

Small Business Success Stories

Material Enterprise Small Business Conference

Transitioning from an 8(a) Small
& Disadvantaged Business to an
Full & Open Competitor

Tools to Leverage for Success



Agenda

- Identifying the four critical stages of development
- Leveraging tools to successfully transition into a full & open competitor
 - Mergers & Acquisition
 - Small Business Innovative Research (SBIR) Grants
 - Mentor Protégé Agreements & Joint Ventures

Preparing to Compete

Stages of Development

- Launch
- Expansion
- Professionalism
- (Transition)
- Graduation



Preparing to Compete: Stages and Strategies

First Four Stages of Organizational Growth

Stage	Description	Critical Development Areas	Approximate Size (in sales)	
			Manufacturing Firms	Service Firms
I	New Venture	Market and Products	Less than \$1 Million	Less than \$0.3 Million
II	Expansion	Resources and Operational Systems	\$1 - \$10 Million	\$0.3 - \$3.3 Million
III	Professionalization	Management Systems	\$10 - \$100 Million	\$3.3 - \$33 Million
IV	Graduation	Corporate Culture	\$100 - \$500 Million	\$33 - \$167 Million

Preparing to Compete: Stages & Strategies (Cont'd)

- **Stage I: New Venture**

- Typically occurs from the time an organization has virtually no sales until it reaches approximately \$1 million in annual sales
- During this stage, its greatest emphasis should be on defining (un served) markets & developing products/solutions
- Survival is the major problem
- SDBs tend to be very opportunistic at this stage & take whatever they can get, regardless of competencies

Preparing to Compete: Stages & Strategies (Cont'd)

- **Optimus Corporation “Core Competencies” FY 2000**
 - Administrative Support Services **(2)**
 - Call Centers **(4)**
 - Circuit Board Design **(1)**
 - Communication Systems (SATCOM, Microwave Data Links) **(3)**
 - Document Imaging/Scanning Services **(3)**
 - Expert Witness Support **(3)**
 - Facilities Management **(1)**
 - Graphics & Desktop Publishing **(1)**
 - Help Desk Services **(2)**
 - Information Technology/Enterprise Architecture Services **(0)**
 - Network Operations Centers **(2)**
 - Software Development **(4)**
 - System Integration **(5)**
 - Test & Evaluation Support **(1)**

Preparing to Compete: Stages & Strategies (Cont'd)

- **Optimus Corporation Customers FY 2000**
 - CONNECTIV **(1)**
 - Ballistic Missile Defense Organization **(1)**
 - Coast Guard **(1)**
 - Defense Information Systems Agency **(1)**
 - Department of State **(1)**
 - Environmental Protection Agency **(5)**
 - Federal Aviation Administration **(7)**
 - Housing and Urban Development **(3)**
 - National Aeronautics & Space Administration **(2)**
 - National Labor Relations Board **(1)**
 - Nuclear Regulatory Commission **(1)**
 - Office of the Secretary of Defense **(1)**
 - Random Law Firm **(1)**
 - U.S. Navy **(3)**
 - Volpe National Transportation Center **(1)**

- **Optimus Corporation Revenues FY 2000**
 - Federal Aviation Administration **(46 percent)**
 - National Labor Relations Board **(36 Percent)**
 - All Others **(18 Percent)**

Compare the following statements:

a) We selected CSTI because they are 8(a) certified and are doing similar work for the Navy.

VS.

a) We selected CSTI because their Gizmopro Supply Chain System reduces property management costs by 13 percent. These results were documented by the Navy.

Preparing to Compete: Stages & Strategies (Cont'd)

Customer Segmentation Targeting Strategic Markets

Frame the Pursuit

■ Identify Customer Organizations

- Key Economic Buyer
- Key Technical Buyer
- Contractual Buyer
- Evaluation Panel Members
- Advocates (SADBU's, OSDBUs, SBA)

Sector	Match	Pursuit Indication	Recommended Action
1	Similar product/ Similar market	Strong	Know product, market and customer. Focus on competition.
2	Similar product/ New market	Caution	Learn the market. Establish your company in the market before focusing on the competition.
3	New product/ Similar market	Caution	Make sure you have a product to meet the need of your customer base, then focus on the competition.
4	New product/ New market	Weak/ Success Unlikely	Drop. If you pursue, it will require a detailed plan and far more resources than leads in sectors 1, 2, and 3.

