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WHITEPAPER

GOVERNMENT CONTRACTING: GETTING STARTED

A Beginners Guide to Seizing Opportunities
in the Federal Contracting Market

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Introduction: Getting Started in Federal Contracting

When it comes to contracting with the U.S. federal government, the world's largest consumer of goods and services, the process differs significantly from working with your commercial customers. The government has established the Federal Acquisition Regulations (FAR), a comprehensive set of contracting rules and regulations, which must be meticulously followed in federal contracting.

While the intricate web of regulations and bureaucratic processes may appear daunting, the potential opportunities in federal contracting are unparalleled. In fiscal year 2022 alone, the United States federal government disbursed hundreds of billions of dollars to contractors. Furthermore, the government aims to conduct 23% of prime contracting with small businesses and has consistently met this goal for several years. Once a company successfully navigates the market and regulations, federal contracting can become a highly lucrative and dependable revenue stream.



Government contracting is a complex field, and it is not realistic to expect expertise in every facet. However, gaining a high-level understanding of how federal government contracting operates is crucial for entering the market. In this guide, we present an overview of the process and assist you in getting registered and prepared for federal government contracting.



The Basics of Federal Contracting

Government procurement, also known as "acquisitions" or "public procurement," involves the acquisition of goods and services on behalf of a public authority, such as a government agency. In the U.S., federal government procurement typically accounts for approximately \$600 Billion in annual spending across the federal agencies, with small businesses awarded approximately \$155 Billion of total spending.

In the U.S., nearly all federal contracting is governed by the Federal Acquisition Regulation (FAR), which serves as the primary set of rules and regulations for government procurement. Although the FAR technically applies only to executive branch agencies, some agencies like the Postal Service are exempted from following this regulation. Federal contracting encompasses the purchase of any goods or services by the executive, legislative, or judicial branches of the federal government, with the executive branch being responsible for the majority of federal spending.

Historically, federal opportunities were posted on individual government websites. However, starting in 2019, the federal government began primarily posting contracting opportunities on the SAM.gov website.

Rules and Regulations for Government Procurement

Each federal agency has its own contracting officers who acquire goods and services, and each agency also has its own set of procurement regulations, albeit slightly different. However, all agencies must adhere to a core set of regulations outlined in the FAR. For instance, the Department of Defense has its own acquisition regulations called the Defense Federal Acquisition Regulation Supplement (DFARS), which complements the FAR to accommodate the unique requirements of the DOD.

To provide a centralized resource for procurement regulations and guidance, the entire federal government now utilizes Acquisition.gov as its primary website.

23%

Small Business Goal

"The government aims to conduct 23% of prime contracting with small businesses and has consistently met this goal for several years."

Contacting Officers

Contracting officers (COs) play a vital role in government contracting. They initiate, draft, and oversee all government contracts. COs are the only authorized government officials who can spend federal money beyond the micro-purchase threshold, which as of 2019, stands at \$2,000 for construction, \$2,500 for services, and \$10,000 for most goods.

Contracting officers, sometimes referred to as KOs (short for "KO," used by the Department of Defense to differentiate them from commanding officers), hold written authority, known as a "warrant," granted by a cabinet-level official to enter into contracts on behalf of the government.

Levels of Procurement

Government agency purchases are classified based on their monetary value and the nature of the product or service being acquired. The following chart provides an overview of the different levels of procurement along with additional information explaining their significance.

Level Monetary Value Description

- **Micro- \$2,000 (construction) Small-scale purchases purchase \$2,500 (services) with limited complexity threshold \$10,000 (most goods)**
- **Simplified Up to \$250,000 Streamlined procurement Acquisition for lower-value contracts**
- **Sealed Bids Over \$250,000 Competitive bidding process with fixed-price contracts**
- **Negotiated Over \$250,000 Collaborative process Procurement involving negotiations and price discussions**

Procurement Levels and Types of Government Contracts

Micro-Purchases

A micro-purchase refers to the acquisition of supplies or services using simplified procedures, where competition may not be required. Starting from the beginning of 2019, the thresholds for micro-purchases are \$2,000 for construction, \$2,500 for services, and \$10,000 for most goods.

