APPENDIX F

EXAMINATION OF THE FINANCING AND ITS IMPACT ON SMALL BUSINESSES

BY GEORGE MASON UNIVERSITY
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DOD CONTRACT FINANCING / COST AND PRICING STUDY
Call Order 03
Examination of Financing and its Impact on Small Businesses
Final Report
January 18, 2022

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Executive Summary

The Statement of Objectives (SOO), available in Appendix 1, defines the overall objective of this study: “Identify the obstacles for small businesses to obtain financing in the private sector as well as when doing business with the Department of Defense.” (DoD) This final report addresses this objective, following the structure of the SOO.

Much of America’s innovation, ideation, and creativity comes from the small business world and we should recognize the value DoD and the nation enjoy from this environment. Consequently, it is important that our DoD and federal policies are enabling these engines of innovation to make business decisions to stay creative. Our large businesses inarguably provide the nation’s industrial might and muscle in terms of sheer size and capability, but small businesses have different challenges that are often underappreciated. How they obtain financing to manage and grow their businesses is a major challenge that DoD needs to better understand.

To address the SOO of Call Order 03, the Center for Government Contracting at George Mason University employed a five-step approach to conduct this study:

1. Conduct an initial assessment of the financing obstacles facing small businesses (SOO 1)
2. Develop, launch, and complete an in-depth survey to assess small business financing common practices and challenges (SOO 2)
3. Identify government-compliant accounting systems resources and challenges for small businesses (SOO 3)
4. Refine initial assessment based on survey results and other research (SOO 1-4)
5. Develop and deliver final report (SOO 6)

The research team conducted a survey of small businesses (defined in the SOO as 1250 employees or less with revenues less than $30 million). The survey gathered information covering work in the private sector as well as when doing business with the DoD as a prime contractor or subcontractor. A copy of the survey instrument is available at Appendix 3. The study team received a total of 104 complete responses to the survey, as described in Figure 1.

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>DoD</td>
<td>47</td>
</tr>
<tr>
<td>DoD Prime</td>
<td>14</td>
</tr>
<tr>
<td>DoD Prime and Sub</td>
<td>19</td>
</tr>
<tr>
<td>DoD Sub</td>
<td>14</td>
</tr>
<tr>
<td>Non DoD</td>
<td>57</td>
</tr>
<tr>
<td>Total</td>
<td>104</td>
</tr>
</tbody>
</table>

The respondents to this survey clearly reflected the diversity of today’s small businesses. 47 respondents are primarily a DoD contractor (specific sub-categories defined below).
As a result of the business diversity of the survey population, the study team made the following breakdowns of survey respondents to appropriately address the three SOO small business categories: private sector, DoD prime contractor, and DoD subcontractors.

**DoD prime contractors and DoD subcontractors.** The survey respondents were initially categorized into “DoD” (47 total) and “Non DoD” (57 total) based on whether or not they had experience working with DoD. The study team decided to further break down DoD respondents into “DoD Prime,” “DoD Sub,” and “DoD Prime and Sub” categories based on the extent of their business as a DoD Prime or a Sub. The study team established these sub-categories because nearly half of the DoD survey respondents (25) had both prime and subcontracts with DoD. As the below SOO sections indicate, these companies were small businesses that were both prime contractors and subcontractors. As a result, the study team segmented the 47 DoD respondents as one of the following:
- “DoD Prime:” The 14 respondents with more than 80% of their DoD business as a Prime were categorized as “DoD Prime” because they principally conduct prime contract work.
- “DoD Prime and Sub:” the 19 small businesses that conducted work on both Prime and Subcontracts. Generally, these firms had a relatively balanced (55%-45%, 60%-40%, etc.) share of both prime and sub work.
- “DoD Sub:” the 14 small businesses having more than 80% of their DoD business conducted as a subcontractor.

Applying this typology to the SOO terms,
- **DoD prime contractor:** 33 survey respondents (14 “DoD Primes” + 19 “DoD Primes and Subs”)
- **DoD subcontractor:** 33 survey respondents (19 “DoD Primes” + 14 “DoD Subs”)
- **Small businesses doing business with DoD:** 47 survey respondents (14 “DoD Primes” + 19 “DoD Primes and Subs” + 14 “DoD Subs”)

All subsequent responses to SOO sections and sub-sections analyze this population of respondents for each relevant area.

**Private Sector.** The study team defined “private sector” small businesses as those that conduct some level of their business via commercial contracts. The survey respondents were initially categorized into “DoD” (47 total) and “Non DoD” (57 total) (Figure 1) based on whether or not they had experience working with DoD. Interestingly, not all the 57 “Non-DoD” small businesses had commercial contracts. 16 “Non-DoD” small businesses were other Federal, State, or local contractors, and others were retail small businesses. In total, 67 of the small businesses responding to the survey conducted some level of commercial business. This includes
- 41 of the “non-DoD” small business respondents highlighted in Figure 1.
- 26 DoD small businesses that had commercial business in addition to their DoD contracts.

**Obstacles for Small Business Financing (SOO 1)**

Small business face unique challenges related to managing their financial assets, ensuring consistent cash flow, securing financing and access to capital, as well as being efficient in their operations. While the academic literature focuses generally on the “commercial small business,” the challenges these firms face are relatively universal and highly applicable to small businesses that do business with DoD as a prime or subcontractor. That said, the unique bureaucratic and regulatory environment of DoD does create a different environment for small businesses seeking financing.
The study team’s survey found that private sector and DoD small businesses had a generally clear understanding of their financing options, both customer-funded and other sources of financing. Overall, out of the survey respondents who work with DoD as a prime, ~60% considered DoD provided customer-funded financing and majority of them received the same. Interestingly, however, most DoD small businesses do not consider DoD contract financing payments to be “financing,” even those receiving such payments. The survey also revealed that private sector and DoD primes and subs had clear perspectives on the advantages and disadvantages of each of their respective financing options. Overall, the biggest challenges facing small businesses concerning financing were more closely related to the type of financing (customer-provided or other financing) and not whether the small business was doing business with private companies or DoD.

Subcontractor Financing and Payment Terms (SOO 2)

SOO 2 focused on small businesses performing as a subcontractor, both in the private sector and doing business with DoD. The study team was able to effectively address these SOO questions with the unfortunate exception of financing terms. The survey responses to a series of subcontracting financing questions varied wildly were not suitable for analysis. As a result, the study team was unable to draw any conclusions about small business financing terms for subcontractors.

In the private sector, the survey results demonstrated that payment terms and actual payments are generally 30 days or higher and that payments are usually received on agreed terms, even earlier in some cases. Discounts for prompt payments are not a common practice according to respondents, with less than 10% of subs reporting this as an option. When establishing payment financing terms between a subcontractor and a private company, nearly 50% of the respondents said that it is decided mutually by both parties.

For DoD subcontractors, payment terms are similar in time to those in the private sector, but DoD subs reported delays in actual payments from prime contractors much more so than in the private sector. These responses run contrary to FAR clause 52.232-40, which implemented Section 852 of the FY2019 National Defense Authorization Act (NDAA) direction to accelerate payments to small business subcontracts. (The study team also examined payment terms from DoD to small business primes and the terms and actual payment days for Prime to Sub are higher than that of DoD to Prime. That analysis is found in the Other Relevant Information section) Discounts for prompt payments were slighter higher among DoD subs (12%) than private sector firms, but only marginally. The determination of payment financing terms between a DoD prime and sub substantially differed from those in the private sector. According to respondents, 42% of DoD subs indicated that primes decided terms while 36% said that terms are decided after negotiations and the remaining 22% indicated that they determined payment financing.

The difference between DoD Prime and private sector payments to Subs was also reflected in timeliness. For the private sector, the actual payments to subcontractors are often faster than agreed upon terms while payments from DoD prime contractors to sub-contractors lagged significantly from agreed upon terms.

Survey respondents across all categories identified similar alternatives for action in the case of delayed payment by a prime (DoD or private sector). Cash flow is extremely important for small businesses so delays in contract start or subcontractor payments from primes have significant impacts on private sector and DoD subs as illustrated by survey responses, interviews, and the literature review.
For FAR 32.112-1, Subcontract Assertions of Nonpayment, pure DoD subcontractors were generally unfamiliar with the provision and none had benefited from it. Greater than two thirds of DoD small businesses that had both prime and subcontracts, however, were familiar with the provision and over half had benefited from it.

Government Compliant Accounting System (GCAS) (SOO 3)

The study team’s literature review identified a wide range of free resources available to small businesses to conduct business with DoD and, specifically, to establish a government-compliant (or FAR/DFARS-compliant) accounting system. More than 80% of DoD small businesses have some familiarity with those requirements, particularly those holding either prime contracts or a combination of prime and subcontracts. Pure DoD subs are much less familiar GCAS requirements. DoD respondents across categories indicated challenges in implementing GCAS, but two thirds of DoD respondents have nonetheless implemented a government compliant accounting system.

Other Relevant Information (SOO 4)

During the development of the survey instrument, the study team determined that certain questions would be necessary to provide context, understand the respondents’ backgrounds, and to shape and focus the responses. This included how many perform work on DoD contracts (as prime- and sub-contractors), how many are solely private companies, what the revenue for the companies are, and number of employees. The study team also did some additional analysis based on dialogue with DPC focused on DoD payment terms to small business primes. In addition, the survey directly addresses COVID early on to remove any bias in responses that the most recent experiences might have on the survey results. These results are presented for DoD use and further analysis.

Conclusion

The study team has been honored to conduct this research on private sector and DoD small business financing. We look forward to DoD’s feedback on this final report and stand ready to conduct any follow up briefings or analysis as requested by the Office of Defense Pricing and Contracting (DPC).
Introduction

The Statement of Objectives (SOO), available in Appendix 1, defines the overall objective of this study: “Identify the obstacles for small businesses to obtain financing in the private sector as well as when doing business with the Department of Defense.” This final report addresses this objective, following the structure and intent of the guidance of the SOO. To set the stage, it is important to understand the nature of the operating environment and the role small businesses play in Department of Defense (DoD) acquisition.

According to the U.S. Small Business Administration (SBA), small businesses generate nearly two-thirds of net new jobs in the United States.\(^1\) Another SBA report indicates that small businesses account for 44% of total U.S. economic activity.\(^2\) Deputy Secretary of Defense Kathleen Hicks further noted in 2021 that “small businesses lead the nation in innovation producing 16.5 times more patents than large patenting firms. They deliver rapid operational concepts, prototypes, and demonstrators that allow DOD to respond with agility and efficiency when needed.”\(^3\)

Much of America’s innovation, ideation, and creativity comes from the small business world and we should recognize the value DoD and the nation enjoy from this environment. Consequently, it is important that our DoD and federal policies are enabling these engines of innovation to make business decisions to stay creative. Our large businesses inarguably provide the nation’s industrial might and muscle in terms of sheer size and capability, but small businesses have different challenges that are often underappreciated. How they obtain financing to manage and grow their businesses is a major challenge that DoD needs to better understand.

Study Approach

To address the interest areas in the SOO of Call Order 03, the Center for Government Contracting at George Mason University (hereafter, “the Center”) employed several investigative methods including literature research, regulatory research, an industry survey, and targeted interviews. The study team used a five-step approach to conduct this study:

1. Conduct an initial assessment of the financing obstacles facing small businesses (SOO 1)
2. Develop, launch, and complete an in-depth survey to assess small business financing common practices and challenges (SOO 2)
3. Identify government-compliant accounting systems resources and challenges for small businesses (SOO 3)
4. Refine initial assessment based on survey results and other research (SOO 1-4)
5. Develop and deliver final report (SOO 6)

Initial Assessment

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To conduct the initial assessment, the study team examined the academic business literature on small businesses that work in the private sector or with DoD as prime contractors or subcontractors. The front sections of this final report sections focused on SOO 1 and 3 are comprised principally of these literature reviews. The business literature examined is found in footnotes throughout this final report with the complete list of sources utilized in the References section.

Survey

As directed by the SOO, the research team conducted a survey of small businesses (defined in the SOO as 1250 employees or less with revenues less than $30 million). This survey was designed to validate the findings from the literature review and to gain additional information from small businesses regarding obstacles they face. The survey gathered information covering work in the private sector as well as when doing business with DoD as a prime contractor or subcontractor. A copy of the survey instrument is available at Appendix 3.

Institutional Review Board (IRB)

IRBs review university research proposals before a project begins to determine whether they follow general ethical principles and comply with federal regulations. The intent is to protect the rights and wellbeing of human subjects in research. This study, because it is survey based and thus involving humans, was reviewed by the George Mason University IRB. The IRB reviewed the purpose of the study, the draft survey, and the informed consent form presented to the potential respondents. They determined this project is EXEMPT FROM IRB REVIEW according to federal regulations. That determination was effective August 4, 2021.

Once a determination was made to expand the survey results through select interviews the team submitted an amendment to the IRB outlining the procedures to be followed. That amendment was also determined to be “EXEMPT FROM IRB REVIEW” and that determination was effective December 17, 2021.

Survey Methodology and Structure

The survey was an online survey asking for demographic and business information. The survey was primarily descriptive in nature. As such the survey asked questions about business demographics, types of financing, and payment terms. We also asked questions seeking the respondents’ opinions concerning the timeliness of payments and other data concerning payment and financial terms. We used as the basis for the survey the questions contained in the SOO and Mason-submitted Performance Work Statement (PWS). We did modify some questions to collect more detailed information. This approach ensured we met the specific requirements outlined in the SOO while also ensuring we addressed the larger questions proposed in the research defined in the SOO and PWS.

The survey was structured in six areas:
1. Business Demographics
2. COVID Specific Financial Questions
3. Types of Contracts and Financing availability
4. Payment and Financing Terms
5. Government-Compliant Accounting System
6. Company specific information
We followed the general structure as outlined in the SOO. We added a section early in the survey to specifically address their situation as it relates to COVID. This was done for two reasons. First, we wanted to identify any specific impacts the actions around the pandemic may have had on their business’ financial operations. Second, we wanted to directly address COVID to then be able to explicitly draw attention away from the specifics of the past 1 ½ years to get to the more “generalizable” operations. The intent was to remove any bias in responses that the most recent experiences might have on the survey results.

Given the nature of the questions contained in the SOO and PWS earlier submitted by Mason, the study team structured the survey to collect this information, directly tied to the questions of those documents. These questions allowed the study teams to assess the responses by industry and revenue categories, and other demographic categories. As a follow-up to the survey, we selected a core group of survey respondents to conduct follow-up interviews. As noted, those interviews were in accordance with the revised IRB protocols and intended to give more details to the findings and provide examples when appropriate.

**Survey Population**

The study sought to understand the payment and financial terms for small businesses, especially those small businesses that are sub-contractors for Department of Defense contracts. As such, we actively worked to survey small businesses with an emphasis on surveying those that work on DoD contracts. Our objective as outlined in the PWS was to survey at least 100 small businesses meeting the above criteria, well above the requirement of 30 responses listed in the SOO.

One of the challenges in identifying the pool of respondents was the lack of a readily available database that identifies sub-contractors. There are various databases that identify Prime contractors, readily identified specifically because they are tied directly to specific contracts on the public record. Sub-contractors are generally not required to be identified by the Prime and in many instances may not even realize the work they are doing is part of a DoD contract.

Based on discussions with the DoD Director of Small Business, the study team explored the option of getting access to the companies listed in the Electronic Subcontracting Reporting System (eSRS). eSRS is a web-based government-wide subcontracting system that allows electronic submission, management (acceptance, revision, rejection), creation of reports and analyses of subcontracting data in a real-time paperless environment. The study team had a September 15, 2021 meeting with the Defense Contract Management Agency (DCMA) lead for eSRS to discuss this topic. It was learned at that time that the system is designed for Primes to report information on their subcontracting efforts and does not actually contain information about the subcontractors themselves. One point discussed in the call was that most primes treat their sub-contractor list as “close hold” information.

To ensure an adequate representation of the experiences of small businesses, the study team followed an approach that was geographically dispersed and covered a broad spectrum of companies. To reach the broadest possible demographic base the study team leveraged the Mason School of Business’s (SBUS) long-standing relationship with Qualtrics (https://qualtrics.com). Qualtrics provides strong surveying tools that are regularly used by SBUS faculty. The study team developed the survey in Qualtrics. In addition, Qualtrics provides consulting services to identify, reach, and survey the audience of interest. This ensures a solid base for survey respondents.
As noted above, there was no readily accessible database that identified sub-contractors on DoD contracts. To reach the widest possible pool of potential respondents the study team followed a three-pronged approach:

1. **Qualtrics.** The study team contracted with Qualtrics to deliver completed surveys, with a particular focus on commercial small businesses;

2. **Center Lists.** The second prong focused on the Center for Governmental Contracting’s Advisory Board and the Center’s distribution list of several thousand individuals; and

3. **Associations.** The third prong involved reaching out to trade associations, professional organizations, and other groups that have as their membership, small businesses that met the population requirements for this study.

For the third prong, the study team engaged with numerous organizations with diverse demographic and geographic memberships to help broaden the reach of the study team. These organizations included:

- The Aerospace Industries Association’s Supplier Relations Council
- The Professional Services Council
- The Defense Innovation Unit
- The National Defense Industrial Association
- Northern Virginia Chamber of Commerce
- Small and Emerging Contractors Advisory Forum
- The Reston Chamber of Commerce
- Various state Professional and Technical Assistance Centers
- State Manufacturing Extension Partnership offices

This 3-pronged approach was designed to collect the widest range of respondents to provide the ability to generalize the findings while also providing specificity and granularity to the results.

**Survey Responses**

The study team received a total of 104 complete responses to the survey, as described in Error! Reference source not found.:

![Figure 2. Survey Respondents (DoD vs. Non-DoD)](image)

The SOO outlines three categories of small businesses for analysis: private sector, DoD prime contractors, and DoD subcontractors. Many small businesses, however, are not pure private sector, pure DoD primes,
or pure DoD subcontractors. When asked about the approximate share (percentage) of their total business by contract source, small business respondents selected a wide variety of contract sources—commercial, DoD, State and local, other Federal agencies, etc. 71 of the survey respondents hold contracts with two or more sources and 44 hold contracts with three or more contract sources. Only 33 of the respondents have all their contracts with one source (commercial, DoD, etc.).

As a result of this business diversity in the survey population, the study team made the following breakdowns of survey respondents to appropriately address the three SOO small business categories: DoD prime contractor, DoD subcontractors, and private sector.

**DoD prime contractors and DoD subcontractors.** The survey respondents were initially categorized into “DoD” (47 total) and “Non DoD” (57 total) based on whether or not they had experience working with DoD. The study team decided to further break down DoD respondents into “DoD Prime,” “DoD Sub,” and “DoD Prime and Sub” categories based on the extent of their business as a DoD Prime or a Sub. The study team established these sub-categories because nearly half of the DoD survey respondents (25) had both prime and subcontracts with DoD. As the below SOO sections indicate, these companies were small businesses that were both prime contractors and subcontractors. As a result, the study team segmented the 47 DoD respondents as one of the following:

- **DoD Prime:** The 14 respondents with more than 80% of their DoD business as a Prime were categorized as “DoD Prime” because they principally conduct prime contract work.
- **DoD Prime and Sub:** the 19 small businesses that conducted work on both Prime and Sub contracts. Generally, these firms had a relatively balanced (55%-45%, 60%-40%, etc.) share of both prime and sub work.
- **DoD Sub:** the 14 small businesses having more than 80% of their DoD business conducted as a subcontractor.

Applying this typology to the SOO terms,

- **DoD prime contractor:** 33 survey respondents (14 “DoD Primes” + 19 “DoD Primes and Subs”)
- **DoD subcontractor:** 33 survey respondents (19 “DoD Primes” + 14 “DoD Subs”)
- **Small businesses doing business with DoD:** 47 survey respondents (14 “DoD Primes” + 19 “DoD Primes and Subs” + 14 “DoD Subs”)

All subsequent responses to SOO sections and sub-sections analyze this population of respondents for each relevant area.

**Private Sector.** The study team defined “private sector” small businesses as those that conduct some level of their business via commercial contracts. The survey respondents were initially categorized into “DoD” (47 total) and “Non DoD” (57 total) (Figure 2) based on whether or not they had experience working with DoD. Interestingly, not all the 57 “Non-DoD” small businesses had commercial contracts. 16 “Non-DoD” small businesses were other Federal, State, or local contractors, and others were retail small businesses. In total, 67 of the small businesses responding to the survey conducted some level of commercial business. This includes

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4 Responses to Survey Q11 provide greater detail on this diversity. See p. 66 in SOO 4 section below for additional detail.
- 41 of the “non-DoD” small business respondents highlighted in Figure 2.\(^5\)
- 26 DoD small businesses that have some level of commercial business in addition to their DoD contracts.

All subsequent responses to SOO sections and sub-sections analyze this population of respondents for each relevant area.