Repeatability and replication by identifying prospects with similar characteristics
(Demographics, Users, Buyers, Needs, Priorities, Value Provided by Solutions)

Preparing to Compete: Stages & Strategies (Cont'd)

- **Stage II: Expansion**

- Organizations that successfully complete stage I will enter into stage II
- The major problem is growth rather than survival
- Normally involves rapid expansion (sales, revenue, & number of employees)
- Resources are usually stretched to the limit
- Day to day operational systems for recruiting, BD, service delivery, purchasing accounting, collections, information, & payables are nearly overwhelmed

Preparing to Compete: Stages & Strategies (Cont'd)

- **Stage II: Expansion (Problems Accumulate)**
 - Managers receive new projects, only to learn that Bid & Proposal made promises that cannot be delivered
 - A precipitous drop in quality occurs, for unknown reasons
 - Corporate IT system crashes frequently, leaving users without access to valuable information, basically shutting the company down for hours or sometimes days
 - Turnover increases sharply just as the company needs more personnel
 - Missing letters, files, & reports cause confusion, loss of time, & embarrassment

Preparing to Compete: Stages & Strategies (Cont'd)

- **Stage II: Expansion (Problems Accumulate)**
 - One supplier's invoices are paid two & three times, while another supplier has not been paid in months
 - A/R aging increases & no one is tracking
 - Open positions on contract go unfilled for months
 - We win proposals & don't know why & lose proposals that we should have won

New Leadership is Needed Before Transitioning to Stage III

- **Stage III: Professionalization**
 - At some point during the period of growth, management realizes (or ought to) that a need for qualitative change in the firm has come
 - Up to this point, everything has been largely informal
 - The firm lacked well defined goals, responsibilities, plans, or controls
 - Formal appraisal systems are needed & people who manage need to change their skills

Preparing to Compete: Stages & Strategies (Cont'd)

Comparison of Professional Management and Entrepreneurial Management

Key Result Areas	Professional Management	Entrepreneurial Management
Profit	Profit orientation, with profit an explicit goal	Profit seen as a by-product
Planning	Formal, systematic planning <ul style="list-style-type: none">▪ Strategic planning▪ Operational planning▪ Contingency planning	Informal, ad hoc planning
Organization	Formal, explicit role descriptions that are mutually exclusive and exhaustive	Informal structure with overlapping and undefined responsibilities
Control	Formal, planned system of organizational control, including explicit objectives, targets, measures, evaluations, and rewards	Partial, ad hoc control; seldom uses formal measurement
Management Development	Planned management development: <ul style="list-style-type: none">▪ Identification of requirements▪ Design of programs	Ad hoc development, principally through on-the-job training
Budgeting	Management by standards and variances	Budget not explicit; no follow up on variances

Preparing to Compete: Stages & Strategies (Cont'd)

- **Keys to a Successful Stage III Firm**
 - The ability to plan & develop strategy
 - The ability to develop an appropriate organizational structure & controls
 - Ideal time for CMMi/ISO/ITL/PMI/PMP/Six Sigma initiatives

**Identifying New Leadership and Developing a Manager
Farming System is Vital**

Preparing to Compete: Stages & Strategies (Cont'd)

- **A Note About Management Development**

- Many SDBs ignore this important step & simply promote the “doers” & the “firefighters,” or get caught in the “savior syndrome.”
- However, without proper training:
 - Doers continue to do & don't effectively delegate. This creates more problems than it solves (role confusion, time management, personnel evaluation),
 - And some Firefighters become arsonists!



