Strategy in Government Contracting

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Government contracting is a dynamic beast. Vast opportunities offer multiple procurement options, especially for new, small, and disadvantaged companies. Strategic decisions are boundless as no two government contractors take the same path nor have the same performance outcome. When a company decides to brave the government (specifically the defense) contracting environment, many steps must be taken. First, the company needs to register for a Dun & Bradstreet (DUNS) number. This number will be used in all bids and is connected to the company’s credit rating. Once registered for a DUNS number, the company will be given a code classifying is specialty and capabilities using the North American Industry Classification System (NAICS). The company’s NAICS code will help guide procurement searches and help determine contracts in which might have a higher capture probability (Dickson, 2013).

Most contract bids require that companies have a history in performing the required tasks. The government calls this “past performance.” Without the past performance, it can be difficult to procure contracts. However, there are many options to obtain the necessary past performance. First, subcontracting to a company with the past performance can help a new company 1) procure contracts and 2) gain the past performance. Second, partnerships can also help support a lack of past performance while allowing the smaller company to develop program-management skills (Dickson, 2013). Building such experience opens new opportunities to corporate growth and development.

M3B Aviation Solutions is a young, small business that is challenged with many procurement options. Developing a capture strategy in such an overwhelming environment can take time and valuable resources. However, the company will need to leverage its advantages as an 8(a) certified, veteran-owned, disadvantaged small business to capture, retain, and procure government contracts.

**M3B’s Strategy**

Based on the definitions established in Chapter 5 of Arthur Thompson’s textbook, Strategy: Core Concepts and Analytical Approaches, M3B Aviation Solutions’ overall strategic business approach is one of broad differentiation (Thompson, 2012). Currently the company seeks growth in an array of aviation specialties that offer unique knowledge and skills to the customer. However, in order to gain expertise, M3B capitalizes on its ability to partner with companies who already specialize is the desired areas.

Government contracting partnerships are generally formed when both companies have strategic advantages to offer. Currently, M3B is certified as an 8(a), minority-owned, veteran-owned, small business. These designations opens the company up to many strategic options in the coming the years. First, M3B uses its 8(a) to capture government contracts assigned specifically to that certification. Since the 8(a) gives M3B an advantage over other larger companies, those larger companies seek partnerships for contract awards. This is advantageous to both companies as M3B is able to use the specialty and background of the larger company and the larger company is able to win 8(a) contracts (as a subcontractor) despite having the certification. These partnerships allow M3B growth into a broad array of specialties and generate revenue. Additionally, it permits M3B to differentiate its service to add value to the government customer. Finally, it allows the company to later bid on contracts of that specialty without utilizing the background of the larger companies (Thompson, 2012).

The Veteran’s Entrepreneurship and Small Business Development Act of 1999 regulated annual goals of government contracting. Under the Act, at least 3% of the total contracts awarded to small business must be prime-contracted by service-disabled veterans (SBA, 2014). As a service-disabled small business concern, M3B is able to capitalize its ability to secure contracts under the Act. Additionally, the SBA allows socially or economically-disadvantaged companies to be represented as a small disadvantaged business (SBA, 2014). As a minority owned business, M3B uses this designation to capture business set aside for business with these criteria. Much like the 8(a) solicitations, service-disabled veteran-owned and small disadvantaged business contracts attract subcontractor partnerships with companies that do not qualify as veteran or disadvantaged. Again, M3B remains the prime contractor yet uses the past performance of their partner to strategically capture the contract.

**Competitive Strategy in Practice**

As previously mentioned, M3B’s competitive business strategy is one of growth. Each contract that is written may employ a secondary strategic approach based on the customer’s needs. For example, if the customer is looking for the lowest-priced bid, the company has the ability to meet those requirements. However, two important aspects should be mentioned. First, even the lowest bid must demonstrate the required experience and proven ability to deliver. While M3B does not always have such experience, it is focused on building relationships with qualified and experienced partners. This is a popular choice amongst defense contractors who lack some or most of the customer’s vast needs and demonstrates a commitment to the services provided (Kovacs, 2013). Second, the strategic approach can only be employed if the contract is awarded to M3B; otherwise, all is null and wasted.

The actual practice of M3B’s competitive strategy is nothing short of its broad-differentiation plan. The long-term relationship building is paying off for its current bids. Partnering with companies of varying expertise has enabled M3B to bid outside its NAICS codes. Further, the benefits its partners receive through 8(a) awarded contracts entice them to return “favors” in the form of future partnerships. The next two months will be very telling of M3B’s strategic approach as the re-opening of the government after its shutdown has kept the company very busy with business development. If contracts are awarded, it will allow M3B to very quickly diversify its expertise and broaden potential for growth.

**Supplementing the Competitive Strategy**

As with any business, the strategy cannot be entirely responsible for profitable business and developmental growth. A company often must supplement its strategy to maximize its potential for success (Thompson, 2012). M3B supplements its strategy through the following initiatives:

* + Joint ventures
  + Mentorship
  + And Outsourcing HR

Saikat Chaudhuri, a professor at the Wharton School at University of Pennsylvania, suggests an innovative approach to supplementing a strategy is that of acquisition. An attractive alternative to providing additional technology and capabilities, acquisition allows the companies to minimize risks while still offering additional features and benefits (Chaudhuri, 2005). While M3B is not in a position to acquire other companies or capabilities, it can employ a joint-venture strategy. A joint venture is when two or more companies form a single, yet temporary, business entity for the purpose of conducting business. In government contracting, a joint venture is strategically advantageous for small or new businesses because it allows all parties to combine resources, capture larger contracts, and be more attractive to government customers. While 8(a) companies can form as many joint-venture as they please, there are limitations to the agreements. The joint-venture is valid for two years and may be awarded up to three contracts (Honig, 2012). M3B has exercised it rights to form joint ventures and uses this tool to supplement its strategy.

