

SMALL BUSINESS RESEARCH SUMMARY

The Impact of Contract Bundling On Small Business: FY1992-FY1999

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Purpose

The purpose of this study is to present evidence showing whether or not the practice of consolidating small, individual government purchases into larger contracts is having a negative impact on small business participation in the federal contracting process. The FY 1999 total of bundled prime contracts over \$25,000 was the highest in the past eight years.

The study also covers the small firm federal contracting experience from 1992 to 1999, and displays the contracting trends in a number of different ways: by the number and percentage of bundled contracts, the specific federal agency that issues them, and the number of small firms that have continued to bid on them. Federal contracting data in the study are generally divided into four major areas: research and development, construction, manufacturing, and other services—all of the standard nonresearch service industries.

Scope and Methodology

A bundled contract is one that incorporates in a single contract the requirements formerly distributed across several separate contracts. To define a bundled contract, the researcher used a combination of SIC codes, product/service codes, places of performance, and types of contracts. While each of these categories has several potential components, the contractor's approach was essentially conservative. Bundled contracts in this study included those involving three

or more SIC codes, multiple places of performance, and products or services of the same type. The researcher chose not to use multiple product/service codes because they added to the complexity of defining a bundled contract.

When these various definitions were applied, only 67 percent of contracts over \$1 billion and 62 percent of the dollars in these contracts were considered bundled for the purposes of this study.

Highlights

- A bundled contract can last many years. The value of the average bundled contract was \$8 million in FY 1999. This represented an increase of 21 percent in the average contract size over the past eight years.
- In FY 1999, large businesses received 67 percent of all prime contract dollars and 74 percent of all bundled dollars. Small firms received 18.7 percent of all contract dollars—up 2 percent since FY1995 but more than 4 percent short of the 23 percent procurement goal required by law.
- In FY 1999, the small business share was about 15 percent of bundled contract dollars and 23 percent of unbundled contract dollars.
- Analysis showed that for every increase of 100 bundled contracts, there was a decrease of over 106 individual contracts awarded to small firms; for every additional \$100 awarded on bundled contract, there was a decrease of \$33 to small business.

- The two major market segments fueling the growth of contract bundling are construction and nonresearch services. Between FY 1992 and FY 1999, bundled contract dollars in construction grew 170 percent to \$3.5 billion, while bundled contract dollars in nonresearch services grew 45 percent to \$33.2 billion. Perhaps because of bundling, the number of firms receiving contracts in the construction sector fell 44.2 percent between FY 1992 and FY 1999, while the number fell 4.9 percent in nonresearch services.

- There is some good news in the research and development and manufacturing sectors. These sectors experienced a decline of 15.1 percent in bundled contract dollars between FY 1992 and FY 1999, and an increase of 3.2 percent in the number of small firms participating in the procurement process.

- The Department of Defense accounted for 82 percent of bundled contract dollars in FY 1999, but civilian agencies are making increased use of contract bundling. The General Services Administration (GSA), the Treasury Department, and the Justice Department all awarded about \$1 billion worth of bundled contracts in FY 1999.

- Other federal agencies—the Department of Education, the Office of Personnel Management, and the Federal Emergency Management Agency—awarded 10 times the number of bundled contract dollars in FY 1999 as in FY 1992.

- The researcher makes some strong recommendations regarding the future direction of federal contracting. These concern the erosion of the diversity of the federal contracting base for the nation as a whole.

- The report recommends requiring more unbundled contracting opportunities for small business. Such proposals, including set-asides of bundled contracts for small firms, have already been recommended by some congressional committees.

- The report calls for stricter enforcement of federal contracting goals, including requirements for more accurate and timely reporting to the federal procurement data center.

Conclusions

There is a difficult trade-off between achieving greater economic efficiency in government operations and preserving contracting opportunities for all types of businesses. Using a relatively conservative definition of contract bundling, this study demonstrates that small firms are being harmed in several ways. First, as the average size of a bundled contract continues to grow, the number of small firms participating in the process declines. Second, increased contract bundling also may have adverse effects on the ability of women- and minority-owned small firms to receive federal contracts. While some small firms may do very well under such contracting rules, thousands more will remain unable to bid on federal contracts without joining forces with others, if at all. Third, contract bundling is declining in some sectors and growing in others. Additional research is needed to understand these trends.

Ordering Information

The full text of this report, along with summaries of other studies performed under contract to the U.S. Small Business Administration's Office of Advocacy, is available on the Internet at www.sba.gov/advo/research.

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