

Small Business Preferences

8(a) Firms

The federal government reserves many contracts (*8(a) set-asides*) for 8(a) firms. To be eligible for the 8(a) programme, a company must be at least 51% owned by one or more members of a group considered to be socially and economically disadvantaged and must be certified by the Small Business Administration (SBA) as eligible and competent to receive these contracts. Unfortunately, Canadian companies are not eligible as prime contractors to receive 8(a) set-asides (or any set-asides for that matter). However, this does not mean that the 8(a) government sales channel, representing US\$1.8 billion or 7% of the federal IT market in FY1994, is inaccessible to Canadian firms. By subcontracting, Canadian companies can gain access to the significant 8(a) market.

For the same reason that GSA schedule contracts have been a popular channel with government buyers, so too have 8(a) firms. When purchasing products or services from 8(a) firms, government buyers do not have to conduct a competitive procurement. In fact, they can *sole source*. If a government buyer is confronted with just one 8(a) firm that can provide a required product or service of a satisfactory quality at a reasonable price, the buyer can, and usually will, avoid the time and effort of conducting a competitive procurement by simply deeming the contract a 8(a) set-aside and purchasing the good or service from the 8(a) firm -- **without any competition**.

8(a) firms tend to need their subcontractors far more than the top 100 do and, therefore, are far less likely to *swap them out*. Furthermore, since 8(a) firms often require capable subcontractors to fulfill their contract requirements, it is possible to build long-term business relationships with them. By building a strong teaming arrangement with 8(a) firms, you can benefit from the same competitive advantages that they enjoy. However, teaming with 8(a) firms is not without its risks. Within the federal IT industry, there is a concern that some 8(a) firms may not always be financially capable of meeting their contract obligations. Except for a handful of firms, this concern is unwarranted. Remember, to be eligible for the 8(a) programme, firms must be certified by the SBA as eligible and competent to receive 8(a) set-asides.

Pros

- This channel provides 7% market coverage.
- Unlike the top 100, 8(a) firms rarely swap-out their subcontractors for a better offer.
- Teaming with 8(a) firms provides the real possibility of building long-term business relationships.
- Teaming with 8(a) firms allows you to benefit from the competitive advantages that they enjoy.

Cons

- In rare cases, 8(a) firms may not have the financial capacity to meet their contract obligations, so choose wisely.

U.S. Small Businesses

The U.S. federal government reserves two broad groups of contracts for U.S. small businesses: small business set-asides and all contracts valued at less than US\$100,000. Canadian companies (except in very unique circumstances) do not qualify as U.S. small businesses and, therefore, are not eligible to receive these contracts. The exact percentage of the federal IT market that these contracts comprise is not known, however, a modest estimate would be 10-15%, significantly more than 8(a) set-asides at 7%.

By subcontracting for U.S. small businesses, Canadian firms can gain access to the significant market that small business set-asides and contracts valued at less than US\$100,000 represent. Although the potential returns are high, this is not an easy market to penetrate. Due to the large number of competent U.S. small businesses, the competition for these contracts tends to be fierce; unlike the 8(a) market where contracts are often sole-sourced without competition. Canadian firms must carefully choose teaming partners with complimentary needs and must be fully prepared and capable to actively help the small businesses win federal contracts. This market is also complicated