Simplified Acquisitions

Simplified acquisitions involve procurements conducted in a simplified environment, allowing agencies to bypass formal evaluation plans or scoring offers. As per the FY18 National Defense Authorization Act, the threshold for simplified acquisitions is generally capped at \$250,000.

Regular Purchases

Any procurement that does not fall into the aforementioned levels is considered a regular purchase, typically requiring competitive procurement processes and advertising on government websites such as SAM.gov.

Types of Government Contracts

Government contracts come in various forms, each with its own advantages and disadvantages for both the contractor and the government customer. The federal government follows a specific process to acquire goods and services, including program management activities and the development of an acquisition strategy. This strategy includes determining the most suitable contract type based on the government's needs.

The Two Major Categories of Contracts

Government contracts can be classified into two general categories: fixed-price and cost-reimbursement. The contract type establishes the expectations, obligations, incentives, and rewards for both the government and the contractor during the acquisition process. It also determines factors such as the contractor's responsibility for costs, the profit incentive offered, and the contract's pricing structure.

Fixed-price contracts are widely used across all federal agencies and generally provide a firm price for the completed work or supplied items. In some cases, an adjustable price level may be used, such as a ceiling price or a target price.

Cost-reimbursement contracts, also known as **cost-plus contracts**, involve the contractor being reimbursed for all allowable expenses up to a predetermined limit, with additional payment to ensure the contractor's profitability. These contracts impose additional obligations on the contractor regarding cost accounting for reimbursement purposes.

Other Government Contracting Methods

The federal government employs various contracting methods and vehicles to meet its procurement needs.

Two commonly used methods are:

1. **Indefinite Delivery/Indefinite Quantity (IDIQ) contracts:** These contracts offer flexibility to the government by allowing them to streamline the procurement process and limit decision-making to pre-approved vendors who have agreed upon common terms and conditions.
2. **GSA Schedules:** Also known as Multiple Award Schedules or Federal Supply Schedules, GSA Schedules are long-term government contract vehicles designed to simplify the purchase of commercially available products and services. These contracts involve pre-negotiated prices, delivery terms, and conditions, enabling the government to establish more streamlined contracts with private vendors. GSA Schedule contracts account for over 20% of federal procurement spending and require vendors to meet specific requirements to participate.

Registering to do Business with the Government

Before pursuing government contracts, businesses must complete various registrations and preparations. **Here are some essential steps:**

1. Obtain an Employer Identification Number (EIN), which serves as a permanent tax number for your business.
2. Identify the appropriate North American Industry Classification System (NAICS) codes that align with your business activities.
3. Obtain a Commercial and Government Entity (CAGE) code, a standardized facility code.
4. Register with the System for Award Management (SAM), a government-wide vendor registration requirement for both prime contractors and tier one subcontractors. SAM will provide you with a unique CAGE code and a Unique Entity Identifier (UEI) number, which is used by SAM and other government agencies to identify businesses.
5. Register with certify.SBA.gov login service, used for Small Business Administration (SBA) services.
6. Review the SBA's socioeconomic categories, as they can provide advantages in contracting. Different NAICS codes may have varying size standards that determine a firm's qualification as a "small business" in the eyes of the federal government, impacting eligibility for certain socioeconomic programs.



Socioeconomic Categories

It is crucial to determine which socioeconomic categories, if applicable, align with your business. These categories can provide additional contracting advantages, as agencies often set aside a portion or the entire contract for businesses falling under specific socioeconomic statuses. Additionally, large prime contractors may be required to submit subcontracting plans that involve utilizing small businesses with various socioeconomic statuses to fulfill their contracts.

Woman-Owned Small Business (WOSB): These certifications are for businesses that are at least 51% owned and controlled by one or more women.

Service-Disabled Veteran-Owned Small Business (SDVOSB) Certification: This program is for businesses that are at least 51% owned and controlled by one or more service-disabled veterans. The Department of Veterans Affairs (VA) has a similar program known as the Veterans First Contracting Program.

