Trends in Electronic Procurement and Electronic Commerce and Their Impact on Small Business

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This report examines the extent to which businesses are utilizing Internet and electronic information technologies in government procurement. It also examines whether the transition to electronic commerce has helped or handicapped small businesses in obtaining at least 23 percent of federal purchases annually, as Congress has mandated. It also investigates whether small businesses in industries that successfully adopt e-commerce have an advantage in competing for procurement dollars, and it includes a survey of existing evidence on the implementation of electronic procurement in these industries.

Methodology and Data

The researchers reviewed the relevant literature on the state of e-commerce generally, trends in e-procurement, costs and benefits of the electronic marketplace, and potential barriers to the adoption of e-commerce and e-procurement. Using industry codes from the North American Industry Classification System (NAICS), they analyzed three databases: (1) the Bureau of the Census's E-Stats; (2) the Census of Manufacturers; and (3) the Federal Procurement Data System's procurement database. With these data they investigated specific industry areas and structural features associated with them, including firm-size distribution, industry concentration, rate of adoption of e-commerce, and level of procurement activity.

The researchers also conducted interviews with a small sample of respondents to shed light on some of the findings of the data analysis and literature review.

Research Findings

• Small firms appear to rely more heavily on e-procurement tools than do large firms. Using Simplified Acquisition Procedures as a proxy, the authors found that in FY 2000, 2 percent of all small business procurement dollars were obtained through e-procurement. By FY 2001, this share had risen to 6.3 percent and in FY 2002, to 6.5 percent. Large businesses, on the other hand, obtained about 1 percent of procurement dollars through Simplified Acquisition Procedures in FY 2000, and that share remained relatively constant over the three years studied.

• Certain barriers appear to exist that may prevent small business from using e-commerce. These include multiple points of entry, the expense of monitoring procurement offerings, and shifts within the government's e-procurement system.

• Small businesses have not lagged significantly in their adoption of e-commerce.

• In industries where small businesses obtain a significant share of federal procurement dollars (i.e., greater than 25 percent of the total), small firms are likely to use e-procurement tools, such as Simplified Acquisition Procedures.

• The data identified certain industries that have led in the adoption of e-commerce. These early adopters include

Motor vehicles and equipment,
Computer equipment and supplies,
Drugs and pharmaceuticals,
Courier services,
Beverages and tobacco,
Computer and electronic products,
Electrical equipment and components, and
Transportation equipment

By using Simplified Acquisition Procedures as a proxy for e-procurement tools, the authors found that these early e-commerce adopters have used e-procurement tools much more frequently than average. Industry areas that lagged in the adoption of e-commerce also lagged in the use of e-procurement tools.

Policy Recommendations

The researchers developed several policy recommendations to facilitate small businesses' use of e-procurement.

• Successful selling to the federal government begins with certainty about how the government intends to purchase products and services from potential suppliers. The federal government has altered its course many times over the last decade, beginning with electronic data interchange, then moving toward Internet-based postings via numerous individual portals. It has now arrived at a single interface, FedBizOpps, an Internet-accessible site where all opportunities are to be posted.

• Central registration of companies needs to become a reality. There continue to be numerous places where a small business needs to register in order to obtain information about potential business opportunities with the federal government. The recent merging of the Central Contractor Registration (CCR) database with SBA's PRO-Net is a welcome change, as is the merging of DoDBusOpps with FedBizOpps. Other federal agencies should emulate these examples and merge any existing registrations into CCR. The CCR process should be used to populate databases with individual agencies, DOD supply centers, or prime contractors'

databases, eliminating the need for small firms to visit each of these sites in order to do business with the federal government.

• Small businesses, especially those that do not regularly use electronic commerce, need training, support, and networking opportunities in order to successfully use e-tools to seek federal contracts. Policymakers should encourage such training opportunities and facilitate networking events for small businesses.

• Current e-government initiatives must include substantial training for procurement officers and employees, so that e-commerce tools will be used to their full potential.

• Policymakers should target industries that lag in their adoption of e-commerce and work with trade groups to offer support and training to small businesses in those industries.

• Some of the initiatives being implemented as part of the Integrated Acquisition Environment and e-Gov programs may impede small businesses' ability to compete. Some initiatives, such as the CCR to develop one comprehensive list of suppliers (that can be used for payments, as well), will strengthen equal access to small businesses.

Ordering Information

The full text of this report and summaries of other studies performed under contract to the U.S. Small Business Administration's Office of Advocacy are available at *www.sba.gov/advo/research.* Copies are also available from:

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