Preparing to Compete: Stages & Strategies (Cont'd)

- **Stage IV: Graduation & Consolidation**
 - Less than 10% of revenue should be set aside
 - Once an organization has made the transition to a professionally managed firm with workable systems, it must turn its attention to perhaps the most important asset in building a lasting company: the corporate culture
 - Corporate culture has a powerful effect on day-to-day operations

Preparing to Compete: Stages & Strategies (Cont'd)

- **Stage IV: Continued (Cont'd)**

- Also

- A more efficient decision making & leadership style is required
 - Consistent communication is needed
 - Training & development system for managers must be in place
 - Compensation system must be fair & tied to performance
 - Patient recruiting & retention of the best employees is needed

Preparing to Compete: Stages & Strategies (Cont'd)

Successful Stage IV firms have one principle thing in common

- They are slow to hire & quick to fire

Unsuccessful Stage IV firms have many things in common, chief among them is that

- They are quick to hire & slow to fire

- **Keys to Successful Stage IV Firms**
 - Make personnel development & recruiting a core competency on-par with products & services
 - Eliminate roles & responsibilities confusion
 - Implement a planning culture
 - Optimize BD, budgeting & accounting systems
 - Optimize organizational control systems
 - Optimize performance appraisal systems

Managing the Transition Between Growth Stages

- Step 1: Perform an organizational audit
- Step 2: Confront the brutal reality
- Step 3: Formulate an organizational development plan
- Steps 4 & 5: Implement the organizational plan & monitor its progress

Tools to Leverage

Less than 30% of 8(a)/SDBs succeed after graduation. What tools are used by successful firms to manage the transition between the four stages & to effectively compete?

- Mergers & Acquisitions
- Leveraging SBIRs
- Joint Venturing
- IDIQs, BPAs, & BOAs
- New Leadership and Management Farming System
- All of the Above

Tools to Leverage (Cont'd)

STAGE	DESCRIPTION	CRITICAL DEVELOPMENT AREAS	TOOLS TO LEVERAGE
I	New Venture (Years 1 -3)	Market & Products	Make or Buy SBIR (M&A)
II	Expansion (Years 3 – 5)	Resources & Operational Systems	Make or Buy SBIR DoD MPP Relationship Acquire Resources & Operational Systems as Needed Acquire IDIQ Vehicles New Leadership
III	Professionalization (Years 5 – 8)	Management Systems	Management Farming Systems ISO/CMM/ITL/Six Sigma/PMI/PMP Initiatives DoD MPP Relationship M&A (Acquire Market Share & Infrastructure) DoD MP JV
IV	Consolidation (Years 8 – 10)	Corporate Culture <10% of Backlog Set Aside Work	SBA MPP SBA MPP Joint Ventures M&A (Sell the Mills!)

Mergers & Acquisitions

- M&A can be an effective tool to fill gaps in critical development areas
 - Obtain market share & solutions
 - Obtain resources & operational systems
 - Obtain management systems
 - Divest of non core competencies

Tools to Leverage M&A (Cont'd)

- **Capital Markets**
 - Not many financial institutions are lending money
 - Many VCs are on the sidelines
 - Many private equity firms are on the sidelines & can't value deals
 - Acquirers are being very selective

Tools to Leverage M&A (Cont'd)

Uncertainty related to recertification requirements make it nearly impossible to attract potential buyers, bank lenders, or even minority investors

Case Study A: North Carolina Military Logistics Provider

- Veteran-Owned Small Business in North Carolina
- Founded in 1996 by a retired Army officer of 20 years
- Company provides logistics and maintenance services to Department of Defense customers
- Employs over 800 professionals full-time
- Received several small business contract awards, which make up 70% of overall revenue
- Company will soon outgrow the size standards for its awarded small business contracts
- Founder is nearing retirement age and is interested in potentially selling the business, his family's primary asset
- Would be challenged to find a buyer due to his small business contract base

Case Study B: California Technical Services Provider

- Minority-Owned Small Business in California
- Over 25 years of experience serving the U.S. Government
- Provides services to government and university research and development programs throughout California
- Employs over 500 information technology and engineering professionals full-time
- Recipient of numerous commendations from customers for quality of service ("Contractor of the Year" at multiple customer locations)
- Primary contracts are small business
- One owner is in late 60s with over 20 years invested in the business and vast majority of net worth tied up in it
- Tried to sell the business to retire, but could not find a buyer due to set-aside contract uncertainty

Tools to Leverage M&A (Cont'd)

CASE STUDY C

- 8(a) Company in Year #2 of Program
- Contracts with EPA & GSA
- \$2.44 Million in Annual Revenue
- 100% of Revenue is 8(a) Set Aside Work
- Contracts include
 - One \$6.9 Million 8(a) Call Center,
 - \$2.3 Million 8(a) Facilities Management
 - \$3 Million 8(a) Physical Security

CASE STUDY D

- 8(a) Company in Year #5 of Program
- Contracts with DoD, EPA, FAA, NASA, & NIH
- \$5.6 Million in Annual Revenue
- 32% of Revenue is 8(a) Set Aside Work
- Contracts include
 - \$13 Million IT Help Desk
 - \$3 Million Call Center
 - \$3 Million Call Center
 - \$3 Million 8(a) Facilities Management
 - \$6 Million 8(a) Physical Security

How would you advise these two firms?

