



U.S. Small Business Administration

# How Government Contracting Works

The U.S. Small Business Administration works across all federal agencies to award at least 23 percent of all prime government contracting dollars to small businesses, with specific statutory goals for:

- small disadvantaged businesses (SDB),
- women owned (WOSB),
- service-disabled veteran-owned (SDVOSB), or
- businesses that are located in Historically Underutilized Business Zones (HUBZone).

For more information, visit [www.sba.gov/contracting](http://www.sba.gov/contracting).

## Sealed Bidding vs. Negotiation

There are two methods the government uses to purchase goods and services: sealed bidding and negotiation. Sealed bidding involves issuing an invitation for bid by a procuring agency. A contract is usually awarded to the lowest-priced bidder that can meet the quantity, quality and delivery requirements of the procurement. Negotiation involves issuing a Request for Proposal (RFP) or Request for Quotation (RFQ). The business with the best responsive proposal in terms of technical content, price and other factors generally wins the contract. If your firm is not selected for an award, you can request a debriefing to learn why. This is an excellent opportunity to improve your proposal submissions in the future.

## Small Business Set-Asides

A set-aside for small businesses reserves an acquisition exclusively for small business competition. An acquisition should be set aside if the contracting officer determines there is a reasonable expectation that two or more responsible small businesses will submit offers and the award will be made at fair market price. Reasonable expectation of small business competition may be evaluated using market research, including past acquisition history of an item or similar items.

## Types of Contracts:

Firm fixed-price contracts place the responsibility for the costs and risk of loss on the contractor and generally do not permit any adjustment on the basis of the contractor's costs during the performance of the contract. Some firm fixed-price contracts have an economic price adjustment. These contracts are used in all sealed bids and some negotiated procurements.

Cost reimbursement contracts provide for the payment of allowable costs incurred by the contractor, to the extent stated in the contract. The contract establishes a ceiling price, which a contractor may not exceed without the approval of the contracting officer.

Some contracts do not fit neatly into these two categories, such as time and material contracts (prices for hourly wages are fixed but the hours are estimated) and letter contracts (authorizes a contractor to begin work on an urgent requirement).

## Subcontracting

Subcontracting opportunities are a great resource for small businesses, especially those not ready to bid as prime contractors. Experience and past performance gained from subcontracting with a federal prime contractor can better prepare businesses to bid for prime contracts.



Photograph: iStockphoto

Current regulations stipulate for contracts offering subcontracting opportunities over \$650,000 for goods and services, or \$1.5 million for construction, large business prime contractors must offer maximum practicable subcontracting opportunities to small businesses. Large business prime contractors must submit a subcontracting plan describing how they will successfully subcontract to small businesses.

To find subcontracting opportunities, a list of federal prime contractors is available through SBA's Subcontracting Directory at <http://www.sba.gov/category/navigation-structure/contracting/contracting-opportunities/subcontracting/subcontracting-opportunities-directory>. Additionally, SBA's SUB-Net database, at [www.sba.gov/content/sub-net](http://www.sba.gov/content/sub-net), is a listing of subcontracting solicitations and opportunities posted by large prime contractors and other non-federal agencies. Check out DoD subcontracting opportunities at [www.acq.osd.mil/osbp/sb/guide.shtml](http://www.acq.osd.mil/osbp/sb/guide.shtml). Research the list of prime contractors and determine which are best matched to your business. Develop a marketing strategy, and then contact the Small Business Liaison Officer listed for each prime to schedule an appointment.

#### ***Five Steps to Improve Your Chances of Winning a Government Contract***

1. Find a counselor.
2. Get your business ready for government contracting.
3. Get certified.
4. Market your business.
5. Identify contracting opportunities.

**For more information about SBA, visit [www.sba.gov](http://www.sba.gov) or contact your local SBA office: [www.sba.gov/sba-direct](http://www.sba.gov/sba-direct)**

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