Executives with midtier companies and their supporters have proposed reviewing the small-business size standard or expanding the North American Industrial Classification System code for IT services. Some have proposed that federal officials create a particular code specifically for government contracting because it’s a much different world than the private sector.

Executives know their situation, though.

“The chances of anything happening about this are very small and would take a lot of time,” even though it's a major concern, said Shiv Krishnan, president and CEO of Indus Corp.

Stan Soloway, president of the Professional Services Council, said that although new policies might not come, the government can do some smart, logical things to help the midtier companies thrive. He suggested that contracting officers keep a market perspective as they make awards. They need to understand how their decisions can have deep effects on the market.

For instance, task orders placed against multiple-award contracts can decrease opportunities for midtier companies, Soloway said. As agencies continue to turn to task orders, the largest companies tend to bid on more of them, while in the past, they would have been less likely to invest in them. Furthermore, agencies demand more from companies that want a place on a multiple-award contract. Agencies expect a lot of expertise in a wide range of areas. Midtier companies are expected to have the resources that the large companies have to compete, he said.

Overall though, the system isn’t collapsing, but the concerns will linger, Soloway said.

Companies that are growing into midsize companies can make it, experts said, but they need to prepare now. To survive as a business in the middle, executives must think beyond their company's size.

“You cannot have ‘set-aside thinking,’ which is one of the most important things, but the hardest to do,” said Barry Kane, president of Catapult Technology Ltd.

Randy Slager, founder, chairman and CEO of Catapult Technology, said he recognized in the late 1990s that his service-disabled, veteran-owned small business wouldn’t be the same size forever. And he began thinking differently about how it should operate. Four years ago, he brought in Kane, a business leader who had helped other companies grow. Catapult Technology has just graduated from SBA’s 8(a) business development program.

As companies grow, Nguyen said, they need strong employees who understand what's happening and are able to adapt to inevitable changes.

Small businesses that expect to get beyond the $25 million small-business threshold should begin setting themselves up to operate like a larger company. Employees need training. Back-office functions need to be up-to-date and paperless. The company also needs a quality human resources system, so the office runs smoothly as the company hires more people, Kane said.

Small businesses also have to bid for larger contracts to build a record of past performance, Kane said. A small business can prove its capabilities by winning those larger contracts, including getting awards that weren’t set aside solely for small businesses, he said.

Companies — small, large or otherwise — need to be prepared to do their work well, because after a contract is awarded, agency officials aren’t concerned about a business’ size. They want quality work.

“It’s not about being a small business,” Krishnan said. “They don’t cut you any slack if you don’t perform well.”

Krishnan said companies need to be ready for increased oversight when they win a large contract. More regulations come with those awards, he said.

Companies should also prepare for the procurement cliff, as Krishnan described it. He said that once a company has outgrown the small-business size, the set-aside benefits end.

"They take companies to the top of a mountain and to the edge of the cliff," he said. "Then they let them go."

Despite the unlikely chances for change, Nguyen said he will keep advocating for midtier companies. He said he wants officials to understand their investments in companies over the years.

“The federal government invested in these companies literally,” he said. “But it isn’t truly getting the benefits.