

Doing business with the federal government

How to take advantage of this opportunity



**PUERTO RICO'S
SHARE**

By John Marino
pages 16-20

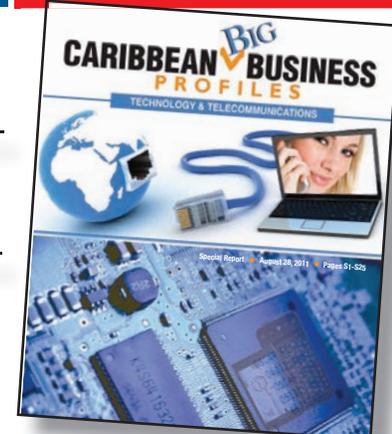
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Sign up for federal contracts

It's a \$500 billion market

BY JOHN MARINO
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Local businesses won \$923 million in federal contracts last year, creating 18,500 direct jobs, while bolstering long-stagnant sectors such as apparel and offering hope for expansion for emerging industries such as information technologies.

Yet, the local share of federal contracts represents just 0.17% of this mammoth market, with the U.S. government buying more than \$500 billion in goods and services every year.

Even after factoring in expected cuts in federal spending over the next several years, the U.S. government will remain the biggest “business” in the world, and one to which Puerto Rico’s business community has paid only scant attention.

Government and private-industry leaders say that despite the challenges

facing local firms entering this market, Puerto Rico has great chances of increasing its share, especially given competitive advantages stemming from federal procurement-preference regulations, as well as a competitive cost structure for many professional services and certain products we can provide.

They also note formidable challenges to such growth, including “rules of play” that sometimes work against small and midsize firms entering this lucrative market, as well as fierce competition from businesses across the U.S. and the need to invest in marketing and related efforts to gain access for success.

The bottom line, however, is that the federal-procurement market represents a great opportunity to grow the local economy, which has been stagnating for the past five years, they added.

“This can be a great economic-

development engine here in Puerto Rico. It has been one of the main economic-development strategies of this administration from the start,” said Economic Development & Commerce Secretary José R. Pérez-Riera.

He cited an administration goal of increasing Puerto Rico’s share of federal contracts to more than \$1 billion by next year and doubling the current amount to \$1.8 billion in 2015.

“A priority for us is to strengthen the participation of Puerto Rico in the federal-procurement market as a mechanism to develop local industry and create jobs.”

Government officials noted that even if it doubled the amount of federal contracts it receives, Puerto Rico would still be getting just 0.34% of all federal contracts, while adding an expected 18,500 jobs.

Puerto Rico gains more

federal-contract dollars than six states (Delaware, South Dakota, Montana, North Dakota, Vermont and Wyoming). Its \$924 million federal-procurement bounty in 2010 is close to the performance of Rhode Island, which won \$933 million that year, and Vermont, which won \$889.7 million.

Most U.S. jurisdictions, however, outperformed the island by far. Two of the bigger winners are Washington, D.C., the seat of the federal government, which won \$21.1 billion in government contracts despite its small size, while Virginia, the home of the Pentagon and many other important U.S. government facilities, received \$58.1 billion in contracts in 2010.

Also last year, Florida received \$9.6 billion, Massachusetts \$15.5 billion, New Jersey \$9.8 billion,

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Hawaii \$2.7 billion and Alaska \$2.4 billion.

It isn't far-fetched, therefore, to envision the day when Puerto Rico will reach the \$5 billion range. At the current pace of 15,000 to 20,000 jobs for every \$1 billion or so in federal contracts, that would mean 75,000 to 100,000 jobs.

STAGGERING NUMBERS

Since the federal government hires companies from many industries for a wide range of work, the jobs would run the gamut.

Currently, nearly half of federal contracts won by local firms are for apparel made mostly for U.S. military agencies, while 30% to 40% are related to construction work, with most of the balance taken up by filling orders for federal agencies located on the island, said Pedro Acevedo, who heads the commonwealth's Federal Contracting Center (FeCC), which orients local firms on accessing the federal-contracts market.

The numbers are staggering. The federal government spends \$157.3 billion annually on manufactured computers, electronics, metal and machinery products, and \$26.22 billion on other manufactured goods, including food, textiles and apparel. Uncle Sam also spends some \$152.4 billion on professional, technical and scientific services each year and around \$90 billion on information technology.