Veteran-Owned Small Business (VOSB) Certification: Similar to the SDVOSB certification, this certification is for businesses that are at least 51% owned and controlled by one or more veterans.

Minority Business Enterprise (MBE) Certification: While not a federal certification, many state and local government entities and certain corporations require MBE certification, which is for businesses that are at least 51% owned and controlled by one or more minority individuals.

Small Disadvantaged Business (SDB) Certification: This certification is for businesses that are at least 51% owned and controlled by one or more individuals who are both socially and economically disadvantaged.

8(a) Business Development Program Certification: This certification is aimed at small businesses owned by socially and economically disadvantaged individuals.

HUBZone Certification: The Historically Underutilized Business Zones (HUBZone) program helps small businesses in urban and rural communities gain preferential access to federal procurement opportunities.



Finding Government Contracts/Funding & Capturing Federal Business

Finding Government Contracts/Funding

Federal agencies employ various methods to advertise their spending intentions, including socioeconomic set-aside programs and government websites like SAM.gov. Industry days may also be held to provide previews of upcoming solicitations.

Small businesses have a distinct advantage when searching for government contracts, as the federal government offers numerous resources and programs specifically tailored to support them. Most agencies have offices dedicated to small business assistance, providing guidance and assistance throughout the contracting process.

Capturing Federal Business

Experienced contractors understand that winning government contracts goes beyond simply following the request for proposal (RFP) process. Similar to marketing in the commercial sector, building relationships is crucial in government contracting. Government buyers, like their counterparts in the private sector, prefer to work with people and companies they know and trust.

To succeed in capturing federal business, it is essential to:

- 1. Build a Reputation:** Establish yourself as an expert in your industry. Showcase your capabilities, expertise, and past performance to demonstrate your competence and reliability.
- 2. Cultivate Relationships:** Develop meaningful relationships with potential customers and partners within the government. Attend industry events, engage in networking opportunities, and seek face-to-face interactions to build trust and familiarity.
- 3. Understand Acquisition Regulations:** Be mindful of the rules and limitations imposed by acquisition regulations. Once an RFP is released, government communications and interactions with industry become restricted. Therefore, it is crucial to establish relationships and build trust well in advance of a solicitation.



Writing Proposals

When the federal government needs to acquire a new product or service or renew an expiring contract, it releases an opportunity for bid or an RFP. Properly understanding and preparing to respond to these opportunities is critical for effective proposal management.

Consider the following key aspects when writing proposals:

1. **Thoroughly Analyze the RFP:** Carefully review the RFP document to understand the requirements, evaluation criteria, and submission guidelines. Identify the key deliverables, deadlines, and any specific instructions.
2. **Develop a Proposal Plan:** Create a detailed plan outlining the proposal's structure, content, and timeline. Assign responsibilities to team members and establish clear communication channels.
3. **Tailor Your Proposal:** Customize your proposal to address the specific needs and requirements outlined in the RFP. Clearly articulate your understanding of the project, propose a viable solution, and highlight your qualifications and unique selling points.
4. **Showcase Past Performance:** Emphasize your company's relevant experience, successful projects, and positive outcomes. Provide evidence of your ability to deliver on time, within budget, and to the satisfaction of previous clients.
5. **Focus on Compliance:** Ensure that your proposal complies with all instructions, formatting requirements, and submission guidelines specified in the RFP. Pay attention to details, such as page limits, font size, and supporting documentation.
6. **Demonstrate Value:** Clearly articulate the value proposition of your proposal. Explain how your solution meets the government's needs, offers cost-effectiveness, and delivers exceptional quality and performance.
7. **Review and Edit:** Thoroughly review and edit your proposal for clarity, coherence, and accuracy. Consider seeking external feedback from subject matter experts or colleagues to ensure a polished and persuasive final document.

By following these steps and dedicating sufficient time and effort to proposal development, you increase your chances of creating a compelling and competitive submission that stands out to government evaluators.