Survey responses are included throughout this report where they are relevant to address SOO provisions. An additional set of survey responses focused on demographics, business tenure, the North American Industry Classification System (NAICS) breakout, annual revenues, DoD payment terms, and COVID challenges are included in the Other Information section (SOO 4). The complete list of survey responses is available in Appendix 4.

The remainder of the study approach outlined above was straightforward. In parallel to the survey development, the study team worked to identify government-compliant accounting system resources for small businesses, which also included survey questions (SOO 3). Once the survey responses met the PWS objective, the study team began to refine its initial assessment for this final report.

\(^5\) It is very possible that some number of “Non-DoD” small business respondents may be subcontractors to DoD at some level and they do not know it, given the complexity and depth of the DoD supply chain. The study team, however, could only analyze the survey responses made by the companies.
Obstacles for Small Business Financing (SOO 1)

This section begins with a detailed review of the academic literature on small business financing and then addresses each of the SOO sub-questions with survey results.

Academic Literature Review of Small Business Financing Obstacles

Small business face unique challenges related to managing their financial assets, ensuring consistent cash flow, securing financing and access to capital, as well as being efficient in their operations. A review of the extant small business financial management literature reveals several consistent themes. While the academic literature focuses generally on the “commercial small business,” the challenges these firms face are relatively universal and highly applicable to the defense industry. In fact, the unique bureaucratic environment and regulatory pressure of DoD acquisition requirements may exacerbate some of the challenges these firms face in their financial management and strategic actions.

First, smaller firms have less control over their assets. Specifically, due to their size, small firms are often forced to carry heavier debt loads than larger companies. In order to fuel growth, maintain cash flow, and provide sufficient operational flexibility, small businesses often turn to debt instead of equity and therefore face higher financial leverage (the ratio of debt to owner equity) than larger organizations as well as liquidity issues (measure of a company’s ability to pay debt obligations). Often, small business owners are forced to use their own personal assets (e.g., home mortgage, retirement savings, cash accounts) as collateral in order to secure debt financing.

Second, smaller firms face challenges in their ability to raise financial capital to fuel growth and manage their businesses. As mentioned above, most small businesses use more debt financing than larger companies. In this way, most small companies do not have access or struggle to obtain external equity (i.e., venture capitalists and investors) and instead rely on taking loans from financial institutions (banks, credit unions, etc.) and family members to grow their businesses. One caveat of this characteristic is that small firms face additional month-to-month financial obligations in the form of monthly loan repayments to its debtors than larger organizations who might receive equity funds and be able to operate for years

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without repayment to their investors. Research suggests that these financing challenges will likely change as firms grow and gain experience.

In addition, smaller firms suffer more from information asymmetry concerns. That is, there is uncertainty in their performance, because they have neither a long history of performance nor a range of performance compared to larger more established corporations. Other suppliers, contractors, or federal agencies cannot look to a wide array of other contractual performance by that company. Therefore, there is more uncertainty as to how they will perform and the longevity of their business. There is more risk associated with working with these businesses. Financial markets adjust their offerings based on their assessment of this information as well. Limitations may be placed on small business’s access to capital and increase the interest rates, and therefore incur higher costs associated with capital. In essence, small firms usually are forced to use debt instead of equity markets to grow cash flows and they face higher costs of acquiring this debt than larger, more secure companies.

Third, and this is especially true in government contracting, smaller firms are likely to be more inefficient compared to larger ones. This is especially true in terms of managing the environment of federal acquisition. In other words, small firms do not have sufficient human capital, or administrative support staff, to manage the regulatory environment of federal contracting. This may seem counterintuitive, since smaller firms are generally viewed as more agile than larger companies, and in some cases that can be true, but in the government contracting industry, size affords numerous benefits in terms of capture and performance on a contract that smaller firms cannot match.

For instance, a large corporation may be able to put certain employees on many different projects and leverage the workforce across several different projects. A smaller business may have to bring the same level of expertise (and therefore full-time staff) to bear and may not be able to then spread that workforce, and therefore the payroll, across a significant number of other projects resulting in higher overhead. In addition, there are many other expenses (facilities, utilities, and administrative activities) that result in higher overhead expenses relative to a more active larger firm. There are also compliance and legal aspects of contracting that are just “part of doing business” for larger corporations. Again, these indirect costs are spread across multiple projects in large firms, whereas for smaller businesses these business requirements may be very specific and unique for government contracting operations.

Fourth, small firms are likely to have hybrid asset structures, where the owner and the manager are the same person. This creates unique pressures in terms of financial solvency and actions. When there is a single “owner” who is operating the business and providing the initial if not complete capital investment, then there will be a unique set of pressures—they are playing with their own personal assets, and that carries with it a unique psychological and financial burden. Given this, we may see the owner assume one of two positions. The first is that of a “zealot.” Small business owners often create their business from a passion for the product, service, or the “idea.” This leads them to champion their product and service. While that

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may seem to work toward the advantage of the smaller business, and oftentimes it does, it sets this pressure up where the firm or the business is tied directly to the character and charisma of the owner themselves.

This type of hybrid “Owner/Manager” structure can create a reliance on the owner for the cash flow solvency of the firm. Specifically, firms that have the sole proprietor or owner who functions as the manager and operator of the business then that person’s character, charisma, and integrity drive the business and the owner’s reputation and that of the business merge. At that point, the ability (or perceived ability) of the owner directly drives the ability of the business to access and manage cash. This is often referred to as the entrepreneurial asset of the owner. This becomes a question of “is the firm about the owner and their entrepreneurial spirit or is it about the product or service that they sell?” The degree of agency risk is defined by the level of entrepreneurial asset of the owner. In other words, if the presence of that owner is necessary for the success of the business, and not due to the products or services that they sell, then the firm’s value resides solely on the entrepreneurial asset of the individual. Removing the owner/manager from the organization than greatly reduces the viability of the organization.

Fifth, smaller businesses tend to be more risk averse,\(^{20,21}\) especially if it is reliant on the owner’s financial portfolio. When the owner is the key financing mechanism, then decisions are made that will reflect the risk-taking characteristics of that owner, they may be therefore less innovative and risk taking if they see their personal assets at risk. That said the alternative perspective may well be that small firms are more flexible and able to take on risk easier than a larger firm will because a small firm owner may view this as their chance to push forward an idea or a product that they have been working on for a while.

Therefore, extant literature clearly indicates elemental differences in financial structures, behaviors, and realities for small business compared to those of larger organizations. It is likely that many of these effects are likely to be exacerbated in the government contracting industry due to its structure (many small firms, highly bureaucratic, highly specialized, diverse, and displaced, etc.). In sum, we build from the academic literature to posit that smaller firms generally

- Face difficulties accessing viable capital at a fair and reasonable rate;
- Struggle with timely payments from customers; and
- Often are forced to operate myopically to ensure sufficient cash flow to continue operations.

These three points were generally reinforced through the survey responses apart from DoD prime contractors, who do not struggle with timely payments. The study team’s follow up interviews gave additional albeit anecdotal reinforcement. Commercial financing, for example, was often not available to DoD small businesses in the smaller amounts desired for their operations. According to one small business owner, to make it worth the bank’s while, the businesses were often told “We will need to either provide you a larger loan, or higher interest rates. We cannot afford the paperwork on these smaller loans.” In addition, many of the loans sought were lines of credit, and were identified in the interviews as being necessary because as sub-contractors they were either given net-45 or longer terms by their client or their client simply extended the time to pay (both reflected below in the data set.) These financial terms, and the impacts on the cash flow, often led businesses to shorten their planning horizon. “We need to ensure we have enough coming in to cover this month’s expenses. That creates a whole different set of operational challenges.”


Through all of this, they are also challenged by the inability to access a more structured or formal equity market because of the size and nature of their ownership.

Financing Scenarios (SOO 1(a))

Small business in both the private sector as well as government contracting have several sources of financing available to them to a) maintain existing operations and b) fuel future growth. The type of financing required by the small businesses depends upon the purpose e.g., capital purchase, refinancing debt, working capital etc. and timeframe (short term / long term). Various types of financing not only have a range of turnaround times from application to payout, but they may also have rules on how the money is spent. The terms associated with each of them may also vary. Below are some of the major funding options available for small businesses in the private sector and among small businesses doing DoD work as a prime or subcontractor. The survey results are included after the description of these financing options.

Customer-Provided Financing

Private Sector

The term “customer-provided financing” is not common vernacular in the business literature or among commercial small businesses. That said, there are ways in which private sector small businesses work with the customers that resembles this term. One form of “customer-provided” financing stems from supply chain partners regarding their accounts receivable. A common complaint among small businesses is that their downstream partners, or in the case of government contracting prime and subprime relationship, do not pay their invoices in a timely manner. In fact, a November 2014 report from the Department of Commerce by Helper, Nicholson, and Noonan documented that since 2009, the average days to receive a paid invoice has increased by over 30% (up to 46 days compared to 35 days on average). This has severe consequences for smaller businesses that rely on paid invoices to ensure sufficient working capital to cover operational expenditures.

In other words, when partners take longer to pay, then the small business suffers from potentially having insufficient cash on hand to pay its employees, bills, debt obligations, etc. To compensate for slower payment terms, small businesses have the option of “selling” their accounts receivable to a third party who then collects payment. Referred to as “factoring or reverse factoring,” in this scenario, a small business will sell the rights to its accounts receivable organization who pays the small business minus a fee. This removes the risk of slow payment but does come with a financial downside as the firm fails to realize the full amount of their effort. Dynamic discounting, i.e., offering an incentive to pay earlier, is often a common mechanism used by small businesses to ensure incoming cash flow.

Another emerging trend on the commercial side, usually in business-to-consumer markets, is customer-provided financing via crowdsourcing. This has become popularized by intermediaries such as Kickstarter and other apps that link end customers who might invest in a company with early-stage organizations. These markets arose primarily as a way for small businesses to acquire financing without having to surrender ownership control of the organization as in equity-based markets. In these commercial situations, customers who are often champions of the small business product or service will pledge small amounts, usually less than $1,000, to the organization in exchange for some form of recognition. This often takes the form of unique merchandise, exclusive access to products, promotional pricing terms, or some sort of

22 Helper, et.al, 2014.
The power of these markets comes from hundreds and thousands of small donations from individuals providing sufficient financial capital to fuel the company’s growth strategies.

Apart from crowdsourcing markets, small businesses in business-to-business and business-to-government markets also have access to customer-provided financing in the form of early payment or even pre-payment of services. This is an emerging area in commercial markets that has received scant academic attention. The logic demonstrates that financially stronger customers can provide their financially weaker suppliers with the resources and capabilities needed to perform the work.

**Private company provided financing.** Survey Q31 asked whether the respondents have ever received Private Company provided financing or not and Q32 asked about the type of Private Company provided financing. Private company provided financing includes advance payments, performance-based payments, commercial advance and interim payments, progress payments by the private company.

(Q31. Relevant respondents: private sector, total count: 67
Q32. Relevant respondents: private sector that received private company provided financing, multiple selections possible, total count: 51)

![Figure 3. Private Company provided financing received](image)

When asked about whether they received private company financing, 45% of the respondents confirmed that they received it from their private sector customer in the form of an advance or interim payment, a performance-based payment, a progress payment, or an advance payment.

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DoD Prime Contractors

DoD provides contract financing payments to prime contractors in various circumstances, including small businesses. As described later, however, most DoD small businesses do not understand contract financing payments to be “financing,” even those receiving such payments.

FAR 32.001 defines contract financing payment as an authorized Government disbursement of monies to a contractor prior to acceptance of supplies or services by the Government.25

Contract financing payments include-

i. Advance payments;
ii. Performance-based payments;
iii. Commercial advance and interim payments;
iv. Progress payments based on cost under the clause at FAR 52.232-16, Progress Payments;
v. Progress payments based on a percentage or stage of completion, except those made under the clause at FAR 52.232-5, Payments Under Fixed-Price Construction Contracts, or the clause at FAR 52.232-10, Payments Under Fixed-Price Architect-Engineer Contracts;
vi. Interim payments under a cost reimbursement contract, except for a cost reimbursement contract for services when Alternate I of the clause at FAR 52.232-25, Prompt Payment, is used.

Contract financing payments do not include-

i. Invoice payments;
ii. Payments for partial deliveries; or
iii. Lease and rental payments.

Of note, we learned through direct interviews that small businesses do not see these as financing payments. In several interviews when asked if they had received DoD financing, they responded that they were unaware that it was available. When it was explained that this financing is as listed above they expressed that they saw that more as a form of delivery payment and not as financing. That said, their responses to the survey questions were driven by the definitions provided in the survey.

DoD provided financing. Survey Q13 asked whether the respondents considered pursuing DoD provided financing and whether they ever received DoD provided financing for their contracts. Q14 asked about the type of DoD provided financing received. These questions address the issue of customer-provided financing for DoD small business primes.

Q14. Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’ that received DoD provided financing, multiple selections possible, total count: 27)

25 “FAR 32.001 Definitions,” https://www.acquisition.gov/far/part-32
Overall, out of the 33 respondents who are either DoD primes or have DoD prime and subcontracts, ~60% considered DoD provided financing and majority of them received the same. From the ‘DoD Prime’ category, only 3 respondents considered DoD provided financing and 2 of them received it. From the ‘DoD Prime and Sub’ category, out of the 16 who considered getting DoD provided financing, 14 actually received it, largely in the form of Progress Payments, Performance Based Payments, or Advance Payments.

DoD Subcontractors

Prime contractor provided financing. Survey Q22 asked DoD subcontractors whether the respondents have received Prime contractor provided financing or not, while Q23 asked the type of Prime contractor provided financing. These questions address customer-provided financing for DoD subcontractors.

(Q22. Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, total count: 33, DoD Prime and Sub:19, DoD Sub:14,
Q23. Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’ that received prime provided financing, multiple selections possible, total count: 28)
Figure 5. Prime Contractor provided financing received

Approximately half of the eligible respondents received prime contractor provided financing, with most receiving performance-based payments or commercial financing. Interestingly, majority of the respondents in ‘DoD Prime and Sub’ category have received Prime contractor provided financing while only 1 out of the 14 respondents from ‘DoD Sub’ category received Prime contractor provided financing. This makes sense because DoD Subs are more likely suppliers of parts or components while DoD Primes and Subs are more likely to be partners with primes on larger and more complex programs given their experience with both prime and subcontract work for DoD.

These survey findings support the business literature, which finds that prepayment such as those outlined in DoD- or prime contractor-provided financing is often an important incentive to produce the product or service.2627

Financing Obtained from Other Sources

The preponderance of small business financing comes from sources other than their customer. This section describes the principal options available to private sector and DoD small businesses and the relevant survey results.

Debt-Based Financing

One of the most common types of small business financing is debt-based financing, whereby a small business or entrepreneur enlists the services of a bank or similar financial institution and borrows money

26 Daripa, et. al.
on the promise of repayment, plus interest, of the request amount in the future. There are several key advantages small businesses receive from pursuing debt-based financing. Specifically, small business maintain control over their assets and the organization when taking out a loan. The relationship is temporary, and, with some exception, the financial institution does not influence or control the operations of the organization. There are also tax benefits to the business as they can deduct the interest paid on their loan or line of credit. Loans are also straight forward with set durations and terms, reducing uncertainty and ambiguity for the business regarding their commitments. However, as noted in the previous section, small business loans do have certain disadvantages that hinder their effectiveness. First, some loan types are known as “secured or unsecured.” Unsecured loans rely on the creditworthiness and personal collateral of the individual to secure funding as opposed to the firm. This makes the manager/owner personally responsible for repayment. If the firm cannot make payments or defaults on the loan then the owner’s personal assets and credit ratings may be impacted. Second, businesses must make regularly and consistent payments to the bank on their loan which might not relate to their business cycles. In other words, businesses often face monthly payments but may have highly seasonal or fluctuating sales where cash flow from operations, i.e., accounts receivable, fluctuate significantly throughout the year.

There are a variety of debt-based financing options for small businesses. We provide a synopsis of the more common types below.

*Traditional Bank Loan and Private Lenders*

Traditional bank loan is an affordable way to maintain cash flow or finance business expansion. They are among the most popular loan options for small businesses because of their lower rates and favorable terms generally. However, they might have high qualification standards and stringent documentation requirement.

The Traditional bank loans, along with other private lenders, tend to follow a traditional “financial payment plan” approach. Many small businesses will take out term loans, or a line of credit, to provide financing to either get the business started or to provide ready access to cash as needed. The specific terms (interest rates and durations) can vary depending on the bank or the private institution with the perceived risk driving much of the levels of interest.

*Small Business Administration Loans*

The U.S. Small Business Administration (SBA) has been helping small business borrowers get financing for many years. Except for Disaster Loans (including the Economic Injury Disaster Loans or EIDL) the SBA doesn’t make loans. Instead, it guarantees loans made by participating lenders. There are numerous SBA loan programs, but the most common are SBA 7(a) Loans. These offer qualified U.S. businesses low-interest loans for working capital through a variety of partner lending institutions. The maximum loan amount is $5 million and these loans may be used for a variety of purposes, including working capital, real estate and even refinancing debt.28

*Business line of credit*

Business line of credit gives a business flexibility of using funds as much (or as little) as they want. The bank gives a set limit that a business can borrow against, then pay it back and borrow again.

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28 U. S. Small Business Administration, “7 (a) Loans,” [https://www.sba.gov/funding-programs/loans/7a-loans](https://www.sba.gov/funding-programs/loans/7a-loans). The SBA has numerous other loan programs as well.
The interest rates may range from 5% to 36% depending upon the personal credit score or business credit score.

Term loans

If you know exactly how much a small business needs to complete a specific project or goal, a term loan can be a great option. A term loan offers a fixed amount of financing with a specific repayment period. For online loans, the repayment period is typically 6-24 months. Bank or SBA term loans typically offer a repayment period of anywhere from 2-25 years, depending on the amount borrowed and the use of funds. These loans may carry fixed or variable interest rates. Generally, the lowest rates go to the most qualified borrowers.

Equipment financing

Equipment financing includes loans secured by the equipment, or equipment leasing, which lets the business essentially rent equipment to purchase (or return) later. In the case of equipment financing, the businesses borrow money from the lender for the explicit purpose of purchasing equipment, and the equipment becomes the collateral needed to secure the loan. Like financing any tangible items, the businesses need to keep making payments until the financing is repaid. Rates range from a low 8% to over 30%.

Invoice financing

Invoice financing is a loan secured by accounts receivables. Another version is invoice factoring (also known as “P.O. Factoring”), where the lender advances money from invoices due by other businesses and then may collect on behalf of the small business. These forms of financing tend to charge a monthly interest rate that equates to and APR range from 20%-75%. Thus invoice financing and invoice factoring is one of the more expensive small business loan types available.

Equity-Based Financing

The second type of financing available for small business is known as equity-based financing. Equity-based financing is when an owner seeks outside investors who provide additional access to financial capital, usually for the either the promise of repayment and or a percentage ownership stake in the company. In this scenario, a small business would approach either an individual or an organization, seek out additional capital, in exchange for giving up some percentage of control of the organization.

There are important advantages to small business that can access equity markets. Specifically, this type of financing is generally viewed as less risky than debt-based financing because there usually are not fixed monthly payments the firm must make to the investor. The business enjoys the influx of cash to the organization and does not have to pay back the investor until a time much later in the future. By not making fixed payments, equity-based financing increases the cash available for the business to operate and fuel growth without impacting working capital. There are some downsides with equity-based financing that small business must consider.

First, investors expect a rate of return for their financial investment. In other words, the investor wants more than what they paid into the company. These puts added pressure on the small business to grow and achieve financial success.

Second, investors have control over the operations of the business. The exchange of finances generally involves relinquishing total control of the company. This could be the form of an advisory committee or board being formed that has influence over how the company operates, the markets they enter, the customers they serve, etc.
There are two general types of private equity partners available for small business: angel investors and private equity organizations. Angel investors are individuals who invest in the early stages of a business in relatively smaller quantities (usually less than $1 million quantifies an angel investor). These “early stage” investors do take ownership in the organization and generally provide input into the business and assist in the day-to-day operations of the organization. Private equity organizations, or private equity, are larger corporations that specialize in growing more mature early-stage organizations. These deals are for more established companies and represent significantly larger dollar values, sometimes into the hundreds of millions of dollars.

Private equity investing can come at different stages in the organization and are geared toward companies that have demonstrated value to the marketplace and show significant upside growth. However, the larger the investment the more control the small business transfers to the investor.

Private sector

Other financing options apart from Private company provided financing. Survey Q36 asked about the other financing options available to respondents apart from Private company provided financing. (Q36. Relevant respondents: Private sector, multiple selections possible, total count: 179)

Figure 6. Other financing options apart from Private Company provided financing

Small businesses utilize a variety of financing options apart from private company provided financing such as bank line of credits, self-financing, traditional business loans, SBA loans, small business grants, supplier financing, etc. A few of them also employ bridge loan options such as invoice financing, account receivable financing and purchase order financing.

