



# Success in the 8(a) Program

By Tim Dougherty

Joining the 8(a) program can help disadvantaged businesses enter the federal marketplace.

The Small Business Administration's 8(a) Business Development Program helps small disadvantaged businesses compete for federal contracts. Last year some 6,000 businesses participated in the program, winning \$5.9 billion in contracts. In 1997 the average value of such a contract was \$228,576, according to the SBA.

Here's how the program works. Each year participating federal agencies establish a monetary goal for contracting with 8(a) companies. For instance, one agency might report that it intends to award up to \$5 million worth of contracts to 8(a) firms. Which contracts are awarded toward that goal is determined on a case-by-case basis, though SBA guidelines stipulate that they be new as opposed to existing contracts.

Companies in the 8(a) program must market themselves aggressively to federal agencies. Once these companies win a contract, it is henceforth regarded as part of the 8(a) program, meaning that only 8(a) companies can compete for it. For example, should the 8(a) firm that initially won a contract become too large to continue in the program, another 8(a) company would be awarded that same contract.

Besides the 8(a) program, federal agencies designate a certain percentage of their annual contracts for exclusive bidding among small disadvantaged businesses. Companies in the 8(a) program enjoy an edge in this arena in that they've already been certified as small and disadvantaged and therefore cannot be accused of violating federal restrictions. Companies forced to resolve such charges typically take more time to fulfill contracts and are viewed less favorably as prospective suppliers.

To be eligible for the 8(a) program, firms must be small, unconditionally owned and

controlled by one or more socially and economically disadvantaged individuals, and demonstrate potential for success. The SBA defines small businesses as being independently owned and operated but not dominant in their field. Depending on the industry, the size standard is based on the average number of employees for the preceding 12 months or on sales volume over a three-year period.

The standard for smallness varies greatly. For example, in the manufacturing sector, the maximum number of employees may range from 500 to 1,500, depending on the product. In the service sector, maximum annual receipts range from \$2.5 million to \$21.5 million, depending on the service. For a complete breakdown of size stan-

dards, visit the SBA's online guide at [www.sba.gov/size](http://www.sba.gov/size).

To assess a company's "potential for success," the SBA looks at technical and managerial experience, operating history, financial resources, and professional certifications. Companies are required to have been operating at least two years as demonstrated by tax returns.

Social disadvantage is presumed on the basis of membership in a historically marginalized group, such as Hispanics. If required by the SBA, "an individual must demonstrate that he or she has held himself or herself out, and is currently identified by others, as a member of a designated group."

When evaluating the economic disadvantage of an individual, the SBA considers

## Beyond Procurement

A prospering 8(a) company looks for non-government customers.

**B**elinda Guadarrama started GC Micro Corp. in 1986 with \$20,000 from the sale of her house. Last year, the Novato, California-based company, which supplies computer products to prime contractors in the aerospace and defense industries, reported revenues of \$26.6 million to place at number 129 on the 1999 *HISPANIC BUSINESS 500*.

As GC Micro nears the end of its nine-year stint in the 8(a) program, Ms. Guadarrama must look for new clients. "The fact that we haven't relied on 8(a) contracts" has served the company well, she says. "We've really diversified in terms of our customer base."

Thanks to this strategy, GC Micro routinely does business with Boeing, Chevron, and Xerox, and its revenues have grown more than 25 percent since 1996. That positions the company to avoid a major pitfall for many 8(a) companies: difficulty getting commercial contracts once their program participation ends.

"We've really diversified in terms of our customer base."



★ Belinda Guadarrama, CEO GC Micro Corp.



average two-year income, fair market value of all assets, access to credit and capital, and the financial condition of the applicant firm. Most importantly, the individual's net worth, excluding his or her equity in the firm and the equity in a primary residence, may not exceed \$250,000. The SBA reports that in 1997, new 8(a) entrepreneurs had an average worth of \$160,522.

Executives interested in 8(a) certification should call the nearest district office of the SBA. District offices can answer general questions over the telephone, and they hold workshops to review requirements and application forms.

