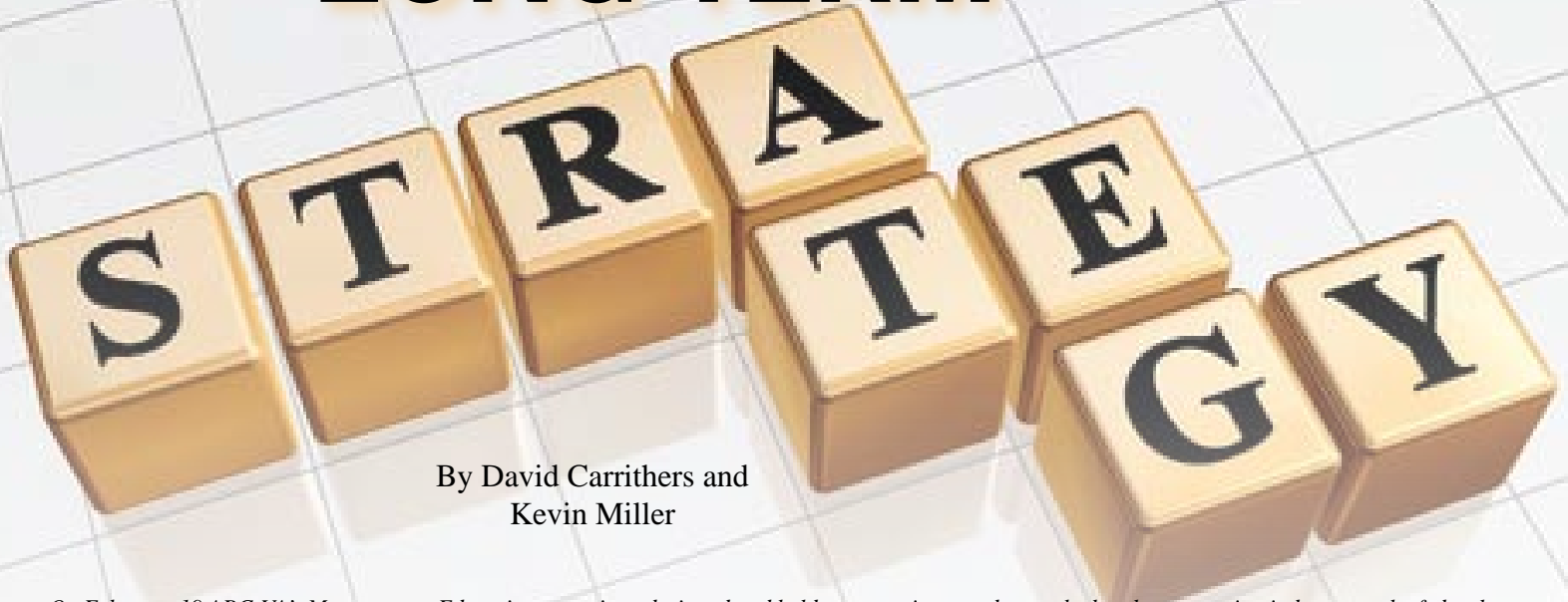


Federal Construction as a **LONG TERM**



By David Carrithers and
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On February 19 ABC-VA's Management Education committee designed and held a symposium to educate the local construction industry on the federal procurement process. This article is a follow-up of the event.

The acute interest in federal construction permeates the industry throughout Virginia and the Metro Washington corridor. The urge to learn about the federal procurement process is stronger than ever as companies that said they would never consider doing public work are beginning to seriously entertain the idea.

As enticing as it may be to try to use this burgeoning market as a band-aid during the recession, most experts in public work will tell you that doing work for the federal government should not be viewed as a short term solution to shrinking private sector opportunities but as a long term strategy for growth and diversification.

Getting Started Working with the Federal Government – Advice for Smaller Businesses

Establishing yourself as a small business in the eyes of the federal government is foremost on the minds of most contractors, considering this market. “Many of us do not know how to go about getting these jobs,” explained Edwin Veiazga of ED Construction, LLC, an Arlington, Virginia-based drywall contractor.