DoD Prime Contractors and Subcontractors

29 Supplier financing occurs when a contractor purchases materials from a supplier, instead of the contractor paying for the materials. A finance company pays the supplier immediately after the sale and later (after agreed upon period) the contractor pays the finance company, along with a fee, usually a percentage of the purchase. In this context the contractor is the small business working for private company.
**Other financing options apart from DoD financing.** Survey Q18 asked DoD small businesses about the other financing options available to respondents apart from DoD-provided financing.

(Q18. Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 73)

![Figure 7. Other financing options apart from DoD financing](image1)

Small businesses employ many financing options other than DoD provided financing. Some of them are small business grants, bank line of credits, self-financing, traditional business loans, SBA loans, etc. Small businesses also utilize bridge loan options such as invoice financing, account receivable financing and purchase order financing. A few small businesses also take the option of supplier financing.

**Other financing options apart from Prime contractor provided financing.** Survey Q27 asked about the other financing options available to respondents apart from Prime contractor provided financing.

(Q27. Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, multiple selections possible, total count: 80)

![Figure 8. Financing options apart from Prime Contractor provided financing](image2)

DoD subcontractors employ a wide variety of financing options apart from Prime contractor provided financing like bank line of credits, traditional business loan, small business grants, self-financing, SBA guaranteed loans etc. A few subcontractors also use supplier financing, invoice financing, account receivables factoring and purchase order financing.
Advantages and Disadvantages of Financing (SOO 1b)

The study team developed several survey questions designed to learn about advantages and disadvantages of DOD and private financing. The next six sets of responses outline their various financing sources. These responses will demonstrate a significant correlation between the survey responses received and the literature on sources of financing for small businesses. In this report, challenges and disadvantages are synonyms. Throughout this study, and in the follow-up interviews, the disadvantages were presented as things that hindered their use, and thus presented challenges.

Private Sector

Challenges and advantages of Private company provided financing. Survey Q33, Q34 and Q35 asked about the challenges, advantages and disadvantages of Private company provided financing.

(Q33. Relevant respondents: Private sector, multiple selections possible, total count: 50, Q34. Relevant respondents: Private sector, multiple selections possible, total count: 83)

Figure 9. Challenges and advantages of Private Company provided financing

The major challenges of private company provided financing are biased payment disputes handling, over dependency on private company, and high interest rates. Some of the advantages offered by them are fewer constraints on use of funds, timeliness, and fewer administrative requirements.

Challenges, advantages, and disadvantages of other financing options while doing business with a Private company. Survey Q37, Q38 and Q39 asked about the challenges, advantages, and disadvantages of other financing options respectively.

(Q37. Relevant respondents: Private sector, multiple selections possible, total count: 114, Q38. Relevant respondents: Private sector, multiple selections possible, total count: 90)
Some of the key challenges related to these other financing options highlighted by the respondents are higher interest rates, documentation requirements, minimum loan amount, and collateral requirements. Conversely, they also offer advantages like fewer administrative requirements, fewer constraints on use of funds, timely payments and more freedom and flexibility.

**DoD Primes**

**Challenges and advantages of DoD provided financing.** Survey Q15 asked about the challenges faced in obtaining DoD provided financing, while Q16 and Q17 asked about the advantages and disadvantages of them.

(Q15. Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 40
Q16. Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 49)

When asked regarding the challenges faced in obtaining the DoD financing, the major issues highlighted are regulatory requirements, timeliness of payment, administrative requirements (documentation or systems requirement) and restriction on use of funds. Timeliness of payment brings up the issue of the Prompt Payment Act (31 U.S.C. Ch. 39, implemented in FAR 52.232-25), which requires DoD to pay invoices
within 30 days or pay interest. It is not clear from the survey responses, but the fact that timeliness of payment is tied for the top challenge to receiving DoD-provided financing there is at least a negative perception of the timeliness of DoD payments among some survey respondents.

Figure 12. DoD provided financing advantages

The key advantages of DoD-provided financing highlighted by the respondents are assurance of payment, direct funding without intermediaries.

Challenges, advantages and disadvantages of other financing options. Survey Q19, Q20 and Q21 asked about the challenges, advantages, and disadvantages of other financing options respectively.

(Q19. Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 50
Q20. Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 45
Q21. Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 34)

Figure 13. Challenges of other financing options

The major challenges of these other financing options are higher interest rates, documentation requirements, collateral requirements, minimum loan amount.
Other financing options offer many advantages. Unlike DoD provided financing these options have fewer constraints on use of funds and offer freedom to small businesses to use the funds as per their need, fewer administrative requirements, and timely availability of funds.

**DoD Subcontractors**

**Challenges and advantages of Prime contractor provided financing.** Survey Q24, Q25 and Q26 asked about the challenges, advantages and disadvantages of Prime contractor provided financing for DoD subcontractor.

(Q24. Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, multiple selections possible, not all responded, total count: 28
Q25. Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, multiple selections possible, total count: 41)

**Figure 15. Challenges and Advantages of Prime Contractor provided financing**

Challenges of Prime contractor provided financing include over dependency on prime contractor, frequent delayed payments etc. On the flip side, Prime contractor provided financing offers advantages such as no collateral requirement, reduced opportunity costs and financial risk than other financing options such as commercial loans or lines of credit, fewer administrative requirements, cashflow etc.
Challenges, advantages, and disadvantages of other financing options as a Sub contractor. Survey Q28, Q29 and Q30 asked about the challenges, advantages, and disadvantages of other financing options respectively.

(Q28. Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, multiple selections possible, total count: 58
Q29. Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, multiple selections possible, total count: 43)

Figure 16. Challenges and advantages of other financing options as a Sub-contractor

The main challenges of financing options other than Prime contractor provided financing are higher interest rates, documentation requirements, minimum loan amount and collateral requirements. One of the respondents also mentioned a challenge related to requirement to include spouse on loans when they are not associated with the business.

Additional Challenges (SOO 1c)

In reviewing the data presented above it became clear that the biggest challenges facing small businesses concerning financing were more closely related to the type of financing (customer-provided or other financing) and not whether the small business was doing business with private companies or DoD.

Primes Compared to Subcontractors

Challenges with Customer-provided Financing

The differences in the challenges faced by small businesses when the small business is a prime contractor versus a subcontractor were greatest when comparing the challenges with receiving customer-provided financing, as illustrated in Table 1.

When DoD and private sector primes were asked to identify challenges with customer-provided financing they noted that timeliness of payments is a major challenge.

This contrasts with the sub-contractors receiving customer (or Prime) provided financing. In this case they were more concerned with the over-dependency on the Prime for financing and the risks associated with such a great dependence. This ties in with their second challenge—getting timely payments from the Prime.
When your business success is tied to the monies provided by one client (the Prime) and that client pays slowly, it creates a cash-flow problem.

Table 1

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<thead>
<tr>
<th>Challenges Customer Provided Financing</th>
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<td>Prime (DoD &amp; private)</td>
<td>Subcontractor (DoD and private)</td>
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<tr>
<td>Regulatory Requirements</td>
<td>Over-dependency on Prime</td>
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<td>Timeliness of Payment</td>
<td>Frequent Delayed Payments</td>
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<td>Administrative Requirements</td>
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<td>Restrictions on use of funds</td>
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Challenges with Other Financing Options

The two types of small business contracts (Prime, and Sub) were more in line when discussing the challenges faced receiving other funding (seen as the more traditional debt financing noted above). The only significant difference in responses seems to be due to scale. The prime contractors tended to be larger organizations and thus more focused on the debt-to-equity ratio. As noted in Table 2 both categories were concerned with high interest rates and the minimum loan amounts (generally higher for small businesses as noted above) as well as the need for collateral. The smaller businesses even noted (in the survey and in several interviews) that for them to receive loans they often were treated as personal loans putting not only personal assets forward as collateral but requiring a spouse to co-sign.

Table 2

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<thead>
<tr>
<th>Challenges of Other financing Options</th>
<th>Challenges of Other financing Options</th>
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<tr>
<td>Primes (DoD &amp; private)</td>
<td>Subs (DoD &amp; private)</td>
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<tr>
<td>Debt to Equity Ratio Increase</td>
<td>Higher Interest Rates</td>
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<td>Collateral</td>
<td>Documentation</td>
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<td>High Interest Rates</td>
<td>Minimum Loan Amounts</td>
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<td>Minimum Loan Amounts</td>
<td>Collateral Requirements</td>
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<td>Requirement to include Spouse on Loans</td>
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DoD compared to Private Sector

Challenges with Customer-provided financing

When comparing the challenges faced when doing business with the government compared to the private sector, we see an alignment between the challenges DoD sub-contractors face with the challenges the private companies see. They both are more concerned with the over-dependence on the customer for financial support as noted above. Both groups were also concerned with late payments.

Government specific work also carried some specific and unique challenges. Of note is the additional administrative burdens placed on them to support the financing and the restrictions on the use of the funds. In other words, debt based traditional financing can be used to further the business, where in most instances government provided financing carries specific requirements for the use of those funds directly tied to the contract. In one interview when asked about this, they expressed it this way: “When the contract is over,
we will get do the work for the contract, and we will get paid the amount of the contract. The use of funds to continue our operations should be not limited. That keeps us from effectively managing our overall operations.”

Table 3

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<th>Challenges of Customer Provided Financing</th>
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<td><strong>DoD Primes and Subs</strong></td>
<td><strong>Private</strong></td>
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<tr>
<td>Regulatory Requirements</td>
<td>Over-Dependency on Customer financing</td>
</tr>
<tr>
<td>Timeliness of Payment</td>
<td>Biased payment disputes handling</td>
</tr>
<tr>
<td>Administrative Requirements</td>
<td>Timeliness of Payment</td>
</tr>
<tr>
<td>Restrictions on use of funds</td>
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<tr>
<td>Over-dependency on Prime</td>
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<tr>
<td>Frequent Delayed Payments</td>
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</tbody>
</table>

**Challenges with Other Financing Options**

Similarly, there is greater commonality across all small businesses, on public or private contracts, when looking at the challenges small businesses face seeking other financing options. (Table 4) All are concerned with the challenges of collateral, interest rates, and the minimum loan amounts placed on small businesses.

This strongly supports the findings above in the literature review. In addition, these findings from the survey were supported in the select interviews. In fact, these interviews highlighted the challenges they face as a small business seeking business loans. They are often requirement to put personal assets up as collateral and many the business owners interviewed mentioned this and the reluctance to put personal assets at risk.

Table 4

<table>
<thead>
<tr>
<th>Challenges of Other Financing Options</th>
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<tbody>
<tr>
<td><strong>DoD Primes and Subs</strong></td>
<td><strong>Private</strong></td>
</tr>
<tr>
<td>Debt to Equity Ratio Increase</td>
<td>Higher Interest Rates</td>
</tr>
<tr>
<td>Collateral</td>
<td>Documentation</td>
</tr>
<tr>
<td>High Interest Rates</td>
<td>Collateral Requirements</td>
</tr>
<tr>
<td>Minimum Loan Amounts</td>
<td>Minimum Loan amounts</td>
</tr>
<tr>
<td>Documentation</td>
<td>Requirement to include Spouse on Loans</td>
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<tr>
<td>Requirement to include Spouse on Loans</td>
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</tbody>
</table>
Subcontractor Financing and Payment Terms (SOO 2)

SOO 2 focused on small businesses performing as a subcontractor, both in the private sector and doing business with DoD. The study team was able to effectively address these SOO questions with the unfortunate exception of financing terms. The survey asked a series of subcontracting financing questions (Q46, 57, 65) to private sector and DoD small businesses requesting details about financing terms. Specifically, the survey asked about the most common financing payment terms (number of days), the percentage of contract amount receiving financing, and the cost of financing (interest rate).

The responses to these questions on financing terms varied wildly and were not suitable for analysis. The survey questions may have been poorly structured or more productive responses to financing terms may be better addressed through qualitative interviews given the range of possible situations faced by private sector and DoD small businesses.

As a result, the study team was unable to draw any conclusions about small business financing terms, payment days, the nature of basis for financing payments, or the extent of financing payments for commercial or DoD subcontractors. With that exception, the responses and findings presented below address the specific enumerated questions identified in the SOO 2 sub-paragraphs.

Private Sector Delivery Payment/Financing Terms (SOO 2.i)

**Private company payment.** Survey Q59 asked about the contract payment term (number of days) for Private company delivery payment, while Q60 asked about the typical actual payment days for Private company delivery payment.

(Q59. Relevant respondents: Private sector, some did not respond, total count: 63, Q60. Relevant respondents: Private sector, some did not respond, total count: 62)
The first above plot shows scatter plot for Private company payment contract days on X-axis and Private company actual payment days on Y-axis. The diagonal line in blue indicates when the contract payment term (days) matches the actual payment days. All the points below this diagonal line indicate cases of timely payment, while the points above this line show the cases when the payment was delayed. The scatter plot shows significant proportion of points are lying above the diagonal line indicating that the payment by Private companies gets delayed frequently. Interestingly, the median value for actual payment is marginally lower than that of payment term.

**Payment by the Private Company is on time and according to terms agreed.** Survey Q61 asked the respondents about their level of agreement to the statement “The payment from Private company is usually on time.” Q62 asked about their level of agreement to the statement “The payment by the Private company is usually according to terms agreed in the contract.”

(Q61. Relevant respondents: Private sector, some did not respond, total count: 62, Q62. Relevant respondents: Private sector, some did not respond, total count: 62)
The majority of the respondents agree that the payment from the private companies is on time and according to the terms agreed, even sometimes earlier than according to terms. The fact that the median time for actual payment is lower agreed upon provides evidence that private sector primes value their subcontractors and pay them on time or even earlier to keep them as suppliers.

**Product vs. Service small business terms.** The private sector respondents were categorized into ‘Product’ or ‘Service’ categories based on the products or services that they offer.

(Relevant respondents: Private Sector, some did not respond, Product: 30, Services: 33)

The comparison of Private company payment terms and actual payment between Product and Service small business does not show much of a difference as for both the payment terms vary greatly from ‘Up to 15 days’ to ‘121 to 150 days.’
The chart above represents the population dispersion of this information, showing the median for both terms and actual payment. The respondents were categorized into ‘Product’ or ‘Service’ categories based on the products or services that they offer. The boxplots show significant difference between the median values of Private payment terms for product and service. This comparison of Private company payment terms indicates that the payment term days for products are generally higher than that for services. Also, for Products the median value for actual payment days is higher than that for payment term, while on the other hand, for Services the median value for actual payment is lower than that for payment term.

Private company offer discounts for prompt payment. Survey Q64 asked the respondents, whether the Private companies offer them the ability to get paid sooner by “discounting.”

(Q64. Relevant respondents: Private sector, total count: 67)
Responding to the question of whether the Private companies offer them the ability to get paid sooner by ‘discounting,’ 13% of the respondents confirmed that the private companies offer them this facility. They indicated the typical discount to be 1-2% while in some cases it is as high as 10%.

**Determination of payment financing.** Survey Q58 asked who establishes the payment financing terms between them and a Private Company.

(Q58. Relevant respondents: Private sector, some did not respond, total count: 64)

![Figure 22. Determination of payment financing terms – Private Company](image)

Responding to the question of who establishes the payment financing terms between a contractor and a Private company, more than half of the respondents said that it is decided mutually by negotiations by both the parties. Approximately quarter of the respondents feel it is decided by Private company, while the remaining quarter confirmed that it is decided by the contractor.

**DoD Subcontractor Delivery Payment/Financing Terms (SOO 2.ii)**

**Prime Payment.** Survey Q49 asked about the contract payment term (number of days) for Prime delivery payment, while Q50 asked about the typical actual payment days for Prime delivery payment.

The above plot shows scatter plot for Prime payment contract days on X-axis and Prime actual payment days on Y-axis. DoD category of the respondents has been differentiated using colors of the points. The diagonal line in blue indicates when the contract payment term (days) matches the actual payment days. All the points below this diagonal line indicate cases of timely payment, while all the points above this line suggest the cases when the payment was delayed. From the plot it can be observed that a significant number of points, especially for ‘DoD Subs,’ are lying above the diagonal line indicating many cases of payment by Prime getting delayed. These results run contrary to FAR clause 52.232-40, which implemented Section 852 of the FY2019 NDAA direction to accelerate payments to small business prime and subcontracts. This clause requires prime contractors, upon receipt of accelerate payments from DoD, to make accelerate payments to small business subcontractors.

The above box plots show comparison of Prime payment term and Prime actual payment for categories ‘DoD Prime and Sub’ and ‘DoD Sub.’ The plots indicate that generally the Prime payment terms for ‘DoD
Prime and Sub’ category are higher than that for ‘DoD Sub’ category. However, for ‘DoD Sub’ category, the median value for actual payment is higher than the median value for payment term indicating delay in payment.

Comparison of these plots for DoD Prime payment to Sub and the earlier plots of private sector terms and actual payments is striking. While private sector actual payments to subcontractors are often faster than agreed upon terms, DoD Subs payments from Prime lag significantly. As noted above, this also runs contrary to FAR and DFARS guidance on accelerated payments. (In addition, the study team did analysis on DoD payments to Primes, which indicates that the actual payment days for Prime to Sub are higher than that of DoD to Prime. See the end of the Other Relevant Information section for that analysis.)

**Figure 25. Prime Payment Term vs Actual Payment**

Figure 25 is another way to illustrate the data in Figure 24. The plot on the left shows Prime contract payment term (days) for categories ‘DoD Prime and Sub’ and ‘DoD Sub’, while the plot on the right has Prime actual payment days for those 2 categories of respondents. The plots indicate that actual payments from the Prime to Sub are delayed somewhat especially for the payment term of up to 30 days.

**Product vs. Service actual payment terms.** DoD subcontractors were categorized into ‘Product’ or ‘Service’ categories based on the products or services that they offer.

Figure 26. Prime payment terms and actual payment for Product and Service small businesses

![Bar charts showing prime payment and actual payment terms for Product and Service small businesses.]

The comparison of Prime payment terms and actual payment between Product and Service small business shows that for product small businesses the payment terms range from ‘16-30 days’ to ‘121 - 150 days’, while that for Service small businesses vary from ‘Up to 15 days’ to ‘151 – 180 days.’

Figure 27 looks at these results through median values.

Figure 27. Prime payment terms and actual payment for Product and Service small businesses

![Box plots comparing prime payment term and actual payment for Product and Service.]

<table>
<thead>
<tr>
<th>Five Number Summary</th>
<th>Prime Payment for Product Payment Term (Days)</th>
<th>Prime Payment for Product Actual Payment (Days)</th>
<th>Prime Payment for Service Payment Term (Days)</th>
<th>Prime Payment for Service Actual Payment (Days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>29</td>
<td>14</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Lower Hinge</td>
<td>36</td>
<td>48</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Median</td>
<td>81</td>
<td>57</td>
<td>40</td>
<td>56</td>
</tr>
<tr>
<td>Upper Hinge</td>
<td>105</td>
<td>77</td>
<td>81</td>
<td>60</td>
</tr>
<tr>
<td>Maximum</td>
<td>151</td>
<td>153</td>
<td>180</td>
<td>180</td>
</tr>
</tbody>
</table>

The box plots above show the comparison of Prime payment terms for Product and Service. The comparison shows that the median value for Prime payment term for Products is higher than that for payment term for Services. However, the median values show that the actual payments for Services are delayed while that for Products are timely.

**Discounting – Subcontractor perspective.** Survey Q56 asked subcontractors whether their prime contractors offer them the ability to get paid sooner by “discounting.”

(Q56. Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub,’ total count: 33)
Responding to the question of whether their Prime contractors offer them the ability to get paid sooner by discounting, 12% of the Sub contractors confirmed that their Prime contractors offer them this facility. They indicated the typical discount to be ~5%.

Discounting – Prime contractor perspective. Survey Q45 asked whether as a Prime Contractor respondents offer their sub-contractors the ability to get paid sooner by discounting.

(Q45. Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub,’ total count: 33)

When asked as a Prime contractor do they offer their subcontractors the ability to get paid sooner by discounting, less than 10% of the prime responded that they do it. The typical discount percentage mentioned by them is 1 to 2%.

Determination of payment financing terms. Survey Q47 asked the respondents about who establishes the payment financing terms between the DoD Sub and the Prime.

(Q47. Relevant respondents: ‘DoD Prime’, ‘DoD Prime and Sub’ and ‘DoD Sub’, some did not respond, total count: 45)
Responding to the question of ‘who establishes the payment financing terms between a Prime and a Sub’, 42% of the small businesses indicated that payment terms are decided by Prime contractor, while 36% of the respondents said that the terms are decided after negotiations between Prime and Sub. The balance 22% respondents mentioned that the Sub decides the terms of payment financing. The responses to this question differ slightly for DoD categories as ‘DoD Prime’ and ‘DoD Sub’ indicated that the terms are generally decided after negotiations between them or decided by the Prime contractor and Sub do not have much of a say. On the other hand, ‘DoD Prime and Sub’ category respondents gave highest percentage to ‘Sub’ establishing the payment financing terms.