**T**he 8(a) application itself covers more than 30 pages, not including support documents. Many firms enlist a consultant to prepare their application package. While the SBA charges nothing to submit an application, consultants' fees can run as high as \$5,000. Managers intent on hiring a consultant should verify his or her track record of submitting successful applications, but also keep in mind that no one can guarantee acceptance into the program.

"Potential 8(a) companies often underestimate the value of using the SBA before they apply," says Salomon Torres, executive director of the National Federation of 8(a) Companies. "The SBA has tremendous resources available for free, so I would advise them to hold off on hiring a consultant or doing it themselves."

Firms can tap into free counseling on 8(a) application procedures by contacting the Service Corps of Retired Executives (SCORE), an SBA-affiliated volunteer organization. Alternately, entrepreneurs can visit SBA-affiliated Small Business Development Centers around the country. For locations of district offices and business centers, visit the SBA Web site at [www.sba.gov/services](http://www.sba.gov/services).

If the SBA deems an application incomplete, it gives the company a chance to supply the missing information. Once the SBA has determined that an application is complete, the agency has 90 days to evaluate it. Evaluations typically take about 45 days. Firms accepted into the program are assigned a business specialist who helps with the development of a business plan. All companies in the 8(a) program are required to submit an annual business plan

to the SBA.

New entrepreneurs sometimes believe 8(a) status will automatically translate into revenue growth. But with thousands of 8(a) companies jockeying for a limited number of contracts, the competition gets fierce even within the program. Mr. Torres notes that often "firms want to just apply and get contracts." Instead, companies should plan a comprehensive marketing campaign. One strategy to learn the system is to subcontract with companies already doing busi-

ness with 8(a) participating agencies. This enables a new firm to establish rapport and a work history with procurement officials.

Although you can't currently apply for 8(a) status online, you can view or print the forms by visiting the SBA library at [www.sba.gov/library/forms.html](http://www.sba.gov/library/forms.html). In addition, the SBA posts information and guidelines about the program on its Frequently Asked Questions page at [www.sba.gov/med/shortq&as.html](http://www.sba.gov/med/shortq&as.html).

## Options for an Entrepreneur

The SBIR and SDB programs open alternative channels of access for small firms.

**W**hile the 8(a) program focuses on minority businesses, the Small Business Administration has two other projects designed to help small companies: the Small Business Innovation Research (SBIR) and Small Disadvantaged Business (SDB) programs.

Under the SBIR program, companies with 500 or fewer employees can receive grants of up to \$850,000 for early-stage research and development. Eligibility is based on self-certification as a small business. SBA coordinates the program, but the R&D projects come from a consortium of 10 federal agencies, with the Defense Department accounting for approximately half of SBIR's \$1.1 billion annual budget.

The process begins with participating federal agencies soliciting proposals for research ideas. Proposals are judged competitively on the basis of scientific, technical, and commercial merit. Companies apply for a six-month Phase I award of up to \$100,000 to test the scientific, technical, and commercial feasibility of a particular concept. If Phase I proves successful, the company may be invited to apply for a two-year Phase II award of up to \$750,000 to further develop the concept, usually to the prototype stage.

Following completion of Phase II, small companies are expected to

obtain funding from the private sector or non-SBIR government sources (for phase III) to develop the concept into a product for sale in private or military markets.

For more information on SBIR, visit the SBA Web site at [www.sba.gov/sbir](http://www.sba.gov/sbir). The Defense Department also maintains an SBIR page at [www.acq.osd.mil/sadbu/sbir/overview.html#overview](http://www.acq.osd.mil/sadbu/sbir/overview.html#overview).

The SDB program resembles 8(a) in that participation requires formal certification. However, the SDB application process is less involved and the eligibility criteria are less stringent. Firms certified through the 8(a) application process are automatically eligible to participate in the SDB program, but not vice versa.

Certified SDBs are listed on a public registry and become eligible for preferences, including a "price evaluation adjustment" of up to 10 percent for bids as prime contractors. Preferences apply only in certain industries in which disadvantaged companies are underutilized, according to Commerce Department studies. The studies rely on a research system known as benchmarking, which determines whether SDBs are full participants in each industry's federal marketplace.

More information on SDB is available on the Web at [www.sba.gov/sdb](http://www.sba.gov/sdb).