"Federal government agencies spend billions of dollars on goods and services every year," said Juan Woodroffe, a former Puerto Rico Industrial Development Co. (Pridco) and Commerce Development Administration chief who, through his firm Juan Woodroffe & Associates, advises companies on how to enter the federal-procurement market. "Firms in Puerto Rico can compete for this business just like any other firm across the U.S."

Puerto Rico's poor performance in the federal-contracts market—and the big opportunities for improvement—was a topic of discussion during the White House Task Force on Puerto Rico's economic-development summit held here during President Barack Obama's historic visit in June, with top federal officials recognizing that improvements in this area could do a lot to help the



"Getting your 8(a) designation is your license to hunt for preferential government contracts."

—Juan Woodroffe, former Puerto Rico Commerce Secretary and a leading federal-procurement consultant

local economy.

"This area holds enormous potential for Puerto Rico, and there is more awareness than ever before that Puerto Rico must substantially increase its current level of participation," said attorney Andrés W. López, an organizer of Obama's trip and a summit panelist who also advises firms on federal-contract procurement. "Now, President Obama's Task Force is squarely focused on that goal, and the Puerto Rico government is making positive strides in the same direction."

PROCUREMENT PREFERENCES A BOON TO LOCAL FIRMS

Puerto Rico firms, by virtue of

being U.S. firms, have much easier access to the federal-procurement market than its geographical neighbors thanks to the Buy American Act, a law born during the Great Depression that requires the U.S. government to give preference to U.S.-made goods and services in its purchases. (Exceptions to this rule include emergency purchases and when a needed U.S.-made good or service is not readily available, which is often the case for U.S. agencies in foreign countries.)

At the same time, federal-government buying preferences give virtually all Puerto Rico firms minority purchase preference and related benefits, which can help them compete against stateside counterparts.

Most of these preferences are laid out in a 1978 law, which made major revisions to the Small Business Act and stipulates that the federal government give opportunities in its purchases of goods and services to small businesses, disadvantaged businesses, and women-owned and veteran-owned businesses, as well as businesses located in economically depressed areas.

For large contracts (more than \$650,000, or in the case of construction contracts, more than \$1.5 million), the contractor must award subcontracts according to the same procurement-preference schedule, and inform the awarding agency how it intends to give such firms a fair chance to compete for the work.

In general, 23% of all U.S. government contracts should be awarded to small businesses, which are defined by the U.S. Small Business Administration (SBA) according to annual revenue or employee-size standards for each industry. For instance, manufacturing outfits can have up to 500 employees and still qualify, while trade industries can have up to 100 employees.

Another 5% of federal purchases are aimed at women-owned and/or small disadvantaged businesses, which are defined by the owner having a net worth of up to \$250,000, excluding the owner's primary residence, retirement savings and investment in the business.

Meanwhile, another 3% of federal purchases are aimed at disabled-veteran-owned businesses and those located in so-called HUBzones, an SBA acronym for Historically

Underutilized Business Zones. This is another advantage for local firms, as nearly the entire island is classified as a HUBzone, said Acevedo, who added that a revision was to take place shortly, factoring in the latest U.S. Census data.

The more preference attributes a particular firm possesses, the more attractive it will be to a federal-government contractor, the government and private-sector experts said.

Perhaps the most powerful of the preferences, however, is the so-called 8(a) designation, named after the SBA Business Development Program aimed at "helping socially and economically disadvantaged entrepreneurs gain access to the economic mainstream of [U.S.] society."

One of the main ways it accomplishes this is by granting access to such firms in the world of federal-government procurement.

To qualify, a small business must be owned and controlled by a socially or economically disadvantaged individual, which under the Small Business Act includes minorities such as Hispanic Americans.

The program allows federal agencies to set aside contracts for specific 8(a) firms that prove they can fulfill the contract, Acevedo said. For large contracts of more than \$3 million, government agencies hold special bids in which only 8(a) companies compete.

"Getting your 8(a) designation is your license to hunt for preferential government contracts," Woodroffe said.

COMPETING IN THE USA

Competition with Puerto Rico's important sectors such as manufacturing and tourism often comes from foreign destinations, usually with lower labor and operating costs.

The battle for federal contracts, however, is mainly a U.S. game, and Puerto Rico, in many areas, can offer services and goods at lower costs than firms located in wealthier areas of the U.S. Its language and culture also can often be put to work for competitive advantage.