Subcontractors that conduct DoD and Private Sector work Delivery Payment/Financing Terms (SOO 2.iii)

Drawing from the entire field of 104 survey respondents, 20 companies performed subcontractor work for both DoD and private companies. The following analysis compares payment terms of those companies when working with a DoD and the private sector.

We compared the delivery payment terms for DoD small businesses when working as a Sub with that when small businesses work for a private company. The plots do not show any significant difference as for both these scenarios the delivery payment terms vary from ‘Up to 15 days’ to ‘151 – 180 days.’
Figure 32. Payment term and actual payment comparison for Prime and Private Company

There were 20 small business respondents who perform work for both private sector firms and defense contractors. The box plots show the comparison between Prime payment and Private company payment experienced by these respondents. The plots indicate that both the payment term days and the actual payment days are in the similar range and there does not appear a clear difference.

Timely Payments (SOO 2.iv)

The disparity between the payment terms and actual payment payments for DoD Subs when compared to DoD Primes and Subs and the private sector demonstrated in SOO 2.i and SOO 2.ii illustrated plenty of examples were DoD Subs did not receive timely payments. Of particular note from the interviews was the nature and timeliness of payments. Several of those interviewed noted that they were to be paid based on a “net” payment (either 30, or 45) but in a couple instances the net was following receipt of payment by the Prime from the government. This of course presents a challenge to their cash flow management and placed an additional cost burden on the business because they had to then leverage a line-of-credit and pay the associated interest charges as well.

DoD Prime Payment on Time and as per Terms. Survey Q51 asked the respondents about their level of agreement to the statement “The payment from Prime contractor is usually on time.” Q52 asked about their level of agreement to the statement “The payment by the Prime contractor is usually according to terms agreed in the contract.”

(Q51. Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub,’ total count: 33, Q52. Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub,’ total count: 33)
Figure 33. DoD Prime Payment on Time and as per Terms

The above plots show respondents’ level of agreement to the statements related to Prime payment timeliness and as per the terms of the contract. Most of the respondents in ‘DoD Prime and Sub’ category agree that the payment from the Prime is generally on time and as per the contract terms. However, it can be observed that ‘DoD Sub’ category has much higher percentage of respondents who do not agree to that. This underscores the earlier discussion of discrepancies in accelerated payments to small business subcontractors by DoD primes.

Alternatives in case of delayed DoD prime payment. Survey Q53 asked what alternatives are available for DoD Subs in case the payment from Prime is delayed.

(Q53. Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub,’ multiple selections possible, total count: 87)

Figure 34. Alternatives in case of delayed DoD Prime payment

In case of delayed payment from Prime contractor, the most common options used by Sub contractors are using owner’s funds, taking additional debt, reducing salaries, using cash reserves, deferring payments etc.
Under certain severe conditions they may have to resort to laying off employees, downsizing operations or even closing the business.

**Private Company Payment on Time and as per Terms.** Survey Q61 asked the respondents about their level of agreement to the statement “The payment from private company is usually on time.” Q62 asked about their level of agreement to the statement “The payment by the private company is usually according to terms agreed in the contract.”

(Q61. Relevant respondents: Private sector, some did not respond, total count: 62, Q62. Relevant respondents: Private sector, some did not respond, total count: 62)

**Figure 35. Payment by the Private Company is on time and according to terms agreed**

The majority of the respondents agree that the payment from the private companies is generally on time and according to the terms agreed.

**Alternatives in case of delayed payment from Private company.** Survey Q63 asked what alternatives are available for small businesses in case the payment from Private company is delayed.

(Q63. Relevant respondents: Private sector, multiple selections possible, total count: 141)
In case of delayed payment from a private company, subcontractors choose from variety of options like using owner’s funds, take out additional debt, use cash reserves, reduce employee salaries, defer expenses etc. Some respondents mentioned that in case of delayed payment, they may downsize operations, lay off employees etc.

Based on survey responses to Q34 and Q36, the study team infers that there were likely a few instances where the DoD or private sector subcontractor was not paid in accordance with contract terms, although such instances were rare given the small percentage of respondents who stated that they “somewhat disagree” or “strongly disagree” that they were not paid according to the contract terms. Similarly, survey responses to Q35 and Q37 identify the likely recourses that the subcontractors took in this event.

Cash Flow Challenges (SOO 2.v)

Cash flow challenges were a significant small business concern identified in literature review as well as the interviews. During the interviews we heard from one respondent that much of their time managing their business is spent managing cash flow. Of particular interest is the cash flow “crunch” they feel when starting a new contract. They have start-up costs (whether a predominantly service or product-based contract) and need to find ways to absorb those costs. Of course, one of the first resources we heard in the interviews was the use of “personal funds.” This, as noted in the literature review, is often a go-to for small businesses to avoid taking on a debt burden. Of course, if their resources are tight, or if the need exceeds their personal resources their next step most often is to seek lines of credit (LOC) instead of a fixed loan. These LOCs provide the flexibility of only taking on debt as needed and of course, paying off that debt when funds become available.

Subcontractor payment dependency on Prime receiving payment from DoD. Survey Q48 asked as a subcontractor whether their contract payment terms depended on the Prime contractor receiving payment from DoD.

(Q48. Relevant respondents: ‘DoD Prime’, ‘DoD Prime and Sub’ and ‘DoD Sub’, some did not respond, total count: 45)
When asked this question, more than 70% of the respondents mentioned that as a Sub, getting timely payment from a Prime is dependent on the Prime getting paid by the DoD. Generally, respondents across all DoD categories believe that getting timely payment from a Prime is dependent on the Prime getting paid by DoD.

Small businesses regularly face challenges ensuring they have funds to carry them through that start-up period of a new contract—the period defined as “the time they are selected for award of a contract or subcontract to when they receive financing and delivery payments from the customer.” The cash flow challenges small businesses face during this period are similar across the board regardless of whether they are a prime or a subcontractor, DoD or non-DoD small businesses. This is a critical time for ensuring all processes and people are in place and is most often financed through lines of credit or (sometimes) bridge-loans. These all face the challenges identified in our response to SOO 1c—of minimum loan amounts, need for collateral, and higher interest rates.

In addition, the previous discussions on alternatives in case of delayed payment (SOO 2.iv), the academic literature review, and the supplemental interviews all demonstrated the similar challenges that both private sector and DoD small businesses face as well as how small businesses meet cash flow challenges.

FAR 32.112-1 (SOO 2.vi)

**Familiarity with and taken benefits of FAR 32.112-1.** Survey Q54 asked the respondents whether or not they are familiar with FAR 32.112-1, Subcontractor Assertions of Nonpayment. Q55 asked whether or not they have ever taken the benefit of FAR 32.112-1.

The respondents were asked whether or not they are familiar with FAR 32.112-1, Subcontractor assertions of nonpayment, and whether they had taken the benefit of the same. Overall, 57% of the respondents are familiar with FAR 32.112-1 and 30% of them have actually taken the benefit from it. 68% of the respondents in ‘DoD Prime and Sub’ have some familiarity with benefits of FAR 32.112-1 and 53% have taken the benefit of it. Respondents from ‘DoD Sub’ have much lower percentage of familiarity with FAR 32.112-1 (43%) and none of them have taken the benefit of it.
Government Compliant Accounting System (SOO 3)

The SOO noted that a Government Compliant Accounting System is required for progress payments and cost type contracts. Given this, the study team was tasked to identify specifically “What resources are available to small businesses to meet the accounting system requirement?” and then to also identify “What resources or assistance is available without cost to small businesses through the Government?” Each of these required a review of literature and program offerings from government and non-government resources. To set the stage for understanding what can limit a small business’ efforts with accounting systems, the first part of this section reviews the various challenges that small businesses face in implementing structured accounting systems found in the academic literature. This is followed by a description of available resources for small businesses and relevant survey responses.

Small Business Accounting Literature Review

To examine the questions of accounting challenges for commercial and defense small businesses, it is important to understand Government-Compliant Accounting System (GCAS) and other related elements in small business cost accounting that might impact small business’s views of cost accounting challenges. To better reflect the intent and direction of government compliant accounting systems for defense purposes, we will be referring from here on to a “FAR/DFARS-compliant accounting system.”

Based on a comprehensive literature review by Lopez and Hiebl, there are four factors that influence management accounting systems in small and medium-sized businesses: firm size, environment, key staff characteristics, and organizational structure.

Firm size is one of the most important determinants of management accounting usage. Larger firms make more use of management accounting systems, and are also more likely to use more sophisticated management accounting techniques, such as activity-based costing.

External environmental factors affect management accounting systems in multiple ways. Studies find higher usage of management accounting systems in small and medium-sized businesses when economies are opened up more and social control is higher, when business competition is stronger, when perceived environmental uncertainty is higher, when external contingencies, such as cash-flow crises or shortages

35 Ibid.
in funding sources exist,\textsuperscript{37} when country’s own corporate culture includes lifetime employment or nonoccidental influence,\textsuperscript{38,39} and when the business has gone through an internationalization process.\textsuperscript{40}

Key staff characteristics that help the development of management accounting systems include: training of the owner/manager or the finance and accounting staff,\textsuperscript{41} great sense of responsibility and involvement of the owner/manager,\textsuperscript{42} engagement of nonfounder CEOs\textsuperscript{43} and nonfounder CFOs.\textsuperscript{44}

Organizational structure has a variety of factors that might influence the use of management accounting system. Factors that increase usage of management accounting system include higher span of control, profitability, and authority,\textsuperscript{45} venture capital financing,\textsuperscript{46} complex organizational structure,\textsuperscript{47} a manufacturing focus of the business,\textsuperscript{48} authoritative management system,\textsuperscript{49} decentralized business organization,\textsuperscript{50} advanced information system practices,\textsuperscript{51} the business being part of an informal business group/conglomerate,\textsuperscript{52} and financial restructuring of the business.\textsuperscript{53} Factors that decrease usage of management accounting system include simple organizational structure,\textsuperscript{54} limited available resources, and higher family influence.\textsuperscript{55}

\textit{FAR/DFARS-Compliant Accounting System}

For small businesses doing business with DoD or other U.S. government agencies, a FAR/DFARS-compliant accounting system is important. A FAR/DFARS-compliant accounting system is common vernacular for describing an accounting system and associated set of policies and procedures that would be

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\textsuperscript{41} Alattar, J. M., et. al. (2009).


\textsuperscript{45} Amat, J., S. et.al.

\textsuperscript{46} Da’vila, A., and G. Foster. (2007).


\textsuperscript{48} Askarany, D., H. et. al. (2010).


\textsuperscript{52} Hopper, T., T. et. al.


\textsuperscript{55} Alattar, J. M., et. al. (2009).
deemed compliant with federal requirements following a Defense Contract Audit Agency (DCAA) audit. Before awarding certain contract types, DCAA auditors will examine the company’s accounting system to validate that it is capable of maintaining records according to DCAA standards.

In cases where small businesses’ contract has not been formally awarded, they may be concerned about the expense of installing a comprehensive and expensive accounting system platform. In this situation, DCAA does not require the accounting system to be fully in place. Instead, the small business can offer a demonstration of the proposed accounting system’s capabilities, making a commitment to install and fully transition bookkeeping over to the new platform once the contract is final.

The specific attributes of an accounting system that would be deemed adequate or acceptable (per the specific requirement) are outlined in a variety of government statutes and referenced in the DCAA audit manual (e.g., the Federal Government’s SF1408 Pre-award Audit Survey, FAR Part 31, DFARS 252.242-7006). The Department of Defense expects contractors to demonstrate best practices that are supported by FAR/DFARS-compliant business processes and systems to be awarded major contracts.

In particular, DFARS 252.242-7006 (a) (1) defines an acceptable accounting system as: “a system that complies with the system criteria in paragraph (c) of this clause to provide reasonable assurance that—(i) Applicable laws and regulations are complied with; (ii) The accounting system and cost data are reliable; (iii) Risk of misallocations and mischarges are minimized; and (iv) Contract allocations and charges are consistent with billing procedures.” DFARS 252.242-7006(a) (2) defines an accounting system as: “the Contractor’s system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions”, which may include subsystems for specific areas such as billing and labor.

Whether a compliant accounting system needs to be adequate depends on the contractor’s circumstances and contract types. For example, negotiated firm-fixed price contracts do not require an approved accounting system, only that the cost or pricing data submitted meets the cost or pricing data requirements (as defined by FAR 15.4). However, under cost reimbursable contracts the accounting system must be adequate and approved by the government (as defined by FAR 16.3). In some cases, the government requires an adequate accounting system under time and material contracts as well on a case-by-case basis.

The study team learned through both the survey and the interviews that, while small businesses that are sub-contractors generally do not need to have a FAR/DFARS compliant accounting system, many work to develop such as system. They do this first and foremost to ensure they can transition to prime contractor status when the opportunity presents itself. These businesses feel it is prudent to put such a system in place prior to bidding on these contracts to better position themselves for award and success in execution.

Resources/assistance available without cost to small businesses (SOO 3a)

As part of the literature review, the study team examined free resources for small businesses with respect to developing a government-compliant accounting system and, more generally, doing business with the government. This section has been updated to include additional resources. In addition to these free resources, many DoD small businesses utilize paid resources to improve their position as a prime or subcontractor or develop a government-compliant accounting system. These include numerous software platforms and outsourcing accounting services to an accounting firm.
**Government resources to support the development of a government-compliant accounting system**

**Department of Defense, Defense Contract Audit Agency (DCAA)**

- ([https://www.dcaa.mil/ChecklistsAndTools/](https://www.dcaa.mil/ChecklistsAndTools/)) provides a list of checklists and other tools for prospective contractors to refer to in getting a head start on assessing the adequacy of their submissions prior to a mandatory DCAA audit. DCAA auditors use the same checklists, as well as the ICE model and EZ-Quant applications, to assess various financial and pricing components of a contractor’s proposal.

- ([https://www.dcaa.mil/Guidance/Audit-Process-Overview/](https://www.dcaa.mil/Guidance/Audit-Process-Overview/)) lists useful information to assist contractors in understanding DCAA audit processes, including contact information for small business contractors specifically, and targeted presentations addressing concerns relevant to smaller contractors.

- ([https://www.dcaa.mil/Locator/](https://www.dcaa.mil/Locator/)) features an office locator of DCAA’s 300 field audit offices throughout the United States, as well as foreign locations.


**Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR)**

- ([https://www.sbir.gov/tutorials/accounting-finance](https://www.sbir.gov/tutorials/accounting-finance)) supplies a free small “crash course” detailing how to have an accounting system that will be approved for the receipt of a cost-reimbursement contract or fixed-price contract that involves progress payments.

**DoD Office of Small Business Programs**


**Additional Federal and State government-supplied resources and tools for doing business with government**

**Support Network:**

**Department of Defense, Office of Small Business Programs** ([https://business.defense.gov/Small-Business/Marketing-to-DoD/](https://business.defense.gov/Small-Business/Marketing-to-DoD/)) provides a list of
government resources and tools, as well as a step-by-step guide that can help small businesses win DoD contracts.

**PTACs** (Procurement Technical Assistance Centers; https://www.aptac-us.org/): help small businesses compete for and execute contracts with DoD and other federal agencies. Most PTAC services are free.

**SBDCs** (Small Business Development Centers; https://www.sba.gov/local-assistance/find?type=Small%20Business%20Development%20Center&pageNumber=1): provide aspiring entrepreneurs and small business owners free one-on-one training in business plan development, finance and marketing:

**SCORE** (https://www.sba.gov/local-assistance/find?type=SCORE%20Business%20Mentor&pageNumber=1): holds events and workshops across the country to match entrepreneurs with local, volunteer mentors.

**Veterans Resources** can be found at: https://business.defense.gov/Small-Business/SDVOSB/Veterans-Resources/

**ChallengeHER** (https://challengeher.us/): was launched in 2013 by Women Impacting Public Policy (WIPP), American Express OPEN and the Small Business Administration to boost government contracting opportunities for WOSBs. ChallengeHER provides free workshops, mentoring and direct access to government buyers.

**Understanding the rules:**

a. [Federal Acquisition Regulation](https://www.acq.osd.mil/dpap/dars/far.html)

b. [Defense Federal Acquisition Regulation Supplement](https://www.acq.osd.mil/dpap/dars/dfarspgi/current/)

c. DCAA’s electronic format of the [Contract Audit Manual](https://www.dcaa.mil/content/home)

**Registering in SAM:**

a. [Beta System for Award Management](https://sam.gov/content/home): The FAR requires all federal government contractors to be registered in the beta.SAM. Your local PTAC can help you complete your SAM registration for free. SAM’s website includes FAQs, user guides, helpful hints and videos. If you have questions about SAM, you can contact the Federal Service Desk at 866–606–8220.

**Targeting your market:**


**Pounding the pavement:**

The Small Business Administration’s PCRs (Procurement Center Representatives; https://www.sba.gov/federal-contracting/counseling-help/procurement-center-representative-directory) help small businesses obtain federal contracts. They review agencies’ acquisition strategies to ensure that small businesses get their fair share of contracting opportunities.
Additional free non-government accounting resources for small businesses

- General accounting resources for small business: https://www.accounting.com/resources/small-business/
  - **Wave**: one of the best options available for sole proprietors, freelancers and small businesses. It’s a simple and straightforward option for managing cash flow and keeping your finances in order.
  - **ZipBooks**: one of the best options for anyone new to accounting. The software is completely free and is a good option for businesses with limited accounting needs. You’ll receive essential bookkeeping tools, and you can manage unlimited customers and vendors. However, the free plan comes with limited integrations and only allows you to connect to one bank account.
  - **NCH Express Accounts**: a free desktop accounting software for business with five employees or fewer. The software can be used to generate quotes, send invoices and track expenses. And the software lets you generate over 20 different financial reports so you can monitor how your business is performing financially. You can also break down your sales by customer, team member or item.
  - **Zoho Invoice**: one of the best options available when it comes to automating your invoicing workflow. The free version allows you to invoice up to five customers and create five different invoicing workflows. The free version is only available for one user, so it’s a better option for small businesses with limited bookkeeping needs.
  - **Akaunting**: provides free online accounting software for small businesses with no strings attached. There’s no limited trial or premium version for you to upgrade to; the software is always completely free. To access many of the advanced features, you’ll have to download multiple third-party apps, which may not be free.
  - **GnuCash**: free desktop accounting software which can be downloaded from the company’s website. With GnuCash, you can manage your bank accounts, cash flow and monthly expenses. The software is actually designed for personal and business use, but it contains many beneficial features for small businesses, e.g., tracking customers and vendors, sending invoices and even managing your employee payroll.
  - **AND CO**: was designed with freelancers and independent contractors in mind. It’s owned by the freelancing platform Fiverr, but you can use the software whether you’re a Fiverr user or not. With AND CO, you can send invoices, and the software will let you know when your client views the invoice. You can accept credit cards and ACH payments directly from your invoices. And the software offers many other features that are useful to freelancers, like time tracking, expense management and recurring payments.
  - **Cloud Books**: free invoicing and accounting software for freelancers and small businesses. You can use the software to send estimates and invoices, accept payments and track expenses. The free version only lets you send five invoices per month to one customer. If you choose to upgrade to unlimited invoices, the paid version is just $10 per month.
- **Odoo**: makes it easy to send professional invoices and receive online payments. Once you’ve sent your invoice, you can monitor its progress and send automated reminders to customers. You can also use Odoo to monitor your point-of-sale transactions, expenses and inventory. It’s free for a single user, but if you need to add additional users, you’ll have to pay to upgrade. If you’re looking for free accounting software that can grow with your business, Odoo is one of the best options on this list.

- **Sunrise**: free bookkeeping software for small businesses. You can automatically import your transactions and monitor your income and expenses. And you can use the app to create invoices and accept online and mobile payments.

Survey Responses for Government Compliant Accounting Systems (SOO 3b)

Three accounting questions were included in the survey. These sub-sections follow.

**Most challenging aspects of GCAS (SOO 3bi)**

**Familiarity with Government Compliant Accounting System.** Survey Q66 asked whether the respondents are familiar with the Government Compliant Accounting System or not and Q67 asked whether they implemented it or not.

(Q66. Relevant respondents: ‘DoD Prime’, ‘DoD Prime and Sub’ and ‘DoD Sub’, one did not respond, total count: 46

![Figure 39. Familiarity with Government Compliant Accounting System](image)

More than 80% of the DoD respondents have some familiarity with the government compliant accounting system. The percentage of respondents with familiarity with the Govt. Compliant Accounting system is significantly higher for ‘DoD Prime’ and ‘DoD Prime and Sub’ categories as compared to ‘DoD Sub’.
When asked about the most challenging aspects of Govt. Compliant Accounting System, some of the key aspects mentioned by the respondents are hiring and training of qualified accounting staff, understanding and compliance of GAAP, FAR, GAGAS and DCAA requirements, preparing for GCAS approval, understanding and compliance of Cost Accounting Standards (CAS) etc. Small businesses are exempt from CAS per 48 CFR 9903.201-1(b)(3). The fact that numerous survey respondents cited it as challenge may indicate the respondents’ overall familiarity with GCAS requirements or, alternatively, it may indicate a small business’s recognition of eventual CAS requirements when it grows to exceed small business categories.