The Small Business Administration offers a variety of programs aimed at helping small businesses improve their chances of winning federal contracts. Most federal construction projects require a significant percentage of work be provided by participants of these

programs. With the anticipated surge in federally funded construction tied to the new economic stimulus package, now is the perfect time for small businesses to take advantage of the programs.

SBA's core certification programs include Small Disadvantaged Businesses, 8(a) Business Development and the HUBZone Empowerment Contracting Program. The SBA's 8(a) Business Development Program is a specific designation for small, socially and economically disadvantaged businesses.

Joint Ventures Offer Opportunities for Smaller Firms

Getting started in federal contracting is challenging because in order to work with the government, contractors must often demonstrate experience on similar projects. “We want to get into federal contracting, but without experience, we do not exactly know where to start,” said Gassan Kassira of A&A Transfer, Inc., a rigging company located in Chantilly.

The SBA's Mentor-Protégé program is an additional development tool for 8(a) participants. The program is a way for small businesses or protégés to team with and learn from larger businesses or mentors, in order to win federal contracts and develop their business.

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Stanley Fujii, SBA assistant district director of business development, explained that under old rules, each party in a joint venture had to be a small business in order to win federal contracts. “Under the Mentor-Protégé program, only one of the joint venture partners, the protégé, has to be an 8(a) small business,” Fujii said.

Marketing through SCORE and Old Fashioned Networking

One of the many resource partners of the SBA is SCORE, a nonprofit association providing small businesses with counseling, workshops and business reviews from a nationwide network of 11,200 volunteers who previously held senior management or ownership positions in the private sector.

In spite of the recession, now is a great time for business because resources are cheap and opportunities are vast. “The federal government buys everything, so there are opportunities for everyone, but there is a process in getting federal work and you need to get accustomed to it,” stated Arnie Westphal, a retired business owner who now works for SCORE.

Contractors should focus on one agency, or even one area within an agency of the federal government, that purchases their services, rather than trying to tackle the entire government. “The bottom line is network, network, network,” Westphal said. “You have got to get to know contracting officers and you want them to know you and your product. Then they will call you.”

Financial Support is Available to Firms with Solid Balance Sheets

Borrowing money is harder today than it has been in years and few financial specialists would dispute that fact; but money is available for potential borrowers that have their financial house in order.

Robert Carpenter, SBA business development specialist, discussed SBA finance resources and programs that help companies start or grow their business and effectively compete in the marketplace. He explained that the SBA does not directly lend money to small businesses but instead is a guarantor of loans and bonds issued by private institutions the agency considers its partners.

Carpenter stressed the importance of having a carefully developed business plan and a strong balance sheet before approaching the SBA for financial assistance. He presented seven important elements any small business needs to demonstrate in order to benefit from SBA financial programs:

1. Owners and operators must demonstrate good character.
2. They must have a feasible business plan.
3. The business must show management expertise and a commitment necessary for success.
4. Businesses must have sufficient funds, including SBA guaranteed loans, to operate the business on a sound financial basis.
5. Owners must have adequate equity invested in the business.
6. The business must have sufficient collateral.
7. Owners must demonstrate the ability to repay the loan on time from the projected operating cash flow.

The SBA has a variety of loan programs depending on the size and needs of small

business clients. Prior to the enactment of the economic stimulus bill, the ceiling for loan guarantees was \$2 million, but Carpenter pointed out that those caps will likely be changed.

Today fewer loans are being made, but it is not because funds are unavailable. “Banks are getting back to their policies and regulations,” explained Robert Lowery of PNC Bank. He said that banks are being much more diligent than in recent years. “We are looking under the hood more carefully for all our clients,” he added. He suggested that all businesses keep their leverage down; banks are looking for a much lower debt to equity ratio than before.