"We are unique. Our employees are bilingual and bicultural, and our pricing is very competitive in many sectors," Woodroffe said. "The average salary in Puerto Rico is about

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30% lower than U.S. mainland salaries. Yet, the federal government looks at a firm in Puerto Rico just like any other firm in the U.S.”

Puerto Rico’s pricing advantage is particularly strong in professional services, such as accounting, information technology and architectural design, an area in which Puerto Rico also boasts an impressive roster of talent.

Frank Sánchez Ruiz, a partner at PKF Torres Llompert, Sánchez Ruiz LLC Accountants & Business Advisers, said salaries in his field on the island are 40% lower than in many U.S. locations. The firm is one of the few here that are breaking into the federal-procurement field.

Government officials looking at boosting federal procurement as an economic-development strategy are getting out the message to federal agencies that doing business with Puerto Rico firms “can be a part of the solution to cutting U.S. government spending.”

The Economic Development & Commerce Department (DDEC by its Spanish initials), through the FeCC, has organized several trade missions to Washington, D.C. aimed at increasing federal-contract awards and is sponsoring the Federal Contracting Conference & Expo 2011 on Aug. 31 in San Juan, which will bring together more than 50 representatives from 30 federal agencies and local businessmen looking to break into or expand their presence in federal procurement.

“We got an extraordinary reception from the federal agencies, who let us know they weren’t aware that we could deliver so many important services to them,” Pérez-Riera said. “We want to send a clear message to the federal government that our businesses are more than capable of providing the goods and services the U.S. government is purchasing, at prices that make sense.”

AN ABUNDANCE OF OPPORTUNITIES

Government and private industry officials say significant opportunities exist for just about every economic sector, with particularly strong potential in a handful of industries.

A big success story in this area is the island’s apparel industry, which long ago lost competitive advantage



Attorney Andrés López said the federal procurement market holds ‘enormous potential’ for Puerto Rico.



“This is a change of culture. We have become accustomed to doing business at home and get panicked at the thought of doing business outside Puerto Rico.”

—CPA Luis Torres Llompert,
former president of the Puerto Rico
Chamber of Commerce

to low-wage destinations in Latin American and Asia, but has been kept afloat by requirements that U.S. military and other government apparel carry the “Made in the USA” label.

Today, some 13 firms operate 27 plants and employ 10,000 workers here who mainly make uniforms for U.S. military personnel.

“We have dozens of businesses manufacturing in Puerto Rico and with the potential to grow more thanks to federal contracts,” said Roberto Monserrate, vice president of the Puerto Rico Manufacturers Association. “It has truly represented a rebirth of this industry.”

Luis Cintrón, of CIMA Manufacturing, said there is still plenty of growth potential here, as the island gets about \$350 million annually, while the Pentagon spends some \$4 billion a year on apparel and related items, such as tents and leather products, covered under the “Made in the USA” rules.

“We are just scratching the surface,” he said.

Acevedo sees a similar potential for federal-government contracts to bolster the electronic-components-manufacturing sector, which, like apparel, once thrived here but has been losing business for the past 20 years to lower-wage markets in Asia.

Two other major areas are information technologies and accounting-related services. Both local industries have great talent working for salaries substantially lower than their state-side counterparts.

The federal government is expected to increase information-technology spending to more than \$100 billion annually, as it looks to increase its online presence and better integrate its vast computer systems.

Having an army of bilingual computer engineers also works to increase Puerto Rico’s competitiveness in this area, government and industry officials said.

Two firms—Excellere Consulting Associates and Xtrategit—are already certified to do business with the U.S. General Services Administration (USGSA) and have nailed down promising leads from a recent commercial mission to Washington, D.C.

Excellere believes the opportunity is so great in the field that it now has

a full-time staff member in the U.S. capital hunting for federal-government contract work, partner Víctor López Rosario said.

Federal agencies are also going green. The USGSA recently announced improvements to facilities and new construction will be green or LEED certified. LEED is short for Leadership in Energy and Environmental Design, the industry standard for green facilities. This represents a great opportunity for the hundreds of LEED-credentialed professionals and firms in Puerto Rico.

The U.S. military is also undergoing a vast green conversion. The Army alone announced last week the creation of the Energy Initiatives Office to farm out \$7.1 billion in renewable-energy projects during the next 10 years.