Successfully developing a GCAS (SOO 3bii)

Difficulty and most challenging aspects of implementing Government Compliant Accounting System. Survey Q68 asked about the difficulty in implementing a Government Compliant Accounting System, while Q69 asked about the most challenging aspects of implementing it.
Q68. Relevant respondents: ‘DoD Prime’, ‘DoD Prime and Sub’ and ‘DoD Sub’, multiple selections possible, total count: 94,

Figure 41. Difficulty in implementing Government Compliant Accounting System

Respondents across categories indicated that the Govt. Compliant Accounting System is designed for larger businesses, the learning curve is steep, requires highly skilled manpower, doesn’t match their business operations etc.

Implementing a Government Compliant Accounting System.

Figure 42. Implemented Government Compliant Accounting System

Approximately half of the DoD respondents have implemented a government compliant accounting system and another 14% have implemented it by contracting out to accounting firm. Majority of the respondents in ‘DoD Prime’ and ‘DoD Prime and Sub’ categories have implemented the Govt. Compliant Accounting system either in-house or by contracting out, while more than half from ‘DoD Sub’ category have not implemented it.

Small business awareness of free resources (SOO 3biii)
**Awareness about free government resources that can aid in doing business with the government.** Survey Q70 asked about respondents’ awareness about free government resources that can aid them doing business with government.

(Q70. Relevant respondents: All respondents, some did not answer, total count: 100)

**Figure 43. Awareness about free government resources**

Approximately 2/3rds of the respondents are somewhat aware about the free government resources e.g., DCAA, PTACs, SBDCs, etc. that can aid in doing business with the government.
Other Information Relevant to Study (SOO 4)

This section provides additional details surrounding the demographics and other aspects of the survey. In the development of the survey instrument, the study team determined that certain questions would be necessary to provide context, understand the respondents’ backgrounds, and to shape and focus the responses. This included how many perform work on DoD contracts (as prime- and sub-contractors), how many are solely private companies, annual revenues, number of employees, etc. In addition, the study team surveyed concerning NAICS to understand the general types of products/services offered. These were necessary to provide context for the responses and ensure we were meeting the requirements of the SOO definition for “small businesses.” The study team also did some additional analysis, based on dialogue with DPC, on payment terms, actual payments, and other areas focused on DoD payments to small business primes. In addition, the survey has a couple early COVID questions. This was to focus on the “near term” through the initial set of questions to then draw attention away from the specifics of the past 1 ½ years to get to the more “generalizable” operations. The intent was to remove any bias in responses that the most recent experiences might have on the survey results. These results are presented for DoD use and further analysis.

Respondents’ NAICS Category. Survey Q1 asked about respondents’ industry category as per NAICS (North American Industry Classification System).

(Q1. Relevant respondents: All respondents, total count: 104)

Figure 44. NAICS Category for all respondents

We have the highest number of responses from NAICS category 54 Professional, Scientific and Technical Services with 32 respondents followed by 23 Construction (14 respondents) and 44-45 Retail Trade (11 respondents).
For both DoD and Non-DoD respondents, the maximum number of responses are from NAICS category 54 Professional, Scientific and Technical Services. Categories 23 Construction, 44-45 Retail Trade and 31-33 Manufacturing also have significant number of responses for both DoD and Non-DoD respondents.

**Employee Strength.** Survey Q3 asked regarding employee count for respondents. (Q3. Relevant respondents: All respondents, total count: 104)

Approximately 2/3 of the respondents have employee count below 100. The share of respondents with employee count below 100 is much higher for Non-DoD than that of DoD. One third of DoD respondents...
have employee count between 101 and 500. This indicates, among the survey respondents, that DoD small businesses are larger than Non-DoD small businesses in terms of employee strength.

**Annual Revenue.** Survey Q4 asked about respondents’ annual revenue.

(Q4. Relevant respondents: All respondents, total count: 104)

![Annual Revenue](image)

The respondents are distributed across all 4 categories of annual revenue with approximately 2/3 of the respondents having annual revenue falling into 2 categories – ‘$100K to $1 million’ and ‘$1 million to $10 million’. For DoD respondents, the highest two categories of annual revenue between $1 million - $30 million account for more than 60% their share as against to Non DoD respondents for which this share is 35%. This highlights the point that DoD small businesses are larger than their Non DoD counterparts.

**Business Location.** Survey Q5 asked about the location (state) of respondents’ business.

(Q5. Relevant respondents: All respondents, total count: 104)
The responses have been received from 27 different states with the maximum number of responses coming from Virginia (25), followed by Texas (15) and California (9).

**Small business categories.** Survey Q6 asked the respondents whether they qualify for small business categories such as 8(a) firm, Women-Owned Small Business (WOSB), Service-Disabled Veteran-Owned Small Businesses (SDVOSB) etc.

(Q6. Relevant respondents: All respondents, total count: 104, total count of SB categories: 131)

Out of the total 104 respondents, 20 do not belong to any special small business category, 63 qualify for one of the special small business categories such as 8(a) firm, Women-Owned Small Business (WOSB), Service-Disabled Veteran-Owned Small Businesses (SDVOSB) etc. 21 respondents qualify for multiple small business categories simultaneously. Women Owned Small Business (WOSB) is the highest represented category with 43 respondents followed by 8(a) Firm with 32 respondents. 20 respondents do not qualify for any special small business category.

**Business structure.** Survey Q7 asked about the business structure of the respondents.

(Q7. Relevant respondents: All respondents, total count: 104)
The highest 35 respondent small businesses are sole proprietorship firms followed by 33 that are LLCs. ‘LLCs’ have the highest representation in DoD respondents while for Non DoDs, ‘Sole proprietorship’ has the highest share. Within DoDs, majority of the ‘DoD Prime’ and ‘DoD Sub’ categories are LLCs or S Corps, while ‘DoD Prime and Sub’ category has majority of sole proprietorship and partnership firms.

**Covid-19 Impact on getting financing.** Survey Q8 asked what the effect of Covid-19 pandemic was on respondents’ ability of getting financing.

(Q8. Relevant respondents: All respondents, total count: 104)

When asked about the impact of Covid-19 on ability to get financing, more than half of the respondents stated that Covid-19 impacted their ability to get financing adversely, with about a quarter of them saying there was no impact for them.
**Covid-19 Impact on Payment timing.** Survey Q9 asked what change the Covid-19 pandemic has had on the timelines of receiving payments from customers.

(Q9. Relevant respondents: All respondents, multiple selections possible, total count: 143)

**Figure 52. Covid-19 Impact on Payment timing**

Responding to the question as how Covid-19 affected the payment timelines, some of the small businesses indicated that they faced issue of customers taking longer time to pay than normal or requesting to change the payment terms lengthening the time to pay. On the other hand, a few small businesses asked to change the terms to shorten the time to pay to improve their cash flow.

**DoD Experience.** Survey Q10 asked about whether the respondents have any prior experience of working with DoD as Prime and / or Sub – Contractor and if yes, what was the number of years of experience.

(Q10. Relevant respondents: All respondents, total count: 104, DoD Prime: 14, DoD Prime and Sub: 19, DoD Sub:14)

**Figure 53. DoD Experience**

Out of the 47 DoD respondents, more than half have up to 5 years of experience of working with DoD, while 10 small businesses have more than 10 years of DoD experience. The break-up in terms of years of
experience across categories of ‘DoD Prime’, ‘DoD Sub’ and ‘DoD Prime and Sub’ does not vary much with ‘up to 5 years’ being the dominant segment across all of them.

**DoD Payment.** Survey Q40 asked about the contract payment term (number of days) for delivery DoD payment, while Q41 asked about the typical actual payment days for delivery DoD payment.

(Q40. Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, total count: 33  
Q41. Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, total count: 33)

**Figure 54. DoD Payment**

The respondents were asked to mention typical DoD contract payment term in terms on number of days and typical actual DoD payment days based on their experience. The plot above shows scatter plot for respondents with contract payment days on X-axis and actual payment days on Y-axis. DoD category of the respondents has been highlighted using different colors of the points. The diagonal line in blue is an indication when the contract payment term (days) matches the actual payment days. Hence, all the points below this diagonal line indicate cases of timely payment, while all the points above it show cases when the payment was delayed.

The plot above and the data in Figures 55-57 below raise questions, however. We can observe that except for a few cases, the payment by DoD is generally on time. Those plots above the line would be in violation of the Prompt Payment Act, 52.232-25. In addition, the length of payment terms that DoD prime contractors identified in several cases were well above the 30 days required under the Prompt Payment Act. Taking out Primes and Subs, Figure 55 illustrates that Primes track 100% on 30-day terms and actual payments. The 30-day term does not, however, track with DoD efforts to accelerate payments to small business prime and subcontractors under FAR 52.232-40.

These discrepancies could arise from a number of sources, including:

- Survey respondents, generally small business CEOs, are answering from memory and giving their perspective; they may not be tracking invoices, payments, and contract terms with the detail of a CFO, for example
- Survey respondents could be conflating other factors that delay payment such as ratification actions
Figure 55. DoD Payment Term and Actual Payment by DoD Status

The above box plots show how the DoD payment days vary for ‘DoD Prime’ and ‘DoD Prime and Sub’ categories. For ‘DoD Prime’ category the median value of 30 days is much lower than that for ‘DoD Prime and Sub’ category (65 days) which shows that pure Prime contractors have indicated to have better payment terms than the ones who do both Prime and Sub work. However, for both the categories the median values for actual payment are equal or lower than that of payment terms indicating the payment by the DoD is usually on time.

DoD payment timeliness and as per terms. Survey Q42 asked the respondents about their level of agreement to the statement “The payment by DoD is usually on time”. Q43 asked about their level of agreement to the statement “The payment by DoD is usually according to terms agreed in the contract”.

(Q42. Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, total count: 33
Q43. Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, total count: 33)
The plot on the left shows the respondents’ degree of agreement with the statement that ‘payment by DoD is usually on time’, while the plot on the right indicates their level of agreement to the statement that ‘payment by DoD is generally as per terms of the contract’. The plots show that majority of the respondents from both ‘DoD Prime’ and ‘DoD Prime and Sub’ categories agree that the payment from DoD is generally on time and is as per the contract terms.

**Alternatives in case of delayed DoD payment.** Survey Q44 asked about the alternatives available for Prime contractors in case of delayed payment from DoD.

(Q44. Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 86)

In cases when the payment from DoD is delayed, the small businesses revert to alternatives such as using owner’s funds, taking out additional debt, deferring expenses and payments etc. A few respondents indicated that under certain conditions they have downsize the operations or even close the business.
**Primary Contract Source.** Q11 asked small businesses to identify the approximate share (percentage) of their total business from contract sources: DoD, Other Federal, State and Local Government, Commercial, etc. Figure 58 illustrates the largest contract source for each of the respondents.

(Q11. Relevant respondents: all respondents, total count: 104)

![Figure 58. Primary Contract Source](image)

The largest number of respondents are working primarily as commercial small businesses (40 count). DoD-focused contractors (21) are the next largest, followed by Other government (State or local government contractors, 19), and Other Federal contractors (14). There are a few respondents who get their business principally through retail or other sources.
Conclusions and Recommendations for Further Research

This study of private sector and DoD small businesses and their respective practices and challenges has provided great insights into the financing practices and financial relationships among these types of firms. The survey results, literature reviews, and selective interviews have provided a good perspective on the similarities and differences between commercial and DoD small businesses. In short, there are more similarities than differences, but the differences in areas such as customer-provided financing, payment for subcontractors, and accounting are substantial. We hope that this final report addressing the study objectives, including the additional relevant information, will assist DoD as it develops future small business financing policy.

There are two areas that we recommend for consideration for additional research: financing terms and DoD contract financing. Both topics were in the SOO and the study team asked numerous survey questions and conducted follow up interviews on these topics. The responses to these questions on financing terms varied wildly and were not suitable for analysis. The survey questions may have been poorly structured or more productive responses to financing terms may be better addressed through qualitative interviews given the range of possible situations faced by private sector and DoD small businesses. Separately, a focused effort on DoD small businesses that have received or are receiving contract financing might shed more light on that issue.

The study team has greatly appreciated the opportunity to work with DPC officials throughout this call order. The regular meetings and detailed feedback and guidance from DPC sponsors has been extremely helpful as the study team developed the survey and conducted research on the challenges facing private sector and DoD small businesses. We look forward to DPC’s feedback on this final report and stand ready to conduct any follow up briefings or analysis as requested.
Project Deliverables (SOO 6)

The study team met all project milestones and deliverable dates as outlined in Table 1.

Table 5: CO-03 Deliverables

<table>
<thead>
<tr>
<th>Name</th>
<th>Due Date</th>
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</thead>
<tbody>
<tr>
<td>Kickoff briefing</td>
<td>May 25, 2021</td>
</tr>
<tr>
<td>Progress briefing #1 (SOO 6.c)</td>
<td>Jun 21, 2021</td>
</tr>
<tr>
<td>Progress briefing #2 (SOO 6.c)</td>
<td>Jul 23, 2021</td>
</tr>
<tr>
<td>Progress briefing #3 (SOO 6.c)</td>
<td>Aug 17, 2021</td>
</tr>
<tr>
<td>Initial Report (SOO 6.a)</td>
<td>Sep 21, 2021</td>
</tr>
<tr>
<td>Progress briefing #4 (SOO 6.c)</td>
<td>Oct 22, 2021</td>
</tr>
<tr>
<td>Progress briefing #5 (SOO 6.c)</td>
<td>Nov 2021</td>
</tr>
<tr>
<td>Progress briefing #6 (SOO 6.c)</td>
<td>Dec 2021</td>
</tr>
<tr>
<td>Final report (SOO 6.a)</td>
<td>Jan 14, 2022</td>
</tr>
<tr>
<td>Progress briefing #7 (SOO 6.c)</td>
<td>Jan 26, 2022</td>
</tr>
<tr>
<td>Progress briefing #8 (SOO 6.c)</td>
<td>Feb 14, 2022</td>
</tr>
<tr>
<td>Raw data used in the study (SOO 6.b)</td>
<td>Jan 26, 2022</td>
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</table>
References


Appendix 1: Study Statement of Objectives (SOO)

DOD CONTRACT FINANCING/COST AND PRICING STUDY
Statement of Objectives

Call Order 03
Examination of Financing and its Impact on Small Businesses

Objective: Identify the obstacles for small businesses to obtain financing in the private sector as well as when doing business with the Department of Defense.

1) What are the obstacles for small businesses* to obtain financing when performing work in the private sector as well as when doing business with the Department of Defense as a prime contractor or subcontractor?
   a) Distinguish between customer-provided financing and financing obtained from other sources in each scenario.
   b) Identify the advantages and disadvantages of each financing scenario to the small business.
   c) Address the differences in challenges when the small business is a prime contractor versus a subcontractor and performing work for the Government versus the private sector.

2) Based on surveys of small businesses, what are the prevalent delivery payment terms and financing terms for small businesses when performing as subcontractors? In answering this question, include the following: number of payment days** associated with financing payments; number of payment days** associated with delivery payments and any discounts associated with prompt payment; nature of basis for financing payments, e.g. event based, calendar based, cost based, etc.; extent of financing payments, e.g. 90% of cost incurred on a monthly basis; and any other relevant information. The survey will yield a minimum of thirty small business responses.
   i) Identify the delivery payment/financing terms that are most commonly employed for small businesses performing work in the private sector. Do payment/financing terms differ based on the type of product/service provided by the small business? If so, provide examples. Who establishes terms between the prime and small business, and are they negotiable?
   ii) Identify the delivery payment/financing terms that are most commonly employed for small businesses performing work as a subcontractor to a defense contractor for work on defense contracts. Do payment/financing terms differ based on the type of product/service provided by the small business? If so, provide examples. Who establishes terms between the prime and small business, and are they negotiable?
iii) For small business subcontractors who perform work for both private sector firms and defense contractors, address how delivery payment/financing terms differ by prime contract type if applicable.

iv) Are there any examples where the prime contractor payments are not timely? If so, how did the small business address this issue? Were there any instances in either the government or private sector where the subcontractor was not paid in accordance with the terms of their contracts, and what recourses did the subcontractor have or take?

v) Address any cash flow challenges experienced by small businesses from the time they are selected for award of a contract or subcontract to when they receive financing and delivery payments from the customer. Are the challenges different for small businesses serving as a prime contractor to the Government versus as a subcontractor to a large-business prime contractor? How do small businesses meet the challenges?

vi) Are there examples where a subcontractor successfully took advantage of FAR 32.112-1 Subcontractor Assertions of Nonpayment? Are subcontractors aware of this provision?

3) A Government-compliant accounting system is required for progress payments and cost type contracts. What resources are available to small businesses to meet the accounting system requirement?

a) What resources or assistance is available without cost to small businesses through the Government?

b) Based on surveys of small businesses:

i) What aspect(s) of a Government-compliant accounting system is considered to be the most challenging by small businesses?

ii) How did small businesses successfully develop a government-compliant accounting system?

iii) Assess small business awareness of free Government resources to aid them in doing business with the government.

4) Report any other information that you believe would be relevant to this study and why.

5) Follow-Up Activities
Researchers will make themselves available for questions and briefings for a 30 day period following delivery of the final report.

6) Deliverables
a) Report and briefing that addresses the objective as well as the results and supporting calculations for the questions described in the preceding paragraphs. Initial report, showing progress to date, due 120 calendar days after contract start date. Final report and briefing due no more than 240 calendar days after contract start date.
b) Raw data used in the study, as requested by the Government.

c) Monthly status briefing that will identify progress, explain difficulties, and pinpoint any potential delays in completing all tasks.

7) 6.0 DATA RIGHTS

The copies of any Contractor generated records, files, documents, data, and work papers, provided to the Government in performance of this task order shall become and remain Government property and shall be maintained and disposed of IAW Air Force Manual 33-363, Management of Records; AFI 33-364, Records Disposition – Procedures and Responsibilities; and other regulations, as applicable. The copies of any Government generated records, files, documents, data, and work papers, provided to the Contractor in performance of this task order, or derivatives thereof, are and shall remain Government property, and shall be returned to the Government at the completion of this contract. Software licensing terms shall not conflict with Federal law or regulation. In accordance with the Defense Federal Acquisition Regulation Supplement 239.7602-1, “DoD shall acquire cloud computing services using commercial terms and conditions that are consistent with Federal law, and an agency’s need. Contracting officers shall incorporate any applicable service provider terms and conditions into the contract by attachment or other appropriate mechanism.” The Government shall not be bound by any licensing terms or other restrictions on the use, modification, reproduction, release, performance, or disclosure of software not incorporated by attachment or other appropriate mechanism.

*For the purpose of this study, use the following size standards to determine whether a company is a small business: 1,250 or fewer employees for supplies and $30 million or less in sales for services.

**Payment days are the number of days between submission of an invoice by a subcontractor and payment by the prime contractor
Appendix 2: Terms and Definitions

Some of the key terms and definitions that are used during this study are listed below.

**Definitions created for the purpose of this study**

**Small Business:** A company is considered as a small business if it has 1,250 or fewer employees for supplies and $30 million or less in sales annually for services.

**DoD Respondents.** A small business that has experience working with DoD as a prime or subcontractor.

**DoD Prime:** A small business that performs more than 80% of their DoD business as a prime contractor—they principally conduct prime contract work.

**DoD Prime and Sub:** A small business that performs work for DoD as both a prime and subcontractor.

**DoD Sub:** A small business that performs more than 80% of their DoD business as a subcontractor—they principally conduct sub-contractor work.

**Private Sector Respondents.** Small businesses that conduct some level of their business via commercial contracts.

**DoD provided financing:** Contract Financing Payments as described in FAR language below.

**Prime contractor provided financing:** Advance payments, performance-based payments, commercial advance and interim payments, progress payments by a DoD prime contractor to a DoD subcontractor.

**Private company provided financing:** Advance payments, performance-based payments, commercial advance and interim payments, progress payments by a private sector small business to a subcontractor.
**Other financing options:** This category includes SBA guaranteed loans, line of credit provided by banks, traditional business loan, small business grants, investor/self-financing, bridge loan (invoice financing/account receivables factoring/purchase order financing), supplier financing etc.

**Payment days:** the number of days between submission of an invoice by a subcontractor and payment by the prime contractor.