Another fantastic option for new small businesses to supplement strategy is to seek mentorship. Larger, more experienced companies can choose to mentor newer government contractors. Again, this option is mutually beneficial. M3B receives guidance, partnerships, and expertise that it might otherwise go without. The mentor is able to bid (boundless) within their NAICS code where they may have previously met their limit. Additionally, the mentor can enter into joint ventures with the young company allowing them to bid on contracts they otherwise could not (SBA, Mentor-Protégé Program, 2014).

Lastly, M3B supplements its strategy by outsourcing their human resources responsibilities. In a service-based industry, humans are the product. While processing the necessary paperwork is worthwhile to ensuring employees are able to start work is important, the actual tedious HR processes are not value-adding. Additionally, human resources is a large challenge for new companies with little staffing support. M3B lacked the resources to hire, administer benefits, generate payroll documentation, and offer continued support for frequent mass-hiring (and terminations when the contract ended). Further, the company did not have the technological support even had it been given additional processing staff. Thus, hiring an HR partner enables the company to focus on competitive, value-adding initiatives (Doorley, Paquette, & Quinn, 1990). M3B’s HR partner not only administers benefits, payroll, and tax documentation; they also offer counseling, free education, legal assistance, and industry statistics necessary for contract proposals.

**Employing a Diversification Strategy**

Arthur Thompson (2012) explains in his text, Strategy: Core Concepts and Analytical Approaches, the importance of developing a strategy for diversified business. The first step Thompson (2012) describes is selecting new industries to enter. As previously discussed, M3B puts much effort into business diversification. Each individual contract allows for either strategic partnerships or a joint venture opportunity. Unlike many other industries, alliances, diversification strategies, and corporate visions vary so greatly in government contracting, so few companies are directly competing for exactly the same business 100% of the time. Studies have shown that such variances within an industry will yield different diversification paths and an array of financial performances (Colpan, Hikino, and Kyoto, 2005). Once a contract is awarded under the partnership or joint venture, M3B can grow within the new industry. However, as the experts suggest, this does not guarantee successful financial performance. M3B will be able to address Thompson’s (2012) other steps once a contract has been awarded.

In the near future, M3B also strives to expand its business contracts into international industries. M3B has already strategically selected the specific aviation industries it aims to support and has started developing the relationships necessary to diversifying globally. The Mexican airport system has historically been privately owned and individual airports have opted to be grouped into regional systems. Only recently has the Mexican Government realized the deficiencies in their aerial transportation structure as airports lack efficiency, security, federal regulation, and a functioning transit system that many other advanced countries are privy to enjoying. Thus, M3B will leverage its existing expertise and capabilities to offer support to Mexican aviation markets. Additionally, M3B has already begun identifying key personnel to manage the international sector as recommended by Thompson (2012).

**Improvements to Overall Competitive Strategy**

Despite the vast array of strategic initiatives, M3B Aviation Solutions could capitalize on additional supplemental strategies. In most cases, contracts are advertised as “full and open” describing that any contracting company may submit bids for the work. However, in cases where shortages of time or funding concerns are present, the government can choose to “sole source” the contract to a single provider. This process is quicker and reduces costs to the government as provider submits a “sole source” request and it is granted at the discretion of the government (Author Unknown, 2010). M3B should capitalize on sole sourcing opportunities. Despite their small size, sole source contracts can help build past performance and generate a higher profit margin (as there is no competition). Additionally, requesting several of these small contracts can really add up.

Other supplemental recommendations stem from foundational improvements. Building an attractive platform can tremendously enhance M3B’s contract capture performance (Small Business Resources, 2014). For instance, most contracts require a description of quality-control measures, evaluation, and management. M3B may want to establish an International Organization for Standardization (ISO) 9001:2008 certification. Not only would the quality management system enable M3B to consistently meet regulatory requirements but also communicate the company’s commitment to quality to the customer (ISO, 2014). In addition to prioritizing quality, M3B could implement both environmental and charitable initiatives. This is an attractive supplemental strategy that improves the company’s image and demonstrates its awareness to its global footprint. Finally, M3B should create a marketing strategy to convey supplemental strategies to stakeholders. Websites, social media, and e-mails are quick, low-cost ways to deliver such messages. Customers, employees, partners, and suppliers will be more apt to develop relationships with companies who communicate the importance and impact of external concerns.

**Conclusion**

M3B Aviation Solutions’ broad strategic approach allows many opportunities for business development, contract procurement, partnership, and global diversification. The company can leverage its strengths in its 8(a) certification, veteran-owned, disadvantaged statuses to capture contracts, diversify expertise, and build long-term relationships. Supplementing its competitive strategy has been successful accomplished through joint ventures, mentorship, and outsourcing HR. Each has provided expansive growth potential or freed necessary resources to enable advancement. M3B is actively diversifying both within the U.S. and globally in the Mexican aviation markets. While the company cannot yet acquire additional companies or technologies, joint ventures have allowed the company to explore additional capabilities. Finally, two comprehensive recommendations could improve M3B’s strategic approach. The first is to embrace a proven quality-management system that would be attractive to both company processes and prospective customers. The second recommendation is to develop a corporate campaign for external initiatives. Suggestions include implementing environmental sustainability processes, providing charitable contributions, and developing modern communication methods with stakeholders.

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