Substantial opportunities also exist for CPA firms, which the federal government hires to do everything from auditing the expenditure of federal funds granted to nonprofit organizations in foreign countries to performing outside audits of federal-government agencies, said Néstor Kercadó Sánchez, of Kercadó Estrada & Co., a CPA and business-advisory firm.

Woodroffe said Puerto Rico should concentrate on its strengths and look to develop niches within the vast federal-procurement field.

For example, because of the large number of pharmaceutical firms here, many construction firms have developed expertise in building high-tech facilities and clean rooms that can be put to work as they look to win federal contracts.

Another natural niche for local firms could be catering to the needs of federal agencies located in foreign countries in the region.

Woodroffe told of one contractor experienced in security systems that won a contract for an embassy in a foreign country on the strength of having built a similar facility in San Juan for the U.S. Marshals Service.

Finally, the burgeoning Hispanic population across the U.S. also will present greater opportunities, government and industry leaders believe.

Pérez-Riera said the trend would make federal contracting officials more sensitive to ensuring that

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Hispanic-owned businesses are being allowed to compete fairly for government contracts, while Woodroffe pointed to more direct opportunities, such as selling local food to military commissaries.

BIG CHALLENGES FOR A BIG MARKET

Despite the huge potential of the federal-procurement market, there are many challenges facing firms trying to break into it.

“The potential growth from federal-government contracts is immense, but we haven’t known how to take advantage of it,” said Luis J. Torres Llompart, a partner with PKF Torres Llompart, Sánchez Ruiz.

One reason for that is that the “rules of the game within the federal system” limit in certain ways some businesses from Puerto Rico and elsewhere, added Torres Llompart, who said as vice chair of the U.S. Hispanic Chamber of Commerce, he witnessed the difficulties faced by many stateside Hispanic firms in accessing the market.

One example of these rules, said José Maeso, executive director of the Puerto Rico Construction Cluster, was in federal construction bids that required firms to have experience in federal projects over the previous five years, when a federal-government construction freeze on the island prior to the bidding made it impossible for local firms to comply.

Acevedo, however, said federal-government officials have been made aware of the problem and that recent construction bids have been more open to local firms.

In other cases, large government contracts require “a certain structure and capacity” which many local firms may lack. Torres Llompart said the government and private sector are pushing for the establishment of strategic alliances in such cases.

“It could be that a single business from Puerto Rico wouldn’t have the opportunity to compete for a contract, but two or three businesses allied together in Puerto Rico could have lots of opportunities to compete,” he said.

The greater barriers to entering the federal-procurement market, business and government leaders said, have been a mix of fear, lack



“You need to continuously walk the hallways of procurement agencies. Many small firms are so busy in their day-to-day activities that they believe they can’t afford the time needed to penetrate this market.”

—Pedro Acevedo,
director of the local government’s Federal Contracting Center

of knowledge of the market and the comforts of doing business in Puerto Rico.

“This is a change of culture. We Puerto Rican businesspeople have become accustomed to doing business at home and we get panicked at the thought of doing business outside Puerto Rico,” Torres Llompart said. “The growth is outside the Puerto Rico market, which is limited by its size. In simple terms, what we need to do is push the Puerto Rican

entrepreneur to dare to move into this global world of business.”

For Edgardo Bigas, executive vice president of the Puerto Rico Chamber of Commerce, it is more a lack of knowledge of how to tap the federal-procurement market than fears of doing business off-island that has held local businesses back.

He said many chamber members are running businesses at 50% or 60% of capacity and are perfect candidates to access these markets, but

have no idea how to do it.

Bigas said initiatives such as the orientation FeCC provides to local firms, as well as its D.C. trade missions and the upcoming Federal Contracting Expo, “open the enormous market of contracting with the U.S. government” to local firms, and should be supported. He said they were particularly timely given the island’s long economic stagnation.

“Puerto Rico has been living over the past five years through a period of economic stagnation in which when one business grows, it is usually at the expense of another,” Bigas said. “We have been seeing that trend in our membership information for years now.”

WAYS TO GET IN

There are many ways for local firms to break into the federal-procurement market. Firms can market their goods and services via the USGSA schedule, which is an electronic catalog from which procurement officials from across the federal government make purchases.