**FAR Terms and Clauses**

**Contract financing payment:** An authorized Government disbursement of monies to a contractor prior to acceptance of supplies or services by the Government.\(^{56}\)

Contract financing payments include-

i. Advance payments;

ii. Performance-based payments;

iii. Commercial advance and interim payments;

iv. Progress payments based on cost under the clause at FAR 52.232-16, Progress Payments;

v. Progress payments based on a percentage or stage of completion, except those made under the clause at FAR 52.232-5, Payments Under Fixed-Price Construction Contracts, or the clause at FAR 52.232-10, Payments Under Fixed-Price Architect-Engineer Contracts;

vi. Interim payments under a cost reimbursement contract, except for a cost reimbursement contract for services when Alternate I of the clause at FAR 52.232-25, Prompt Payment, is used.

Contract financing payments do not include-

i. Invoice payments;

ii. Payments for partial deliveries; or

iii. Lease and rental payments.

**Delivery payment:** a payment for accepted supplies or services, including payments for accepted partial deliveries. Commercial financing payments are liquidated by deduction from these payments. Delivery payments are invoice payments for prompt payment purposes.

**Invoice payment:** A Government disbursement of monies to a contractor under a contract or other authorization for supplies or services accepted by the Government.

1) The Government disbursing office;

\(^{56}\) “FAR 32.001 Definitions – Part 32 Contract Financing,” [https://www.acquisition.gov/far/part-32](https://www.acquisition.gov/far/part-32)
2) The contract administration office;

3) The office accepting the supplies delivered or services performed by the contractor;

4) The contract audit office; or

5) A nongovernmental agent.

**FAR 52.232-25 Prompt Payment.**

Prompt Payment (Jan 2017)

Notwithstanding any other payment clause in this contract, the Government will make invoice payments under the terms and conditions specified in this clause. The Government considers payment as being made on the day a check is dated or the date of an electronic funds transfer (EFT). Definitions of pertinent terms are set forth in sections 2.101, 32.001, and 32.902 of the Federal Acquisition Regulation. All days referred to in this clause are calendar days, unless otherwise specified. (However, see paragraph (a)(4) of this clause concerning payments due on Saturdays, Sundays, and legal holidays.)

(a) Invoice payments-

(1) Due date.

(i) Except as indicated in paragraphs (a)(2) and (c) of this clause, the due date for making invoice payments by the designated payment office is the later of the following two events:

(A) The 30th day after the designated billing office receives a proper invoice from the Contractor (except as provided in paragraph (a)(1)(ii) of this clause).

(B) The 30th day after Government acceptance of supplies delivered or services performed. For a final invoice, when the payment amount is subject to contract settlement actions, acceptance is deemed to occur on the effective date of the contract settlement.

(ii) If the designated billing office fails to annotate the invoice with the actual date of receipt at the time of receipt, the invoice payment due date is the 30th day after the date of the Contractor’s invoice, provided the designated billing office receives a proper invoice and there is no disagreement over quantity, quality, or Contractor compliance with contract requirements.

(2) Certain food products and other payments.

(i) Due dates on Contractor invoices for meat, meat food products, or fish; perishable agricultural commodities; and dairy products, edible fats or oils, and food products prepared from edible fats or oils are-

(A) For meat or meat food products, as defined in section 2(a)(3) of the Packers and Stockyard Act of 1921 (7 U.S.C. 182(3)), and as further defined in Pub.L.98-181, including any edible fresh or frozen poultry meat, any perishable poultry meat food product, fresh eggs, and any perishable egg product, as close as possible to, but not later than, the 7th day after product delivery.

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(B) For fresh or frozen fish, as defined in section 204(3) of the Fish and Seafood Promotion Act of 1986 (16 U.S.C. 4003(3)), as close as possible to, but not later than, the 7th day after product delivery.

(C) For perishable agricultural commodities, as defined in section 1(4) of the Perishable Agricultural Commodities Act of 1930 (7 U.S.C. 499a(4)), as close as possible to, but not later than, the 10th day after product delivery, unless another date is specified in the contract.

(D) For dairy products, as defined in section 111(e) of the Dairy Production Stabilization Act of 1983 (7 U.S.C. 4502(e)), edible fats or oils, and food products prepared from edible fats or oils, as close as possible to, but not later than, the 10th day after the date on which a proper invoice has been received. Liquid milk, cheese, certain processed cheese products, butter, yogurt, ice cream, mayonnaise, salad dressings, and other similar products, fall within this classification. Nothing in the Act limits this classification to refrigerated products. When questions arise regarding the proper classification of a specific product, prevailing industry practices will be followed in specifying a contract payment due date. The burden of proof that a classification of a specific product is, in fact, prevailing industry practice is upon the Contractor making the representation.

(ii) If the contract does not require submission of an invoice for payment (e.g., periodic lease payments), the due date will be as specified in the contract.

(3) Contractor's invoice. The Contractor shall prepare and submit invoices to the designated billing office specified in the contract. A proper invoice must include the items listed in paragraphs (a)(3)(i) through (a)(3)(x) of this clause. If the invoice does not comply with these requirements, the designated billing office will return it within 7 days after receipt (3 days for meat, meat food products, or fish; 5 days for perishable agricultural commodities, dairy products, edible fats or oils, and food products prepared from edible fats or oils), with the reasons why it is not a proper invoice. The Government will take into account untimely notification when computing any interest penalty owed the Contractor.

(i) Name and address of the Contractor.

(ii) Invoice date and invoice number. (The Contractor should date invoices as close as possible to the date of the mailing or transmission.)

(iii) Contract number or other authorization for supplies delivered or services performed (including order number and line item number).

(iv) Description, quantity, unit of measure, unit price, and extended price of supplies delivered or services performed.

(v) Shipping and payment terms (e.g., shipment number and date of shipment, discount for prompt payment terms). Bill of lading number and weight of shipment will be shown for shipments on Government bills of lading.

(vi) Name and address of Contractor official to whom payment is to be sent (must be the same as that in the contract or in a proper notice of assignment).

(vii) Name (where practicable), title, phone number, and mailing address of person to notify in the event of a defective invoice.
(viii) Taxpayer Identification Number (TIN). The Contractor shall include its TIN on the invoice only if required elsewhere in this contract.

(ix) Electronic funds transfer (EFT) banking information.

(A) The Contractor shall include EFT banking information on the invoice only if required elsewhere in this contract.

(B) If EFT banking information is not required to be on the invoice, in order for the invoice to be a proper invoice, the Contractor shall have submitted correct EFT banking information in accordance with the applicable solicitation provision (e.g., 52.232-38, Submission of Electronic Funds Transfer Information with Offer), contract clause (e.g., 52.232-33, Payment by Electronic Funds Transfer-System for Award Management, or 52.232-34, Payment by Electronic Funds Transfer-Other Than System for Award Management), or applicable agency procedures.

(C) EFT banking information is not required if the Government waived the requirement to pay by EFT.

(x) Any other information or documentation required by the contract (e.g., evidence of shipment).

(4) Interest penalty. The designated payment office will pay an interest penalty automatically, without request from the Contractor, if payment is not made by the due date and the conditions listed in paragraphs (a)(4)(i) through (a)(4)(iii) of this clause are met, if applicable. However, when the due date falls on a Saturday, Sunday, or legal holiday, the designated payment office may make payment on the following working day without incurring a late payment interest penalty.

(i) The designated billing office received a proper invoice.

(ii) The Government processed a receiving report or other Government documentation authorizing payment, and there was no disagreement over quantity, quality, or Contractor compliance with any contract term or condition.

(iii) In the case of a final invoice for any balance of funds due the Contractor for supplies delivered or services performed, the amount was not subject to further contract settlement actions between the Government and the Contractor.

(5) Computing penalty amount. The Government will compute the interest penalty in accordance with the Office of Management and Budget prompt payment regulations at 5 CFR Part 1315.

(i) For the sole purpose of computing an interest penalty that might be due the Contractor, Government acceptance is deemed to occur constructively on the 7th day (unless otherwise specified in this contract) after the Contractor delivers the supplies or performs the services in accordance with the terms and conditions of the contract, unless there is a disagreement over quantity, quality, or Contractor compliance with a contract provision. If actual acceptance occurs within the constructive acceptance period, the Government will base the determination of an interest penalty on the actual date of acceptance. The constructive acceptance requirement does not, however, compel Government officials to accept supplies or services, perform contract administration functions, or make payment prior to fulfilling their responsibilities.
(ii) The prompt payment regulations at 5 CFR1315.10(c) do not require the Government to pay interest penalties if payment delays are due to disagreement between the Government and the Contractor over the payment amount or other issues involving contract compliance, or on amounts temporarily withheld or retained in accordance with the terms of the contract. The Government and the Contractor shall resolve claims involving disputes and any interest that may be payable in accordance with the clause at FAR 52.233-1, Disputes.

(6) Discounts for prompt payment. The designated payment office will pay an interest penalty automatically, without request from the Contractor, if the Government takes a discount for prompt payment improperly. The Government will calculate the interest penalty in accordance with the prompt payment regulations at 5 CFR Part 1315.

(7) Additional interest penalty.

(i) The designated payment office will pay a penalty amount, calculated in accordance with the prompt payment regulations at 5 CFR Part 1315 in addition to the interest penalty amount only if-

   (A) The Government owes an interest penalty of $1 or more;

   (B) The designated payment office does not pay the interest penalty within 10 days after the date the invoice amount is paid; and

   (C) The Contractor makes a written demand to the designated payment office for additional penalty payment, in accordance with paragraph (a)(7)(ii) of this clause, postmarked not later than 40 days after the invoice amount is paid.

(ii)

(A) The Contractor shall support written demands for additional penalty payments with the following data. The Government will not request any additional data. The Contractor shall-

   (1) Specifically assert that late payment interest is due under a specific invoice, and request payment of all overdue late payment interest penalty and such additional penalty as may be required;

   (2) Attach a copy of the invoice on which the unpaid late payment interest is due; and

   (3) State that payment of the principal has been received, including the date of receipt.

(B) If there is no postmark or the postmark is illegible-

   (1) The designated payment office that receives the demand will annotate it with the date of receipt, provided the demand is received on or before the 40th day after payment was made; or

   (2) If the designated payment office fails to make the required annotation, the Government will determine the demand’s validity based on the date the Contractor has placed on the demand, provided such date is no later than the 40th day after payment was made.

(iii) The additional penalty does not apply to payments regulated by other Government regulations (e.g., payments under utility contracts subject to tariffs and regulation).
(b) Contract financing payment. If this contract provides for contract financing, the Government will make contract financing payments in accordance with the applicable contract financing clause.

(c) Fast payment procedure due dates. If this contract contains the clause at 52.213-1, Fast Payment Procedure, payments will be made within 15 days after the date of receipt of the invoice.

(d) Overpayments. If the Contractor becomes aware of a duplicate contract financing or invoice payment or that the Government has otherwise overpaid on a contract financing or invoice payment, the Contractor shall-

(1) Remit the overpayment amount to the payment office cited in the contract along with a description of the overpayment including the-

   (i) Circumstances of the overpayment (e.g., duplicate payment, erroneous payment, liquidation errors, date(s) of overpayment);

   (ii) Affected contract number and delivery order number if applicable;

   (iii) Affected line item or subline item, if applicable; and

   (iv) Contractor point of contact.

(2) Provide a copy of the remittance and supporting documentation to the Contracting Officer.

FAR 32.009 Providing accelerated payments to small business subcontractors.

FAR 32.009-1 General.

Pursuant to the policy provided by OMB Memorandum M-12-16, Providing Prompt Payment to Small Business Subcontractors (and as extended by OMB Memorandum M-13-15 and M-14-10, both titled, Extension of Policy to Provide Accelerated Payment to Small Business Subcontractors), agencies shall take measures to ensure that prime contractors pay small business subcontractors on an accelerated timetable to the maximum extent practicable, and upon receipt of accelerated payments from the Government. This acceleration does not provide any new rights under the Prompt Payment Act and does not affect the application of the Prompt Payment Act late payment interest provisions. [5][5]

FAR 52.232-40 Providing Accelerated Payments to Small Business Subcontractors.

   a) Upon receipt of accelerated payments from the Government, the Contractor shall make accelerated payments to its small business subcontractors under this contract, to the maximum extent practicable and prior to when such payment is otherwise required under

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the applicable contract or subcontract, after receipt of a proper invoice and all other required documentation from the small business subcontractor.

b) The acceleration of payments under this clause does not provide any new rights under the Prompt Payment Act.

c) Include the substance of this clause, including this paragraph (c), in all subcontracts with small business concerns, including subcontracts with small business concerns for the acquisition of commercial items. [b]
Appendix 3: Survey Instrument

Small Business Financial Management

INFORMED CONSENT FORM

RESEARCH PROCEDURES
This research is being conducted to better understand the financing obstacles facing commercial and defense-focused small businesses. If you agree to participate, you will be asked to respond to a confidential survey that we have developed. That survey will take you approximately thirty minutes to complete and it will ask about the financing and payment terms typically encountered in your business as well as your experience, if any, with government cost accounting. Your total time commitment for this survey will be approximately thirty minutes.

RISKS
There are no foreseeable risks for participating in this research.

BENEFITS
There are no direct benefits for participating other than research. The primary research objective of this study is to identify the obstacles to obtain financing in the private sector as well as when doing business with DoD. How they obtain financing to manage and grow their businesses is major challenge that DoD needs to better understand.

CONFIDENTIALITY
The data in this study will be confidential. The study team will maintain our survey responses and all our study documents in a restricted-access folder on the George Mason University School of Business shared drive. Participant’s title and company will be included in the collected data. While it is understood that no computer transmission can be perfectly secure, reasonable efforts will be made to protect the confidentiality of your transmission. The data could be used for future research without additional consent from participants. Although survey respondents will be asked to keep the contents of their confidential, the researcher cannot control what participants might say outside of the research setting. The Institutional Review Board (IRB) committee that monitors research on human subjects may inspect study records during internal auditing procedures and are required to keep information confidential. The IRB committee that monitors research on human subjects may inspect study records during internal auditing procedures and are required to keep information confidential.

PARTICIPATION
Your participation is voluntary, and you may withdraw from the study at any time and for any reason. This study is examining commercial or defense small businesses with 1,250 or fewer employees for supplies and $30 million or less in sales for services. Only owners or senior executives will be asked to complete the survey. Respondents must be at least 18 years of age. Study team members will identify participants through public sources (i.e. websites) and personal contacts. If you decide not to participate or if you withdraw from the study, there is no penalty or loss of benefits to which you are otherwise entitled. There are no costs to you or any other party.
CONTACT
This research is being conducted by Dr. John G. (Jerry) McGinn, Executive Director of the Center for Government Contracting in the School of Business at George Mason University. He may be reached at 703-993-4156 for questions or to report a research-related problem. Other researchers on the study will be Stephan Brady, sbrady@supplychainvisions.com, Sangram Patil, spatil25@gmu.edu, Brett Josephson, bjosephs@gmu.edu, and Long Chen, lchenk@gmu.edu.

You may contact the George Mason University Institutional Review Board office at 703-993-4121 or IRB@gmu.edu if you have questions or comments regarding your rights as a participant in the research.

This research has been reviewed according to George Mason University procedures governing your participation in this research.

CONSENT
I have read this form, all of my questions have been answered by the research staff, and I agree to participate in this study. Please indicate your consent or non-consent below. If you do not consent you will then exit the survey.

- [ ] I consent
- [ ] I do not consent

End of Block: Welcome

Start of Block: A. Business Profile

Business Profile

Please help us understand the nature of your business by answering the following questions.
Q1 What is your general industry category as per NAICS (North American Industry Classification System)? Please select from the dropdown list.

- 11 Agriculture, Forestry, Fishing and Hunting
- 21 Mining
- 22 Utilities
- 23 Construction
- 31-33 Manufacturing
- 42 Wholesale Trade
- 44-45 Retail Trade
- 48-49 Transportation and Warehousing
- 51 Information
- 52 Finance and Insurance
- 53 Real Estate Rental and Leasing
- 54 Professional, Scientific, and Technical Services
- 55 Management of Companies and Enterprises
- 56 Administrative and Support and Waste Management and Remediation Services
- 61 Educational Services
- 62 Health Care and Social Assistance
- 71 Arts, Entertainment, and Recreation
- 72 Accommodation and Food Services
- 81 Other Services (except Public Administration)
- 92 Public Administration
Q2 What are your company's products and / or services.

Q3 How many employees are in your company?
- Up to 100
- 101 – 500
- 501 – 1250
- 1251 – 5000
- More than 5000

Q4 What is your company's annual revenue?
- Up to $ 100,000
- $100,000 to $ 1 million
- $1 million to $10 million
- $10 million to $ 30 million
- Greater than $30 million
Q5 Where is your business located? (Please select the state in which your company is operating?)

- Alabama
- Alaska
- Arizona
- Arkansas
- California
- Colorado
- Connecticut
- Delaware
- District of Columbia
- Florida
- Georgia
- Hawaii
- Idaho
- Illinois
- Indiana
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maine
- Maryland
Q6 Does your business qualify for any of the below categories. Please select all that apply.

☐ 8(a) firm - owned and operated by socially and economically disadvantaged citizens

☐ Women-Owned Small Business (WOSB)

☐ Service-Disabled Veteran-Owned Small Businesses (SDVOSB)

☐ Historically Underutilized Business Zones (HUBZone) certified company

☐ Alaskan Native Small business

☐ Any other (please specify) ____________________________
Q7 What is the business structure of your company?

- Sole Proprietorship
- Partnership
- Limited Liability Company (LLC)
- S Corp
- Public Corporation
- Private Corporation
- Cooperative

End of Block: A. Business Profile

Start of Block: B. COVID-19 Specific

Heading
COVID-19 Specific

Comment The government responses to COVID-19 have impacted every business in myriad ways. For this section we request you to respond specifically in relation to the impact of COVID-19 on your business.
Q8 What was the effect of Covid-19 pandemic on your business's ability of getting financing?

- [ ] Extremely negative
- [ ] Somewhat negative
- [ ] No impact
- [ ] Somewhat positive
- [ ] Extremely positive

Q9 What change, if any, was there on the time to receive the payments from your customers? (Please select all that apply)

- [ ] Customers took longer to pay despite terms
- [ ] Customers requested a change to the terms lengthening the time to pay
- [ ] We offered a change to the terms lengthening the time to pay
- [ ] We offered a change to the terms shortening the time to pay
- [ ] No change
- [ ] Other (please specify) ________________________________

End of Block: B. COVID-19 Specific

Start of Block: C. Types of Contracts and Financing

Comment FROM THIS POINT FORWARD PLEASE RESPOND BASED ON BUSINESS PRIOR TO THE COVID 19 PANDEMIC
**Types of Contracts and Financing**

This section deals with small business financing challenges when doing business with the Department of Defense (DoD) as a Prime or Sub-contractor or while doing business with private companies.

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**Q10 Does your company have any prior experience of working with Department of Defense (DoD) as Prime and / or Sub - Contractor?**

- [ ] Yes. Please specify your company's number of years of experience doing business with DoD 

- [ ] No
Q11 Please indicate approximate share (percentage) of your total business from below sources.

- Department of Defense ________________________________
- Other Federal Contracts ________________________________
- State and Local Government _____________________________
- Commercial (private sector) ______________________________
- Non-US Governments _________________________________
- Non-US Commercial _________________________________
- Others ________________________________

Display This Question:

If Does your company have any prior experience of working with Department of Defense (DoD) as Prime... = Yes. Please specify your company's number of years of experience doing business with DoD

Q12 Please indicate the share (percentage) of your Department of Defense contracting business as:

- A Prime Contractor (receive contracts from the DoD directly)
  ________________________________
- A Sub-contractor (receive contracts from the Prime Contractor of the DoD)
  ________________________________

Doing business with the Department of Defense as a Prime Contractor
Q13 Have you ever received DoD provided financing for your contracts?

- Yes
- No

Display This Question:
If Have you ever received DoD provided financing for your contracts? = Yes

Q14 What type of DoD provided financing did you receive? Please select all that apply.

- Progress Payments
- Performance Based Payments
- Commercial Financing
- Advance Payments
- Other financing method ________________________________
Q15 What challenges do you face in obtaining Department of Defense provided financing? (Please select all that apply).

☐ Regulatory requirements

☐ Timeliness of payment

☐ Restrictions on use of funds

☐ Administrative requirements (documentation / system requirement)

☐ Others (please specify) ________________________________________________

Q16 What are the advantages of Department of Defense provided financing? (Please select all that apply).

☐ Assurance of payment

☐ Guaranteed loan

☐ Direct funding / no intermediaries

☐ Others (please specify) ________________________________________________
Q17 What are the disadvantages of Department of Defense provided financing? (Please select all that apply).

☐ Regulatory requirements

☐ Timeliness of payment

☐ Restrictions on use of funds

☐ Administrative requirements (documentation / system requirement)

☐ Others (please specify) _____________________________________________

---

Doing business with the Department of Defense as a Prime Contractor

---
Q18 What other financing options do you have apart from Department of Defense provided financing? (Please select all that apply).

