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Set-asides are a double-edged sword

Guest commentary

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Special to Washington Technology

Small government contractors are frequently afforded the opportunity to bid on set-aside contracts. This allows for a faster growth curve and in some cases may be the only way to enter a market dominated by larger, entrenched competitors.

But limiting opportunities only to those in the set-aside contract arena can curtail a company's long-term potential. Firms that rely on their disadvantaged status as their key differentiator and don't develop other competitive advantages will limit their growth and, possibly, set themselves up for failure when their eligibility for such contracts expires.

Some government agencies and other companies view set-aside programs as an affirmative action program for companies that do not have the business acumen to compete on an even playing field with other nondisadvantaged firms. This makes it even harder for the good small businesses to be recognized for their skills if their public image showcases their disadvantaged status.

Companies graduate from the 8(a) set-aside program after nine years, and both 8(a) and service-disabled, veteran-owned small businesses will no longer qualify for bidding on set-aside work if they exceed specified size standards. There are numerous cases of disadvantaged companies that won enough set-aside contracts to outgrow the size limits, then couldn't win enough business without the set-asides to maintain the growth and had to cut back.

By their nature, smaller firms have unique and competitive characteristics that can be used more effectively than by simply promoting their disadvantaged status. More often than not, such companies can identify customer opportunities and issues quickly and respond faster to them than larger contractors can respond.

Bigger firms usually require that decisions be made in a more bureaucratic fashion with longer response times and greater aversion to business risks. Smaller technology and research and development companies can bring an innovative technology or unique research to bear that a larger firm might ignore because of conflicts with the strategic direction of its product line or perceived inability to generate sufficient profits.

Smaller companies can also often compete favorably with larger ones on price, but they must be careful. If a small firm continually seeks to be the low bidder by not pricing for sufficient overhead, it will eventually come to a point where it does not have the infrastructure to support any additional growth. It will not have the profits to build that needed infrastructure.

In the same vein, smaller companies must look for what they can offer beyond a competitive wage. These organizations will make great strides to attract top talent by trying to find out what people want in life. For some, it's gaining public recognition, but for others, it might be taking time off for family, having the opportunity to work with cutting-edge technology. A smaller firm can often be more flexible than a larger firm with regards to working hours, telework and benefits.

A company should plan for long-term revenue growth without relying on setaside contracts from the beginning, not after it has graduated from that status. Developing specific expertise, a talented team, market niches, technologies, intellectual property and products are critical to any successful business.

A disadvantaged firm that focuses on the business basics and actively seeks revenues from non-set-aside contracts will be well positioned for growth after the loss of its disadvantaged status.

Eric Basu (ebasu@sentekconsulting.com) is the founder and president of Sentek Consulting Inc., a 40-person defense contractor in San Diego.

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