Executing Contracts

Upon winning contracts, businesses enter the contract execution stage. Effective program and project management principles play a vital role in successfully executing government contracts. These principles are not only important for businesses but are also employed by the government to prepare and implement programs and initiatives.

Compliance and Ethics

Similar to the private sector, public sector contracting operates under a set of essential rules and regulations. Both the government and its contractors must adhere to various regulations, including the Federal Acquisition Regulation (FAR) and the Procurement Integrity Act (PIA). Additional guidance is provided by the Defense Contract Audit Agency (DCAA) cost accounting standards (CAS). The FAR encompasses regulations issued by federal agencies to govern the government's procurement process.

Contractors are required to avoid conflicts of interest, improper influencing of contract awards or federal employees, and other actions that may create improper appearances or omissions. Small businesses are also expected to adhere to these rules to maintain ethical practices.

Pre-Award Audits

Certain types of contracts may necessitate a company to possess an adequate accounting system. In this context, "adequate" refers to a system capable of accounting for direct and indirect costs associated with the contract, as well as meeting the cost reimbursement requirements of federal contracts. As a contractor, your company can undergo an audit at any time, even before a contract is awarded. To pass a pre-award audit, you must have an "operable" accounting system, even if it is not currently in use. You must be prepared to demonstrate this system to the auditor and be ready to implement it prior to incurring any costs under the government contract.

Key areas your accounting system should address to pass a pre-award audit include:

- Segregation of direct, indirect, and unallowable costs
- Job cost accounting
- Indirect cost pools and allocation bases
- Indirect rate computations
- Timekeeping



Next Steps for Success

After completing the necessary registrations, understanding government contracts, and ensuring compliance with procurement regulations, you may be wondering about the next steps to achieve success in the government contracting arena. How can you win government bids and stand out among other contractors?

To establish a robust pipeline of government sales revenue, consider focusing on the following key concepts:

1. **Differentiating Capabilities:** Clearly articulate and emphasize the unique capabilities that set your business apart from the competition. Highlight what makes your products or services distinctive and how they address the specific needs of government customers.
2. **Building Relationships:** Develop strong relationships with potential customers and strategic partners who require the capabilities you offer. Cultivate these relationships through networking, attending industry events, and engaging in meaningful conversations to establish trust and understanding.
3. **Contracting Strategy:** Create a well-defined contracting strategy aligned with the preferences and requirements of your target customers. Understand the contract vehicles they prefer and ensure that your business is positioned to pursue and win contracts through those channels.
4. **Leveraging Government Market Rules:** Gain a competitive advantage by leveraging the unique aspects of the government market. Familiarize yourself with the rules, regulations, and preferences that govern government procurement. Adapt your strategies to align with these rules and maximize your chances of success.

Successful businesses in the federal contracting market employ market intelligence to achieve their goals. They leverage tools that provide early awareness of upcoming opportunities, in-depth analysis of the federal market, and insights into federal agencies' spending patterns and key contacts.

FedBiz Access® offers a comprehensive suite of tools and resources designed to support businesses in the federal contracting market. These resources provide valuable information, including advance notice of solicitations, extensive federal market analysis, and knowledge about agency spending trends and key decision-makers.

By leveraging market intelligence and staying informed about the evolving government market, you can position your business for success and increase your competitiveness in the federal contracting landscape.



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The FedBiz Access® Difference

At FedBiz Access®, our mission is to empower small businesses by providing them with the tools, resources, and expertise needed to compete in the federal marketplace. With over 22 years of experience, our dedicated team of experts is committed to helping businesses of all sizes and industries navigate the complex world of government contracting.

We pride ourselves on our innovative solutions, personalized support, and unwavering commitment to our clients' success. By building long-lasting relationships and delivering exceptional results, we've become a trusted partner for countless small businesses looking to expand their contracting opportunities.

Join us in our pursuit to foster economic growth, create jobs, and contribute to the prosperity of small businesses across America. Discover the FedBiz Access® difference and let us help you unlock your full potential in the federal marketplace.

Your success is our success!

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