Tools to Leverage M&A (Cont'd)

CASE STUDY C

- 8(a) Company in Year #2 of Program
- Contracts with GSA & Multiple EPA
- \$2.86 Million in Annual Revenue
- 100% of Revenue is 8(a) Set Aside Work
- Contracts include
 - \$2.3 Million Facilities 8(a) Management
 - \$3 Million 8(a) Physical Security
 - **\$6 Million 8(a) Physical Security**
 - **\$3 Million 8(a) Facilities Management**

CASE STUDY D

- 8(a) Company in Year #5 of Program
- Contracts with DoD, FAA, NASA, & NIH
- \$4.6 Million in Annual Revenue
- \$860,000 Secured Note from C
- 27% of Revenue is 8(a) Set Aside Work
- Contracts include
 - \$13 Million IT Help Desk
 - \$3 Million Call Center
 - \$3 Million Call Center
 - **One \$6.9 Million 8(a) Call Center**

Asset Sale – Both Firms in a Stronger Position to Bid Projects in their Core Competencies. No credit for past performance, but you do get current performance.

Sell the Mills!

Leveraging SBIRs

- SBIRs are a very effective tool to:
 - Fill gaps in stage I
 - Create significant stage II – IV expansion opportunities

Tools to Leverage SBIRs (Cont'd)

- **Small Business Innovative Research Program**
 - SBIR Program Reauthorized to September 30, 2022
 - Phase I at one Agency becoming Phase II at another is permitted
 - DoD Commercialization Pilot Program see <http://www.dodsbir.net/cpp/default.htm>
 - Ability of a Small Business to Partner/Subcontract with a Federal Laboratory (Requires the Agency to Submit a Waiver Request to the SBA)

Tools to Leverage SBIRs (Cont'd)

- **Notes about the Phase III Program**
 - One important strength of the Program is that once a Phase I award is received, the follow-on Phase II & III awards can be awarded in a non competitive process since the competitive process took place under Phase I

Why Joint Venture?

- Enables firms to complement each other's capabilities
- Enables firms to offer the best combination of performance, cost & delivery
- Enables SBs to effectively compete for larger scale requirements (see H.R. 5297)



Tools to Leverage Joint Ventures (Cont'd)

- **Watch Out For Affiliation Issues**
 - Affiliation deals w/business relationships a SB may have w/ other firms & how those relationships affect the size status of the SB
 - Prime-sub relationship that is not at arms length
 - Formal Joint Venture
 - Business relationship outside particular contract that may cause affiliation
 - Prime-subcontractor relationship is not synonymous with affiliation – i.e. there can be non-affiliated subcontractors

Tools to Leverage Joint Ventures (Cont'd)