Firms can also compete directly for agency bids or seek to get a subcontract from an existing federal-government contractor. Both approaches have advantages and disadvantages.

Prime contractors will receive higher profit margins and greater visibility from decisionmakers, which will allow them to compete more effectively for future contracts, Acevedo said.

Prime contractors also get the blame if something goes wrong, and it requires greater knowledge and investment of time and resources to compete successfully.

“Subcontracting is a great way of entering this market,” Acevedo said. “It helps the business enter the market without all the responsibilities, allowing it to get to know the process, build a performance record and get its feet wet.”

The final route is through the SBA 8(a) designation, which allows companies to win set-aside contracts that aren’t open to formal bidding.

Regardless of what route a company takes, however, marketing and research efforts are usually required for success.

“Becoming 8(a) certified doesn’t

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mean anything unless you go after the business,” Woodroffe said, adding that the same is true for a US GSA-schedule listing, or hunting for prime contracts or subcontracts from government agencies.

“By the time a federal-government bid is published, it is usually too late to win it,” Acevedo added.

Research on the types of purchases government agencies are making, as well as contractors already doing business with the federal government, is important for success.

Just like any business relationship, personal contacts can play a big role in federal-procurement decisions, since contracting officials want to be comfortable with the firms that will be working for their agencies.



“You need to continuously walk the hallways of procurement agencies,” Acevedo said. “Many small firms are so busy in their day-to-day activities that they believe they can’t afford the time needed to penetrate this market.”

Woodroffe suggested the Puerto Rico government should “increase the heck out of marketing assistance to firms,” to help them undertake this very important part of cracking the federal-procurement market.

While no specific incentives are available to firms going after federal contracts, Pridco does offer marketing incentives small businesses can tap for this purpose, Acevedo said. The agency also recently named a full-time promoter in Washington, D.C. to search for federal-contract

opportunities for local firms.

Economic Development Bank President Ivonne Otero Guzmán said the entity would roll out a special loan program aimed at the needs of small businesses wanting to tap this

The 12 steps to doing business with the federal government

- 1:** Find out the North American Industry Classification System (NAICS) code and the Federal Supply Classification (FSC) code for your product or service at <http://www.census.gov/eos/www/naics> and <http://www.outreachsystems.com/resources/tables/pscs>.
- 2:** Make sure your business falls within Small Business Administration Size Standards at <http://www.sba.gov/content/table-small-businesssize-standards>.
- 3:** Obtain a DUNS Number from Dunn & Bradstreet at <http://www.dnb.com> free of charge. This business identification number is used like a Social Security number.
- 4:** Register in the Centralized Contractor Registration (CCR) System at <http://www.ccr.gov>. This is required to get a contract from federal civilian or military agencies.
- 5:** Determine if your firm qualifies for 8(a), SDB or HUBZone certification at <http://www.sba.gov>. This will allow you to compete for set-aside contracts.
- 6:** Register in the Online Representations and Certifications Application (ORCA) at <http://orca.bpn.gov>. This central repository holds your company’s certifications and can be accessed by any federal agency.
- 7:** Check the FedBizOpps website for opportunities at <http://www.fedbizopps.gov>.
- 8:** Civilian and Department of Defense (DoD) contracting legal procedures are found in The Federal Acquisition Regulations (FAR) at <https://www.acquisition.gov/far/index.html>.
- 9:** Find out how to get listed on the General Services Administration Schedule through which federal agencies can make purchases for goods and services at <http://www.gsa.gov>.
- 10:** Check the Annual Procurement Forecast of each federal agency to determine if they are potential buyers of your goods or services at http://www.acquisition.gov/comp/procurement_forecasts/index.html.
- 11:** Explore subcontracting opportunities through the SBA or the Department of Defense SADBUs website at http://www.acq.osd.mil/osbp/doing_business/index.htm, which lists all prime contractors by state and point of contacts within each firm.
- 12:** Explore SBA and DoD government mentoring programs that can help you break into this market at <http://www.sba.gov> and <http://www.acq.osd.mil/sadbu>.

Source: Federal Contracting Center

market during the Aug. 31 expo.

In short, business and government leaders say, it takes some work to enter the federal-procurement market, but the potential rewards make it worthwhile.

“The No. 1 obstacle to companies from Puerto Rico winning more contracts is not knowing that the federal government is always looking to expand its vendor base,” Woodroffe said. ■