
With Fewer, Larger Federal Contracts, Small Companies Await New Government Policies

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Federal agencies are struggling to address a trend that has led to fewer, larger government contracts, with fewer awards to small businesses and more work funneled to larger, long-standing contractors. This trend toward “bundling” of federal contracts has emerged as a major policy issue, as small contractors are looking more toward subcontracting opportunities.

As the world’s biggest customer for products and services, the federal government awards over \$200 billion in contracts each year. In fiscal year 2001, federal agencies awarded contracts worth \$234.9 billion in 11.4 million “[contract actions](#),” according to the General Services Administration.

Federal law requires agencies to enable small businesses to compete for U.S. government business by (1) structuring contract requirements to facilitate competition by small businesses and (2) avoiding unnecessary “bundling” of contract requirements into larger contracts that are out of reach for small companies.

Despite the general policy against bundling, federal agencies in recent years have increasingly engaged in the practice, leading to fewer, larger, longer-lasting contracts, with fewer direct contracting opportunities for small companies. The Office of Federal Procurement Policy found that the total number of contract awards fell by more than half from 1990 to 2001, and the number of small businesses receiving new contract awards fell from over 26,000 in 1991 to fewer than 11,700 in 2001. Meanwhile, supplemental “[follow on](#)” [orders under existing contracts](#) tripled from 1990 to 2001. Part of this shift can be attributed to the rapid growth in new federal contracting techniques that are more susceptible to bundling, such as multi-agency and multiple-award schedule contracts from which various federal agencies may order from online catalogs without conducting extensive competitions and with only minimal regulatory oversight.

With fewer, larger contracts for federal government projects, small companies are increasingly seeking subcontract work from larger contractors. These prime contractors are encouraged to seek small business subcontractors, and many are required to adopt written small business subcontracting plans. The Small Business Administration’s “[Sub-Net](#)” is an online search tool for locating subcontracting opportunities by industry. Prime contractors receiving federal agency contract awards are identified online at [FedBizOpps.gov](#).

To combat the erosion of small business contracting opportunities, the Small Business Administration and the agencies responsible for federal acquisition policies have [proposed a multi-step plan](#) to prevent bundling of contract requirements. If adopted as proposed, the new rules would impose the following procedures:

- Proposed acquisitions exceeding a threshold dollar value would be reviewed for unjustified bundling by the agency's Office for Small and Disadvantaged Business Utilization. The proposed thresholds are \$7 million for Defense Department acquisitions, \$5 million for NASA and \$2 million for other agencies.
- Individual delivery orders would be treated as "contracts" for purposes of the anti-bundling rules, so that large orders under long-standing schedule contracts are subjected to review.
- When an agency proposes to bundle contract requirements, the bundling must be explained and justified in writing.
- Agency Offices of Small and Disadvantaged Business Utilization would be required to periodically review their agency's success in preventing bundling and promoting small business contracting opportunities.
- Agencies would be required to assess large contractors' efforts to award subcontracts to small companies.

The proposed approach, which relies on additional administrative oversight to combat bundling, has been criticized as an unnecessary new bureaucratic step that will add administrative costs without assuring that more contracts will be awarded to small companies. The agencies are now considering public comments on the proposal as they prepare a final bundling rule. Meanwhile, the government has revealed that the problem may be even worse than previously reported. The General Accounting Office reported in May 2003 that the GSA data on small business contract awards overstates the involvement of small businesses in federal contracts. [\[GAO-03-704T\]](#) Of \$1.1 billion in federal contracts actually awarded to five large government contractors, the GAO found that \$460 million was reported as small business awards. The GAO stated that many awards were misreported because growing companies have not been required to re-certify as small businesses during the performance of multi-year agreements or due to "errors made by contracting officials about business size." To address this problem, agencies have begun to require contractors to re-certify their small business status annually or when optional contract extensions are exercised.

Federal government work continues to offer significant opportunities for small companies. However, the consolidation of major contractors, the growth of multi-agency long-term contracts and the continuing trend toward contract bundling have reduced the number of direct awards to small businesses. As a result, more government contracting dollars may be found in subcontracting opportunities.

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policies and procedures relating to federal agency contracting, including the impact of federal acquisition policies on subcontractors performing work under federal programs. To learn more, contact [Barry Hurewitz](#)

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