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NOVEMBER 30, 2001

MANAGING

## Beltway Bound

**As private contracts dry up, small businesses are seeking a slice of the federal pie – work they might have shunned**

For four months, it was the perfect headquarters. By setting up shop on the 93rd floor of the World Trade Center, Marnic Technologies Inc., a computer-networking startup, had placed itself at the center of the financial universe. "You couldn't beat the address," says Executive Vice-President Patrick Duroseau.

Now, with the trade center in ashes, Marnic's 10 employees--all of whom survived the September 11 attacks--are crowded into a temporary space in midtown Manhattan while Duroseau, 29, scouts for a permanent home for his company. He's looking in what he considers the nation's new economic hot spot: Washington, D.C. "If you want to be a serious player," he says, "you have to be in the Beltway."

Duroseau's plan is to reinvent himself as a government contractor. Six months from now, he expects 70% of Marnic's revenues to come from public sources, vs. less than 10% now. "The private sector is anemic," he says. "Our focus has shifted."

**SIGN ME UP.** Such shifts are occurring at small companies nationwide. In the wake of September 11, both consumers and businesses have slashed spending to the bone. But federal expenditures are on the rise. President Bush authorized \$40 billion in emergency spending, and the ongoing war against terrorism is likely to spark more in the months to come--which has not gone unnoticed by struggling small-business owners. At SmallBusinessDepot.com, a Lyndhurst (N.J.) Web site that links would-be vendors with federal contracts, registrations have tripled since September 11, says Executive Vice-President Don Mazzella. "Businesses are smart," says Brian Headd, an economist with the Small Business Administration's Office of Advocacy. "They go where the money is."

Whether much of that money goes to entrepreneurs remains to be seen. Congress mandates that federal agencies award 23% of contracts to small businesses. But the feds have yet to meet that goal. In 2000, small companies received just 18.8% of federal contracting dollars, compared with 19% in 1999, according to Eagle

Eye Publishers Inc., a Fairfax (Va.) research firm that tracks federal contract data. In fact, the number of small businesses awarded prime contracts fell to its lowest level in more than a decade last year, while the average size of the small-business contractor, and the average size of contracts they've received, have swelled. "It's becoming much more difficult for smaller businesses to enter the market," says Darryl Hairston, who oversees contracting-related programs for the Small Business Administration.

And it's about to get worse, thanks to the urgency that surrounds procurement. The Defense Dept. already has exempted contracts valued at \$200,000 or less from rules designed to promote small-business contracting, in an effort to speed up the process. "The priority is security," says Eagle Eye

President Paul Murphy. "Meeting small-business goals becomes a secondary consideration."

**DIFFERENT STROKES.** Entrepreneurs aren't deterred. Tony Crescenzo, CEO of Illumitek Inc., a 28-person software developer in Herndon, Va., is counting on the newfound obsession with security to spark a wave of demand. The company, which produces data-mining software, saw \$400,000 in business evaporate after the terrorist attacks. But Crescenzo is convinced his software platform is uniquely suited to help law-enforcement and public-health agencies in the fight against terrorism. So he's completely redefining his company -- devoting 90% of his marketing budget to cracking the public-sector market. "Everyone's attention is focused on that space," says Crescenzo, 40. "It's where we think we can get our biggest return on marketing."

Crescenzo could be in for a shock. "The same strategies that work in the private sector don't work in the public sector," says Murphy of Eagle Eye. Established contacts are key, and the paperwork can be overwhelming. Duroseau recently submitted a bid for an \$87 million contract to upgrade computer networks at the Defense Dept. The proposal was more than 100 pages long, and Duroseau was forced to turn to a consultant for help. "It's a nightmare," he says.

On the other hand, in a nation turned upside down by terrorism, some entrepreneurs are in the position of having the government approach them. Consider Stephen Coady, CEO of Apelon Inc., a Ridgefield (Conn.) medical-software company with 65 employees. Apelon's signature product is a program that translates scientific and clinical terms into colloquial English. After September 11, Coady was deluged with calls from federal agencies, including the Centers for Disease Control & Prevention and the National Library of Medicine, seeking his software to help monitor reports of symptoms associated with bioterrorism. "We've been waiting nearly a decade for this kind of enthusiasm," Coady says. Not only is he doing something for his country, his country is doing something for him.

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By Larry Kanter

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