☐ Small Business Administration guaranteed loans

☐ Line of credit provided by banks

☐ Traditional business loan

☐ Small business grants

☐ Investor / self-financing

☐ Bridge loan (Invoice financing / Account receivables factoring / Purchase order financing)

☐ Supplier financing

☐ Others (please specify) ________________________________________________

Q19 What challenges do you face in other financing options? (Please select all that apply).

☐ Minimum loan amount

☐ Documentation requirements

☐ Higher interest rates

☐ Collateral requirements

☐ Others (please specify) ________________________________________________
Q20 What are the advantages of other financing options? (Please select all that apply).

☐ Fewer constraints on use of funds

☐ Fewer administrative requirements

☐ Payment timeliness

☐ Others (please specify) ________________________________________________

Q21 What are the disadvantages of other financing options? (Please select all that apply).

☐ Debt to equity ratio increase

☐ Risk of losing the collateral

☐ Others (please specify) ________________________________________________

Doing business with the Department of Defense as a Sub-contractor

Q22 Have you ever received Prime Contractor provided financing for your contracts?

☐ Yes

☐ No
Display This Question:
If Have you ever received Prime Contractor provided financing for your contracts? = Yes

Q23 What type of Prime Contractor provided financing did you receive? Please select all that apply.

☐ Progress Payments
☐ Performance Based Payments
☐ Commercial Financing
☐ Advance Payments
☐ Other financing method ______________________________________________

Q24 What challenges do you face in obtaining the Prime Contractor provided financing? (Please select all that apply).

☐ Over-dependency on Prime Contractor
☐ Frequent delayed payments
☐ Others (please specify) ______________________________________________
☐ Not applicable
Q25 What are the advantages of Prime Contractor provided financing? (Please select all that apply).

☐ Fewer administrative requirement compared to DoD provided financing

☐ No collateral required

☐ Opportunity cost / risk

☐ Others (please specify) ____________________________________________

Q26 What are the disadvantages of Prime Contractor provided financing? (Please select all that apply).

☐ Over-dependency on Prime Contractor

☐ Frequent delayed payments

☐ Others (please specify) ____________________________________________

---

Doing business with the Department of Defense as a Sub-contractor

---
Q27 What other financing options do you have apart from Prime Contractor provided financing? (Please select all that apply).

☐ Small Business Administration guaranteed loans

☐ Line of credit provided by banks

☐ Traditional business loan

☐ Small business grants

☐ Investor / self-financing

☐ Bridge loan (Invoice financing / Account receivables factoring / Purchase order financing)

☐ Supplier financing

☐ Others (please specify) ________________________________________________

Q28 What challenges do you face with other financing options as a Sub-contractor? (Please select all that apply).

☐ Minimum loan amount

☐ Documentation requirements

☐ Higher interest rates

☐ Collateral requirements

☐ Others (please specify) ________________________________________________
Q29 What are the advantages of other financing options? (Please select all that apply).

- [ ] Fewer constraints on use of funds
- [ ] Fewer administrative requirements
- [ ] Payment timeliness
- [ ] Others (please specify) ________________________________

Q30 What are the disadvantages of other financing options? (Please select all that apply).

- [ ] Debt to equity ratio increase
- [ ] Risk of losing the collateral
- [ ] Others (please specify) ________________________________

**Doing business with Private Companies**

Q31 Have you ever received Private Company provided financing for your contracts?

- [ ] Yes
- [ ] No

*Display This Question:*

If Have you ever received Private Company provided financing for your contracts? = Yes
Q32 What type of Private Company provided financing did you receive? Please select all that apply.

- □ Progress Payments
- □ Performance Based Payments
- □ Commercial Financing
- □ Advance Payments
- □ Other financing method ________________________________

Q33 What challenges do you face in obtaining Private Company provided financing? (Please select all that apply).

- □ Over-dependency on Private Company provided financing
- □ Biased payment disputes handling
- □ Others (please specify) ________________________________
- □ Not applicable
Q34 What are the advantages of Private Company provided financing? (Please select all that apply).

☐ Generally on-time payment

☐ Fewer constraints on use of funds

☐ Fewer administrative requirements

☐ Others (please specify) ________________________________________________

Q35 What are the disadvantages of Private Company provided financing? (Please select all that apply).

☐ Over-dependency on Private Company provided financing

☐ Biased payment disputes handling

☐ Others (please specify) ________________________________________________

Doing business with Private Companies
Q36 What other financing options do you have apart from Private Company provided financing? (Please select all that apply).

- Small Business Administration guaranteed loans
- Line of credit provided by banks
- Traditional business loan
- Small business grants
- Investor / self-financing
- Bridge loan (Invoice financing / Account receivables factoring / Purchase order financing)
- Supplier financing
- Others (please specify) _____________________________________

Q37 What challenges do you face in other financing options? (Please select all that apply).

- Minimum loan amount
- Documentation requirements
- Higher interest rates
- Collateral requirements
- Others (please specify) _______________________
  ______________________________________
Q38 What are the advantages of other financing options? (Please select all that apply).

☐ Fewer constraints on use of funds

☐ Fewer administrative requirements

☐ Payment timeliness

☐ Others (please specify) ___________________________________________

Q39 What are the disadvantages of other financing options? (Please select all that apply).

☐ Debt to equity ratio increase

☐ Risk of losing the collateral

☐ Others (please specify) ___________________________________________

End of Block: C. Types of Contracts and Financing

Start of Block: D. Payment Terms

Payment Terms

Doing business with the Department of Defense as a Prime Contractor

Comment When doing business with the Department of Defense (DoD) as a Prime Contractor your business would receive payment directly from the DoD or from other financial institutions through
financing. This section deals with the payments terms and challenges related to payments in each of these cases.

Q40 What is the most common payment term (number of days) for delivery invoices (assuming no discounts for early payment)?

<table>
<thead>
<tr>
<th>Payment term (days) ()</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 15 30 45 60 75 90 105 120 135 150 165 180</td>
</tr>
</tbody>
</table>

Q41 Please indicate the typical number of days between submission of an invoice and receipt of payment from the Department of Defense.

<table>
<thead>
<tr>
<th>Actual payment time (days) ()</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 15 30 45 60 75 90 105 120 135 150 165 180</td>
</tr>
</tbody>
</table>

Q42 The payment by the Department of Defense is usually on time.

- [ ] Strongly disagree
- [ ] Somewhat disagree
- [ ] Neither agree nor disagree
- [ ] Somewhat agree
- [ ] Strongly agree
Q43 The payment by the Department of Defense is usually according to terms agreed in the contract.

- Strongly disagree
- Somewhat disagree
- Neither agree nor disagree
- Somewhat agree
- Strongly agree

Q44 In case of delayed payment or payment not in accordance with the agreed terms, what alternatives are available? (Select all that apply).

- No action – use cash reserves to continue normal operations
- Use owner's personal funds
- Reduce salaries of owner or employees
- Take out additional debt
- Lay off employees
- Downsize operations (reduce hours, services, or production)
- Defer expenses / payments
- Close or sell the business
- Other (please specify) ________________________________
Q45 As a Prime Contractor do you offer your sub-contractors the ability to get paid sooner by “discounting” (reducing) the payment value that they receive?

- No
- Yes (Please specify the discount percentage)

Q46 For financing payment, please provide the details about the financing terms below:

- What is the most common payment term (number of days) for financing payments
- What percentage of contract amount receives financing
- Cost of financing (interest rate percentage)

Doing business with the Department of Defense as a Sub-contractor

Comment When doing business with the Prime Contractor as a Sub-contractor, your business would receive payment directly from the Prime Contractor or from other financial institutions through financing. This section deals with the payments terms and challenges related to payments in each of these cases.
Q47 Who establishes the payment / financing terms between your company and the Prime Contractor?

- Prime Contractor
- Your Company
- Negotiated by your company and the Prime Contractor

Q48 Do the terms of your contract depend on the Prime contractor receiving payment from the Department of Defense (DoD)?

- No
- Yes

Q49 What is the most common payment term (number of days) for delivery invoices (assuming no discounts for early payment)?

<table>
<thead>
<tr>
<th>Payment term (days) ()</th>
<th>0 15 30 45 60 75 90 105 120 135 150 165 180</th>
</tr>
</thead>
</table>

Q50 Please indicate the typical number of days between submission of an invoice and receipt of payment from the Prime Contractor.

<table>
<thead>
<tr>
<th>Actual payment time (days) ()</th>
<th>0 15 30 45 60 75 90 105 120 135 150 165 180</th>
</tr>
</thead>
</table>
Q51 The payment by the Prime Contractor is usually on time.

- Strongly disagree
- Somewhat disagree
- Neither agree nor disagree
- Somewhat agree
- Strongly agree

Q52 The payment by the Prime Contractors is usually according to terms agreed to in the contract

- Strongly disagree
- Somewhat disagree
- Neither agree nor disagree
- Somewhat agree
- Strongly agree
Q53 In case of delayed payment or payment not in accordance with the agreed terms, what alternatives are available? (Select all that apply).

☐ No action – use cash reserves to continue normal operations
☐ Use owner's personal funds
☐ Reduce salaries of owner or employees
☐ Take out additional debt
☐ Lay off employees
☐ Downsize operations (reduce hours, services, or production)
☐ Defer expenses / payments
☐ Close or sell the business
☐ Other (please specify) ________________________________________________

Q54 Are you familiar with the benefits of FAR 32.112-1 Subcontractor Assertions of Nonpayment that has provisions of getting the payment directly from the Department of Defense in case the subcontractor or supplier has not been paid in accordance with the payment terms of the subcontract, purchase order, or other agreement with the prime contractor?

☐ No
☐ Maybe
☐ Yes
Q55 Have you ever taken the benefit of FAR 32.112-1 Subcontractor Assertions of Nonpayment?

- No
- Yes

Q56 Do any of your prime contractors offer you the ability to get paid sooner by “discounting” (reducing) the payment value that you receive?

- No
- Yes. (Please specify the discount percentage)

Q57 For financing payment, please provide the details about the financing terms below:

- What is the most common payment term (number of days) for financing payments
- What percentage of contract amount receives financing
- Cost of financing (interest rate percentage)

Doing business with Private Companies

Comment When doing commercial business with Private Companies, your business would receive payment directly from Private Companies or from other financial institutions through financing. This section deals with the payments terms and challenges related to payments in each of these cases.
Q58 Who establishes the payment / financing terms between your company and the Private Company?

- Private Company
- Your Company
- Negotiated by your company and the Private Company

Q59 What is the most common payment term (number of days) for delivery invoices (assuming no discounts for early payment)?

<table>
<thead>
<tr>
<th>Payment term (days) ()</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 15 30 45 60 75 90 105 120 135 150 165 180</td>
</tr>
</tbody>
</table>

Q60 Please indicate the typical number of days between submission of an invoice and receipt of payment from the Private Company.

<table>
<thead>
<tr>
<th>Actual payment time (days) ()</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 15 30 45 60 75 90 105 120 135 150 165 180</td>
</tr>
</tbody>
</table>
Q61 The payment by the Private Company is usually on time.

- Strongly disagree
- Somewhat disagree
- Neither agree nor disagree
- Somewhat agree
- Strongly agree

Q62 The payment by the Private Company is usually according to terms agreed to in the contract.

- Strongly disagree
- Somewhat disagree
- Neither agree nor disagree
- Somewhat agree
- Strongly agree
Q63 In case of delayed payment or payment not in accordance with the agreed terms, what alternatives are available? (Select all that apply).

☐ No action – use cash reserves to continue normal operations

☐ Use owner's personal funds

☐ Reduce salaries of owner or employees

☐ Take out additional debt

☐ Lay off employees

☐ Downsize operations (reduce hours, services, or production)

☐ Defer expenses / payments

☐ Close or sell the business

☐ Other (please specify) ________________________________________________

Q64 For delivery payment, does the private company offer any discounts for prompt payment?

☐ No

☐ Yes (Please specify the discount percentage) _____________________________________
Q65 For financing payment, please provide the details about the financing terms below:

- What is the most common payment term (number of days) for financing payments

- What percentage of contract amount receives financing

- Cost of financing (interest rate percentage)

End of Block: D. Payment Terms

Start of Block: E. Cost Accounting Challenges

Cost Accounting Challenges

Q66 Are you familiar with the government cost accounting system?

- No

- Somewhat

- Yes

Q67 Have you implemented a government-compliant accounting system?

- No

- Yes

- Yes, contracted out to accounting firm
Q68 What details of a Government-compliant accounting system do you find the most difficult? (Please select all that apply)

☐ Learning curve is steep

☐ Doesn’t match my business operations

☐ Designed for larger businesses

☐ Requires details not tracked in my business

☐ Requires highly skilled manpower

☐ Others (please specify)  ________________________________________________

Q69 Among the following elements of a Government-compliant accounting system, what aspect(s) is the most challenging for your business’s cost accounting? (Please select all that apply)

☐ Understanding and compliance of GAAP, FAR, GAGAS and DCAA requirements *

☐ Hiring and training of qualified accounting staff

☐ Understanding and compliance of CAS (Cost Accounting Standards)

☐ Preparing for GCAS (Government-Compliant Accounting System) approval

☐ Preparing for DCAA (Defense Contract Audit Agency) audits

☐ Others (please specify)  ________________________________________________
Q70 Are you aware of free government resources e.g., Procurement Technical Assistance Centers (PTAC), Small Business Development Centers (SBDC) that can aid you in doing business with the government?

- No
- Maybe
- Yes

End of Block: E. Cost Accounting Challenges

Start of Block: F. Company Information

Company Information

Q71 Please provide your company's name.

__________________________________________________________

Q72 What best describes your role in the company?

- Owner / CEO
- C-Level Executive (CFO, CMO, etc.)
- Director / VP
- Other (please specify) __________________________________________
Appendix 4: Survey Responses

Total 104 responses were received from the survey conducted. A few respondents did not answer all survey questions largely because those questions might not have been applicable / relevant to them. Hence, some questions have less than 104 responses while on the other hand, ‘select all that apply’ type questions have more than 104 responses. For certain questions, responses from respondents only from certain category have been considered, based on their relevance to the question.

**Q1 What is your general industry category as per NAICS (North American Industry Classification System)?** (Relevant respondents: All respondents, total count: 104)

*Figure 59. NAICS Category for all respondents*

We have the highest number of responses from NAICS category 54 Professional, Scientific and Technical Services with 32 respondents followed by 23 Construction (14 respondents) and 44-45 Retail Trade (11 respondents).
For both DoD and Non-DoD respondents, the maximum number of responses are from NAICS category 54 Professional, Scientific and Technical Services. Categories 23 Construction, 44-45 Retail Trade and 31-33 Manufacturing also have significant number of responses for both DoD and Non DoD respondents.
Q2 What are your company's products and / or services.
It was open ended question where respondents were asked to describe the products and / or services they offer. A large variety of responses were received from IT services to software products etc.

Q3 How many employees are in your company? (Relevant respondents: All respondents, total count: 104)

Figure 61. Employee Count

Approximately 2/3 of the respondents have employee count below 100. The share of respondents with employee count below 100 is much higher for Non DoD than that of DoD. The third of DoD respondents have employee count between 101 and 500. This indicates that the DoD small businesses are larger than Non DoD small businesses in terms of employee strength.
Q4 What is your company's annual revenue? (Relevant respondents: All respondents, total count: 104)

The respondents are distributed across all 4 categories of annual revenue with approximately 2/3 of the respondents having annual revenue falling into 2 categories – ‘$100K to $1 million’ and ‘$1 million to $10 million’. For DoD respondents, the highest two categories of annual revenue between $1 million - $30 million account for more than 60% their share as against to Non DoD respondents for which this share is 35%. This highlights the point that DoD small businesses are larger than their Non DoD counterparts.
Q5 Where is your business located? (Please select the state in which your company is operating?)
(Relevant respondents: All respondents, total count: 104)

Figure 63. State-wise Respondents

The responses have been received from 27 different states with the maximum number of responses coming from Virginia (25), followed by Texas (15) and California (9).
Q6 Does your business qualify for any of the below categories. Please select all that apply. (Relevant respondents: All respondents, total count: 104, total count of SB categories: 131)

**Figure 64. Small Business Categories**

Out of the total 104 respondents, 20 do not belong to any special small business category, 63 qualify for one of the special small business categories such as 8(a) firm, Women-Owned Small Business (WOSB), Service-Disabled Veteran-Owned Small Businesses (SDVOSB) etc. 21 respondents qualify for multiple small business categories simultaneously. Women Owned Small Business (WOSB) is the highest represented category with 43 respondents followed by 8(a) Firm with 32 respondents. 20 respondents do not qualify for any special small business category.
Q7 What is the business structure of your company? (Relevant respondents: All respondents, total count: 104)

**Figure 65. Business Structure**

The highest 35 respondent small businesses are sole proprietorship firms followed by 33 that are LLCs. ‘LLCs’ have the highest representation in DoD respondents while for Non DoDs, ‘Sole proprietorship’ has the highest share. Within DoDs, majority of the ‘DoD Prime’ and ‘DoD Sub’ categories are LLCs or S Corps, while ‘DoD Prime and Sub’ category has majority of sole proprietorship and partnership firms.
Q8 What was the effect of Covid-19 pandemic on your business's ability of getting financing?
(Relevant respondents: All respondents, total count: 104)

Figure 66. Covid-19 Impact on getting financing

When asked about the impact of Covid-19 on ability to get financing, more than half of the respondents stated that Covid-19 impacted their ability to get financing adversely, with about a quarter of them saying there was no impact for them.
Q9 What change, if any, was there on the time to receive the payments from your customers? (Please select all that apply). (Relevant respondents: All respondents, multiple selections possible, total count: 143)

**Figure 67. Covid-19 Impact on Payment timing**

Responding to the question as how Covid-19 affected the payment timelines, some of the small businesses indicated that they faced issue of customers taking longer time to pay than normal or requesting to change the payment terms lengthening the time to pay. On the other hand, a few small businesses asked to change the terms to shorten the time to pay to improve their cash flow.
Q10 Does your company have any prior experience of working with Department of Defense (DoD) as Prime and/or Sub-Contractor? (Relevant respondents: All respondents, total count: 104, DoD Prime: 14, DoD Prime and Sub: 19, DoD Sub:14)

**Figure 68. DoD Experience**

Out of the 47 DoD respondents, more than half have up to 5 years of experience of working with DoD, while 10 small businesses have more than 10 years of DoD experience. The break-up in terms of years of experience across categories of ‘DoD Prime’, ‘DoD Sub’ and ‘DoD Prime and Sub’ does not vary much with ‘up to 5 years’ being the dominant segment across all of them.
Q11 Please indicate approximate share (percentage) of your total business from below sources. (Relevant respondents: all respondents, total count: 104)

**Figure 69. Contract Source**

Apart from DoD contractors, the majority of respondents are working primarily as commercial contractors doing business with private companies (30 count) and State or local government contractors (14 count). There are a few respondents who get their business through retail or from other federal departments.
Q12 Please indicate the share (percentage) of your Department of Defense contracting business as

- A Prime Contractor (receive contracts from the DoD directly)
- A Sub-contractor (receive contracts from the Prime Contractor of the DoD)

(Relevant respondents: all respondents, total count: 104)

**Figure 70. Survey Respondents**

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>DoD</td>
<td>47</td>
</tr>
<tr>
<td>DoD Prime</td>
<td>14</td>
</tr>
<tr>
<td>DoD Prime and Sub</td>
<td>19</td>
</tr>
<tr>
<td>DoD Sub</td>
<td>14</td>
</tr>
<tr>
<td>Non DoD</td>
<td>57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>104</strong></td>
</tr>
</tbody>
</table>

Out of the total 104 respondents, 47 are ‘DoD’ of which 14 are ‘DoD Prime’, 19 are ‘DoD Prime and Sub’ and remaining 14 are ‘DoD Sub’. 57 ‘Non DoD’ respondents get their business from private companies, other federal departments, state or local governments or from other sources like retail.
Q13 A. Have you ever considered pursuing DoD provided financing for your contract?

Q13 B. Have you ever received DoD provided financing for your contracts?

(Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, total count: 33, DoD Prime:14, DoD Prime and Sub:19)

Overall, out of the 33 respondents who work with the DoD directly, ~60 % considered DoD provided financing and majority of them received the same. From the ‘DoD Prime’ category, only 3 respondents considered DoD provided financing and 2 of them received it. From the ‘DoD Prime and Sub’ category, out of the 16 who considered getting DoD provided financing, 14 actually received it.
Q14 What type of DoD provided financing did you receive? Please select all that apply. (Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’ that received DoD provided financing, multiple selections possible, total count: 27)

Figure 72. Type of DoD provided financing

Performance based payments has the highest count (10) among the type of DoD provided financing received by the respondents, followed by Progress Payments (7), Commercial payments (6) and Advance Payments (4).
Q15 What challenges do you face in obtaining Department of Defense provided financing? (Please select all that apply). (Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 40)

**Figure 73. Challenges in obtaining DoD provided financing**

When asked regarding the challenges faced in obtaining the DoD financing, the major issues highlighted are regulatory requirements, timeliness of payment, administrative requirements (documentation or systems requirement) and restriction on use of funds.
Q16 What are the advantages of Department of Defense provided financing? (Please select all that apply). (Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 49)

Figure 74. DoD provided financing advantages

The key advantages of DoD provided financing highlighted by the respondents are assurance of payment, direct funding without intermediaries.
Q18 What other financing options do you have apart from Department of Defense provided financing? (Please select all that apply). (Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 73)

Small businesses employ many financing options other than DoD provided financing. Some of them are small business grants, bank line of credits, self-financing, traditional business loans, Small Business Administration (SBA) loans etc. Small businesses also utilize bridge loan options such as invoice financing, account receivable financing and purchase order financing. A few small businesses also take the option of supplier financing.
Q19 What challenges do you face in other financing options? (Please select all that apply). (Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 50)

**Figure 76. Challenges of other financing options**

The major challenges of these other financing options are higher interest rates, documentation requirements, collateral requirements, minimum loan amount.
Q20 What are the advantages of other financing options? (Please select all that apply).
(Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 45)

Q21 What are the disadvantages of other financing options? (Please select all that apply).
(Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 34)

Figure 77. Advantages and disadvantages of other financing options

Despite the aforesaid challenges, these other financing options offer many advantages. Unlike DoD provided financing these options have fewer constraints on use of funds and offer freedom to small businesses to use the funds as per their need, fewer administrative requirements and timely availability of funds.
Q22 Have you ever received Prime Contractor provided financing for your contracts?
(Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, total count: 33, DoD Prime and Sub:19, DoD Sub:14)

Q23 What type of Prime Contractor provided financing did you receive? Please select all that apply.
(Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’ that received prime provided financing, multiple selections possible, total count: 28)

Figure 78. Prime Contractor provided financing received

Approximately half of the eligible respondents received the Prime Contractor provided financing in the form of Performance based payment, Commercial financing, Advance payment and Progressive payment. Interestingly, majority of the respondents in ‘DoD Prime and Sub’ category have received Prime contractor provided financing while only 1 out of the 14 respondents from ‘DoD Sub’ category received Prime contractor provided financing.
Q24 What challenges do you face in obtaining the Prime Contractor provided financing? (Please select all that apply). (Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, multiple selections possible, not all responded, total count: 28)

Q25 What are the advantages of Prime Contractor provided financing? (Please select all that apply). (Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, multiple selections possible, total count: 41)

Figure 79. Challenges and Advantages of Prime Contractor provided financing

Challenges of Prime contractor provided financing include over dependency on prime contractor, frequent delayed payments etc. On the flip side, Prime contractor provided financing offers advantages such as no collateral requirement, opportunity cost, fewer administrative requirements, cashflow etc.
Q27 What other financing options do you have apart from Prime Contractor provided financing? (Please select all that apply). (Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, multiple selections possible, total count: 80)

Figure 80. Financing options apart from Prime Contractor provided financing

The Sub contractors employ a wide variety of financing options apart from Prime contractor provided financing like bank line of credits, traditional business loan, small business grants, self-financing, SBA guaranteed loans etc. A few Sub contractors also use supplier financing, invoice financing, account receivables factoring and purchase order financing.
Q28 What challenges do you face with other financing options as a Sub-contractor? (Please select all that apply). (Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, multiple selections possible, total count: 58)

Q29 What are the advantages of other financing options? (Please select all that apply). (Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, multiple selections possible, total count: 43)

**Figure 81. Challenges and advantages of other financing options as a Sub-contractor**

The main challenges of financing options other than Prime contractor provided financing are higher interest rates, documentation requirements, minimum loan amount and collateral requirements. One of the respondents also mentioned a challenge related to requirement to include spouse on loans when they are not associated with the business.
Q31 Have you ever received Private Company provided financing for your contracts? (Relevant respondents: private sector, total count: 67)

Q32 What type of Private Company provided financing did you receive? Please select all that apply. (Relevant respondents: private sector that received private company provided financing, multiple selections possible, total count: 51)

Figure 82. Private Company provided financing received

When asked about whether they received private company financing, 43% of the respondents confirmed that they received it in the form of a commercial advance and interim payment or a performance-based payment or a progress payment or an advance payment.
Q33 What challenges do you face in obtaining Private Company provided financing? (Please select all that apply). (Relevant respondents: Private sector, multiple selections possible, total count: 50)

Q34 What are the advantages of Private Company provided financing? (Please select all that apply). (Relevant respondents: Private sector, multiple selections possible, total count: 83)

**Figure 83. Challenges and advantages of Private Company provided financing**

The major challenges of private company provided financing are biased payment disputes handling, over dependency on private company, and high interest rates. Some of the advantages offered by them are fewer constraints on use of funds, timeliness, and fewer administrative requirements.
Q36 What other financing options do you have apart from Private Company provided financing? (Please select all that apply). (Relevant respondents: Private sector, multiple selections possible, total count: 179)

Figure 84. Other financing options apart from Private Company provided financing

Small businesses utilize a variety of financing options apart from private company provided financing such as bank line of credits, self-financing, traditional business loans, SBA loans, small business grants, supplier financing etc. A few of them also employ bridge loan options such as invoice financing, account receivable financing and purchase order financing.
Q37 What challenges do you face in other financing options? (Please select all that apply). (Relevant respondents: Private sector, multiple selections possible, total count: 114)

Q38 What are the advantages of other financing options? (Please select all that apply). (Relevant respondents: Private sector, multiple selections possible, total count: 90)

Figure 85. Challenges and advantages of other financing options

Some of the key challenges related to these other financing options highlighted by the respondents are higher interest rates, documentation requirements, minimum loan amount, and collateral requirements. Conversely, they also offer advantages like fewer administrative requirements, fewer constraints on use of funds, timely payments and more freedom and flexibility.
Doing business with the Department of Defense as a Prime Contractor

Q40 What is the most common payment term (number of days) for delivery invoices (assuming no discounts for early payment)? (Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, total count: 33)

Q41 Please indicate the typical number of days between submission of an invoice and receipt of payment from the Department of Defense. (Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, total count: 33)

The respondents were asked to mention typical DoD contract payment term in terms on number of days and typical actual DoD payment days based on their experience. The plot above shows scatter plot for respondents with contract payment days on X-axis and actual payment days on Y-axis. DoD category of the respondents has been highlighted using different colors of the points. The diagonal line in blue is an indication when the contract payment term (days) matches the actual payment days. Hence, all the points below this diagonal line indicate cases of timely payment, while all the points above it show cases when the payment was delayed. From the plot we can observe that except for a few cases, the payment by DoD is generally on time.
The above box plots show how the DoD payment days vary for ‘DoD Prime’ and ‘DoD Prime and Sub’ categories. For ‘DoD Prime’ category the median value of 30 days is much lower than that for ‘DoD Prime and Sub’ category (65 days) which shows that pure Prime contractors have indicated to have better payment terms than the ones who do both Prime and Sub work. However, for both the categories the median values for actual payment are equal or lower than that of payment terms indicating the payment by the DoD is usually on time.

<table>
<thead>
<tr>
<th>Five Number Summary</th>
<th>DoD Payment to Prime</th>
<th>DoD Payment to Prime</th>
<th>DoD Payment to Prime &amp; Sub</th>
<th>DoD Payment to Prime &amp; Sub</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Payment Term (Days)</td>
<td>Actual Payment (Days)</td>
<td>Payment Term (Days)</td>
<td>Actual Payment (Days)</td>
</tr>
<tr>
<td>Minimum</td>
<td>30</td>
<td>10</td>
<td>30</td>
<td>14</td>
</tr>
<tr>
<td>Lower Hinge</td>
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<td>Median</td>
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<td>30</td>
<td>65</td>
<td>50</td>
</tr>
<tr>
<td>Upper Hinge</td>
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<td>112</td>
<td>85</td>
</tr>
<tr>
<td>Maximum</td>
<td>45</td>
<td>60</td>
<td>139</td>
<td>128</td>
</tr>
</tbody>
</table>
Please indicate your level of agreement for below.

**Q42** The payment by the Department of Defense is usually on time. (Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, total count: 33)

**Q43** The payment by the Department of Defense is usually according to terms agreed in the contract. (Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, total count: 33)

**Figure 88. DoD Payment on time and as per terms**

The plot on the left shows the respondents’ degree of agreement with the statement that ‘payment by DoD is usually on time’, while the plot on the right indicates their level of agreement to the statement that ‘payment by DoD is generally as per terms of the contract’. The plots show that majority of the respondents from both ‘DoD Prime’ and ‘DoD Prime and Sub’ categories agree that the payment from DoD is generally on time and is as per the contract terms.
Q44 In case of delayed payment or payment not in accordance with the agreed terms, what alternatives are available? (Select all that apply). (Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub’, multiple selections possible, total count: 86)

Figure 89. Alternatives in case of delayed DoD payment

In cases when the payment from DoD is delayed, the small businesses revert to alternatives such as using owner’s funds, taking out additional debt, deferring expenses and payments etc. A few respondents indicated that under certain conditions they have to go to the extent of downsizing the operations or even closing the business.
Q45 As a Prime Contractor do you offer your sub-contractors the ability to get paid sooner by “discounting” (reducing) the payment value that they receive?. (If yes, please specify the discount percentage) (Relevant respondents: ‘DoD Prime’ and ‘DoD Prime and Sub,’ total count: 33)

Figure 90. As a Prime contractor offer Sub-contractors to get paid sooner by "discounting"

When asked as a Prime contractors do they offer their sub contractors the ability to get paid sooner by ‘discounting’, less than 10% of the prime responded that they do it. The typical discount percentage mentioned by them is 1 to 2%.
Doing business with the Department of Defense as a Sub-contractor

Q47 Who establishes the payment / financing terms between your company and the Prime Contractor? (Relevant respondents: ‘DoD Prime’, ‘DoD Prime and Sub’ and ‘DoD Sub’, some did not respond, total count: 45)

Figure 91. Payment Financing Terms established by

Responding to the question of ‘who establishes the payment financing terms between a Prime and a Sub’, 42% of the small businesses indicated that they are decided by Prime contractor, while 36% of the respondents said that the terms are decided after negotiations between Prime and Sub. The balance 22% respondents mentioned that the Sub decides the terms of payment financing. The responses to this question differ slightly for DoD categories as ‘DoD Prime’ and ‘DoD Sub’ indicated that the terms are generally decided after negotiations between them or decided by the Prime contractor and Sub do not have much of a say. On the other hand, ‘DoD Prime and Sub’ category respondents gave highest percentage to ‘Sub’ establishing the payment financing terms.
Q48 Do the terms of your contract depend on the Prime contractor receiving payment from the Department of Defense (DoD)? (Relevant respondents: ‘DoD Prime’, ‘DoD Prime and Sub’ and ‘DoD Sub’, some did not respond, total count: 45)

Figure 92. Payment dependency on the Prime contractor receiving payment from DoD

When asked a question ‘As a sub contractor whether they receiving payment from a Prime is dependent on Prime receiving the payment from DoD’, more than 70% of the respondents mentioned that as a Sub, getting timely payment from a Prime is dependent on the Prime getting paid by the DoD. Generally, respondents across all DoD categories believe that getting timely payment from a Prime is dependent on the Prime getting paid by DoD.
Q49 What is the most common payment term (number of days) for delivery invoices (assuming no discounts for early payment)? (Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, one did not respond, total count: 32, DoD Prime and Sub:18, DoD Sub:14)

Q50 Please indicate the typical number of days between submission of an invoice and receipt of payment from the Prime Contractor. (Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, total count: 33, DoD Prime and Sub:19, DoD Sub:14)

**Figure 93. Prime Payment**

The above plot shows scatter plot for Prime payment contract days on X-axis and Prime actual payment days on Y-axis. DoD category of the respondents has been differentiated using colors of the points. The diagonal line in blue indicates when the contract payment term (days) matches the actual payment days. All the points below this diagonal line indicate cases of timely payment, while all the points above this line suggest the cases when the payment was delayed. From the plot it can be observed that a significant number of points, especially for ‘DoD’ Sub’, are lying above the diagonal line indicating many cases of payment by Prime getting delayed.
The above box plots show comparison of Prime payment term and Prime actual payment for categories ‘DoD Prime and Sub’ and ‘DoD Sub’. The plots indicate that generally the Prime payment terms for ‘DoD Prime and Sub’ category are higher than that for ‘DoD Sub category’. However, for ‘DoD Sub’ category, the medial value for actual payment is higher than the median value for payment term indicating delay in payment.

Comparison of these plots for Prime payment to Sub and earlier plots for DoD payment to Prime indicate that generally, the actual payment days for Prime to Sub are higher than that of DoD to Prime.
Please indicate your level of agreement for below.

**Q51 The payment by the Prime Contractor is usually on time.** (Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, total count: 33)

**Q52 The payment by the Prime Contractors is usually according to terms agreed to in the contract.** (Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, total count: 33)

**Figure 95. Prime Payment on Time and as per Terms**

The above plots show respondents’ level of agreement to the statements related to Prime payment timeliness and as per the terms of the contract. Most of the respondents in ‘DoD Prime and Sub’ category agree that the payment from the Prime is generally on time and as per the contract terms. However, it can be observed that ‘DoD Sub’ category has much higher percentage of respondents who do not agree to that.
Q53 In case of delayed payment or payment not in accordance with the agreed terms, what alternatives are available? (Select all that apply). (Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub,’ multiple selections possible, total count: 87)

**Figure 96. Alternatives in case of delayed Prime payment**

![Alternatives in case of delayed payment chart]

In case of delayed payment from Prime contractor, the most common options used by Sub contractors are using owner’s funds, taking additional debt, reducing salaries, using cash reserves, deferring payments etc. Under certain severe conditions they may have to resort to laying off employees, downsizing operations or even closing the business.
Q54 Are you familiar with the benefits of FAR 32.112-1 Subcontractor Assertions of Nonpayment? (Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, total count: 33, ‘DoD Prime and Sub’:19, ‘DoD Sub’:14)

Q55 Have you ever taken the benefit of FAR 32.112-1 Subcontractor Assertions of Nonpayment? (Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub’, total count: 33, ‘DoD Prime and Sub’:19, ‘DoD Sub’:14)

Figure 97. Familiarity with and taken benefits of FAR 32.112-1

The respondents were asked whether they are with the benefits of FAR 32.112-1 Subcontractor assertions of nonpayment or not and have they taken the benefit of the same. More than 40% of the Subs are not familiar with the benefits of FAR 32.112-1, approximately the third of them know about the same, while the balance 24% may have some familiarity. 30% of the Sub respondents have actually taken the benefit from it. Majority of the respondents in ‘DoD Prime and Sub’ have some familiarity with benefits of FAR 32.112-1 and more than half of them have taken the benefit of it. Respondents from ‘DoD Sub’ have much lower percentage of familiarity with FAR 32.112-1 and none of them have taken the benefit of it.
Q56 Do any of your prime contractors offer you the ability to get paid sooner by “discounting” (reducing) the payment value that you receive? (Relevant respondents: ‘DoD Prime and Sub’ and ‘DoD Sub,’ total count: 33)

Figure 98. Prime contractors offer discounting

Responding to the question of whether their Prime contractors offer them the ability to get paid sooner by ‘discounting’, 12% of the Sub contractors confirmed that their Prime contractors offer them this facility. They indicated the typical discount to be ~5%. 
Doing business with Private Companies

Q58 Who establishes the payment / financing terms between your company and the Private Company? (Relevant respondents: Private sector, some did not respond, total count: 64)

Figure 99. Private Company payment financing terms decided by

Responding to the question of who establishes the payment financing terms between a contractor and a Private company, more than half of the respondents said that it is decided mutually by negotiations by both the parties. Approximately quarter of the respondents feel it is decided by Private company, while the remaining quarter confirmed that it is decided by the contractor.
Q59 What is the most common payment term (number of days) for delivery invoices (assuming no discounts for early payment)? (Relevant respondents: Private sector, some did not respond, total count: 63)

Q60 Please indicate the typical number of days between submission of an invoice and receipt of payment from the Private Company. (Relevant respondents: Private sector, some did not respond, total count: 62)

**Figure 100. Private Company Payment**

The first above plot shows scatter plot for Private company payment contract days on X-axis and Private company actual payment days on Y-axis. The diagonal line in blue indicates when the contract payment term (days) matches the actual payment days. All the points below this diagonal line indicate cases of timely payment, while the points above this line show the cases when the payment was delayed. The scatter plot shows significant proportion of points are lying above the diagonal line indicating that the payment by Private companies gets delayed frequently. Interestingly, the median value for actual payment is marginally lower than that of payment term.

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<th>Five Number Summary</th>
<th>Private company Payment Term (Days)</th>
<th>Private company Actual Payment (Days)</th>
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</tr>
<tr>
<td>Upper Hinge</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Maximum</td>
<td>156</td>
<td>148</td>
</tr>
</tbody>
</table>
Please indicate your level of agreement for below.

**Q61 The payment by the Private Company is usually on time.** (Relevant respondents: Private sector, some did not respond, total count: 62)

**Q62 The payment by the Private Company is usually according to terms agreed to in the contract.** (Relevant respondents: Private sector, some did not respond, total count: 62)

**Figure 101. Payment by the Private Company is on time and according to terms agreed**

Though the earlier plots indicate that the payment from private companies gets delayed a few times, majority of the respondents agree that the payment from the private companies is generally on time and according to the terms agreed.
Q63 In case of delayed payment or payment not in accordance with the agreed terms, what alternatives are available? (Select all that apply). (Relevant respondents: Private sector, multiple selections possible, total count: 141)

Figure 102. Alternatives in case of delayed payment from Private company

In case of delayed payment from a private company, the contractors choose from a variety of options like using owner’s funds, take out additional debt, use cash reserves, reduce employee salaries, defer expenses etc. Some respondents mentioned that in case of delayed payment, they have to downsize operations, lay off employees etc.
Q64 For delivery payment, does the private company offer the ability to get paid sooner by discounting? (Relevant respondents: Private sector, total count: 67)

Figure 103. Private company offer discounts for prompt payment

Responding to the question of whether the Private companies offer them the ability to get paid sooner by ‘discounting’, 13% of the respondents confirmed that the private companies offer them this facility. They indicated the typical discount to be 1-2% while in some cases it is as high as 10%.
Q66 Are you familiar with the government compliant accounting system? (Relevant respondents: ‘DoD Prime’, ‘DoD Prime and Sub’ and ‘DoD Sub’, one did not respond, total count: 46)


More than 80% of the DoD respondents have some familiarity with the government compliant accounting system. The percentage of respondents with familiarity with the Govt. Compliant Accounting system is significantly higher for ‘DoD Prime’ and ‘DoD Prime and Sub’ categories as compared to ‘DoD Sub’.

Figure 105. Implemented Government Compliant Accounting System

Approximately half of the DoD respondents have implemented a government compliant accounting system and another 14% have implemented it by contracting out to accounting firm. Majority of the respondents in ‘DoD Prime’ and ‘DoD Prime and Sub’ categories have implemented the Govt. Compliant Accounting system either in-house or by contracting out, while more than half from ‘DoD Sub’ category have not implemented it.
Q68 What details of a Government-compliant accounting system do you find the most difficult? (Please select all that apply) (Relevant respondents: ‘DoD Prime’, ‘DoD Prime and Sub’ and ‘DoD Sub’, multiple selections possible, total count: 94)

Q69 Among the following elements of a Government-compliant accounting system, what aspect(s) is the most challenging for your business’s cost accounting? (Please select all that apply) (Relevant respondents: ‘DoD Prime’, ‘DoD Prime and Sub’ and ‘DoD Sub’, multiple selections possible, total count: 115)

Figure 106. Difficulty in implementing Government Compliant Accounting System

Respondents across categories indicated that the Govt. Compliant Accounting System is designed for larger businesses, the learning curve is steep, requires highly skilled manpower, doesn’t match their business operations etc.
When asked about the most challenging aspects of Govt. Compliant Accounting System, some of the key aspects mentioned by the respondents are hiring and training of qualified accounting staff, understanding and compliance of GAAP, FAR, GAGAS and DCAA requirements, preparing for GCAS approval, understanding and compliance of CAS etc.
Q70 Are you aware of free government resources e.g., Procurement Technical Assistance Centers (PTAC), Small Business Development Centers (SBDC) that can aid you in doing business with the government? (Relevant respondents: All respondents, some did not answer, total count: 100)

**Figure 108. Awareness about free government resources**

Approximately 2/3 of the respondents are somewhat aware about the free government resources e.g., Procurement Technical Assistance Centers (PTAC), Small Business Development Centers (SBDC), Defense Contract Audit Agency (DCAA) etc. that can aid in doing business with the government.