Archisha Mehan of Sandy Spring Bank and fellow local bank executive Michael Terpak of Access National Bank, explained that they are willing and anxious to assist small businesses with their financial needs when they have the 3-Cs of banking in order: personal credit, collateral and cash flow.

A similar position was echoed by Michael Youngblut of Hess, Egan, Hagerty & L’Hommedieu, a national surety practice that is a division of M&T Insurance Agency, Inc. “Money is available now,” he said, “it is just that the standards are higher so there are fewer people qualified to get it.” He added that sureties are looking at cash flow and liquidity. Before the economic crisis, receivables that were 90 days were considered part of a business’s cash flow, but today, anything older than 60 days is not considered.

The Path to Success with the Federal Government

Companies looking to break in to the federal marketplace should make it a long term decision, not just a move to get by during a recession.

“What drives success as a federal contractor is a long term commitment, experience and capabilities that fit contract requirements, demonstrated quality of work, reasonable and cooperative behavior, past and present performance of meeting commitments, a history of few surprises and experience helping customers,” explained Bill Sweetser, retired owner of Centennial Contractors Enterprises, Inc., a contractor who built his construction company on federal construction.

There are many ways to participate in federal contracting; as prime contractor, sub-contractor, via set-aside programs, in joint ventures or other teaming arrangements and through IFBs (Invitations to Bid) and RFPs (Requests for Proposals).

While IFBs that are awarded solely on low price, are still used today, many prefer the RFP. “If you show you have better people and a better process you can win an RFP without the lowest price,” Sweetser explained. “The federal government believes in that,” he added.

For those contractors looking to pursue RFPs rather than IFBs, it is important to hire talented and experienced proposal writers. Contractors should consider adding partners who can strengthen their teams and share a mutual trust in addition to building relationships with contracting officers. “If you are going to work for the federal government,” Sweetser said, “this is a good time to start. The stimulus package is going to put pressure on contracting officers to spend money quickly.”

Working for the federal government is not easy and there are unique considerations that federal contractors have to think about. Of concern, especially for open shop contractors, is the requirement to pay crafts-person wage scales that are higher than what

contractors usually pay their workers. “It is an issue but it is resolvable,” Sweetser said. “You just need to create wage equity with your people and help them understand that their pay will be different on federal jobs than private sector projects.”

To get started, Sweetser offered several immediate suggestions:

- Talk to government procurement officers to learn about the process and specific contract opportunities.
- Go to federal procurement seminars.
- Consider teaming with someone with experience working for the federal government.
- Subcontractors and suppliers should go to general contractors’ websites and register their companies and their areas of expertise.
- Find a surety because all federal work has to be bonded.
- Use the resources available through organizations such as Associated Builders and Contractors to help crack the ice with the federal government.

Many Paths to Federal Opportunities

Growth through federal construction opportunities begins with a plan and a focus on the different agencies and departments within the government and what they are looking for. As a construction business you can take the skills and experience from other market segments like commercial or residential. You do not always have to go direct; there are other ways to start working on federal projects.

“We utilize local, small construction businesses to fulfill 100 percent of our federal clients needs,” stated Mike O’Neill, regional executive for Centennial’s Mid-Atlantic region. “This way, a business is able to start

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getting the experience and the knowledge established before going on to do work directly. In many ways we are a federal construction incubator business. As an example, I recently connected with a commercial restaurant kitchen setup company at an ABC event and started exploring the potential of them helping us on a larger military base kitchen remodel we are working on. It was exciting to talk with someone who has ideas on efficiencies from the commercial world that is new to the federal market.”

Benefits to federal contracting abound. It’s a stable market. Federal construction does not fluctuate as dramatically as the commercial market can, particularly during economic downturns. Federal construction offers diverse opportunities for a wide array of contractors, from huge projects like the Pentagon, to small renovation and retrofit projects. And awards are made based on very strict procedures that are professionally administered. Contracting agents look after the best interests of the federal government and those of the contractors. “If you’ve got a company that has been making a living in the private sector, you would be well served to put emphasis on federal work,” urged Sweetser.

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