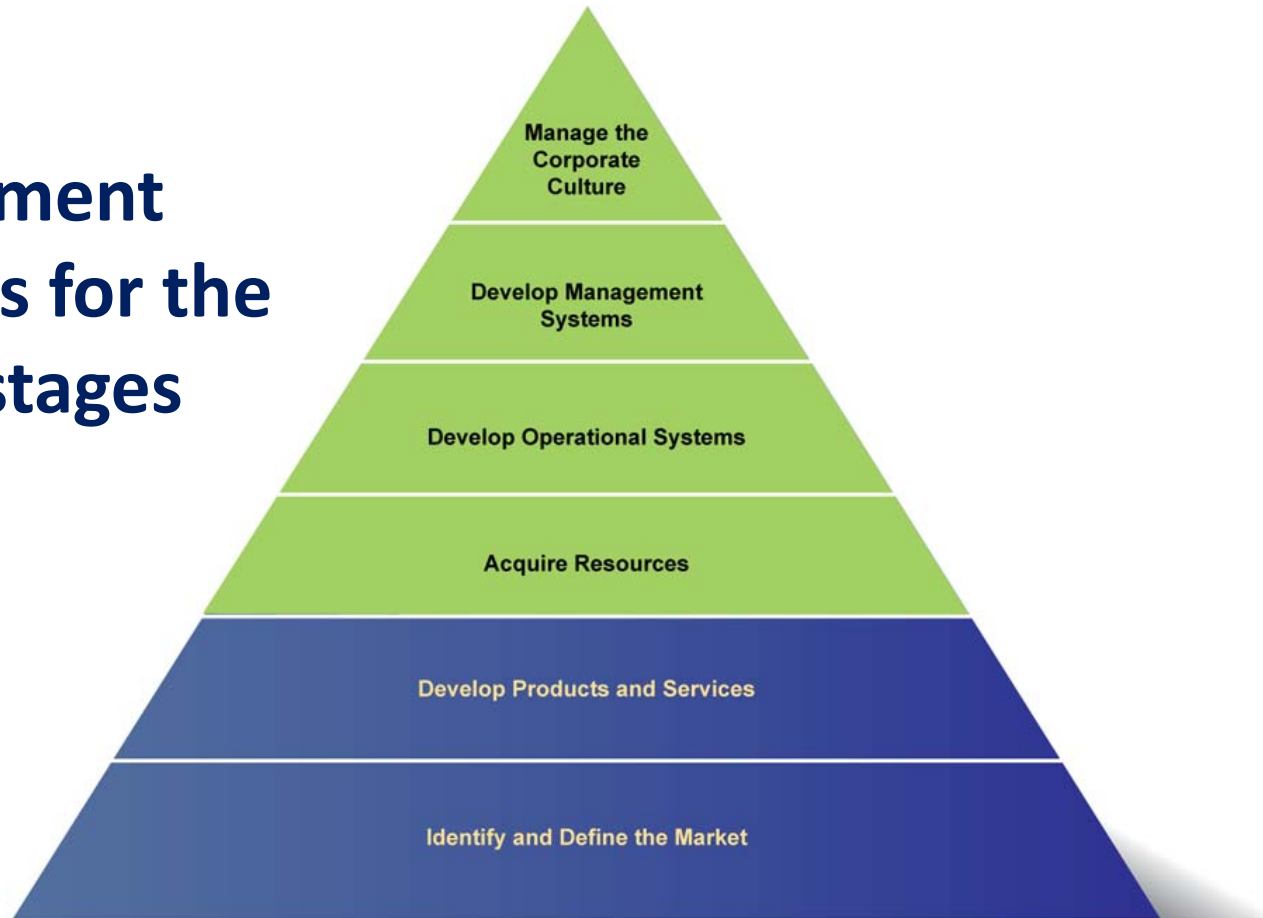
- **Exclusions to Affiliation Rules**
 - SBA approved Mentor-Protégé relationships (13 CFR 121.103) (does not include DoD MPP Relationship)
 - Indian Tribes, Alaskan Regional or Village Corporations (ANC), Native Hawaiian Orgs (NHO) (13 CFR 121.103)
 - Bundled acquisitions, OR
 - For Non-bundled acquisitions
 - Where contract value (including options) exceeds 1/2 the applicable revenue-based size standard OR
 - Where contract value (including options) exceeds \$10M for employee-based size standard

Tools to Leverage Joint Ventures (Cont'd)

- **Exclusions to Affiliation Rules (Cont'd)**
 - Each concern is small
 - At least one 8(a) participant to the joint venture must be less than 1/2 the NAICS size standard
 - 8(a) concern is managing venturer
 - Employee of 8(a) concern/managing venturer is project manager of contract
 - 51% of joint venture profits go to 8(a) member(s)
 - Approved by Small Business Administration (SBA)

Tools to Leverage (Cont'd)

Development emphasis for the various stages



Wrap Up

Although the case studies have been altered to protect the innocent. I used each of these tools successfully. They take time & patience to master, but they are effective.

- Mergers & Acquisitions**
- Leveraging SBIRs**
- Mentor Protégé**
- Joint Ventures**
- IDIQs, BPAs, & BOAs**

Questions?

