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Defense's trickle-down effect

As federal funds flow to defense contractors, smaller firms jostle for share
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MagneMotion Inc. specializes in motor systems for factory production and transportation, but when the U.S. Navy asked the company to bid on a defense project, MagneMotion leaped at the opportunity.

Although the Acton-based company was founded in 1996, the recent Navy deal is among its first defense contracts, said president and chief operating officer Todd Webber. MagneMotion's previous government work came from Small Business Innovation Research grant work for the Navy, Webber said.

"It's not as if we're constantly chasing after government contracts and receiving them," Webber said. "They made a request for us to consider working on it."

As part of the deal, MagneMotion will work as a subcontractor to Los Angeles, Calif.-based Northrop Grumman Corp. in a project that involves developing an advanced weapons elevator for the CVN 21 aircraft carrier. Other teams are working on the so-called proof of concept, slated to be finished in 2005, and the Navy will ultimately tap a preferred vendor team to install the elevators in ships, Webber said.

Winning the preferred-vendor contract would be huge for MagneMotion, but with the help of the Navy design work, the 15-employee firm is already morphing from a development-stage company to one that expects to generate between \$2 million and \$3 million in revenue next year, Webber said.

Funding frenzy

As the money funneled to traditional prime defense contractors such as Raytheon Co. of Waltham has increased, subcontracting opportunities for smaller businesses likewise have been on the rise, according to industry insiders. In some cases, smaller companies are also serving as prime contractors, by working directly for the government. The federal government, overall, awarded small businesses more than one-quarter of its prime contracting business in fiscal 2003, which ended Sept. 30, according to the U.S. Small Business Administration.

Government contracting consultant Gary Dunbar of West Newbury-based Gary A. Dunbar Inc. said he's working with a segment of the subcontract market that wants to -- and believes it can -- grow more. "They all report that there's ample opportunity," Dunbar said. "I would suspect that the ones doing effective marketing are seeing growth."

Despite not being classified under one of the preferred categories that defense contractors must hire for a certain percentage of their work, ENSR International of Westford has

been generating more business, said Chris Mitchell, regional director of government programs for the information management and engineering services company. Preferred categories include disadvantaged or minority-owned businesses, women-owned businesses and small businesses, as defined by federal guidelines.

Government and defense contracting work is a major priority for the energy and environmental consulting company, which has 1,000 U.S. employees and \$150 million in worldwide revenue, Mitchell said. ENSR has increased its government work by 6 percent in the Northeast during the past year, Mitchell said.

Overall, government work contributes only about 15 percent to ENSR's top line, Mitchell said. Since any size company can be a prime contractor with a defense department agency depending on the work, ENSR will sometimes serve as a subcontractor to a small company.

"It's a small but very important part of our business, and we're looking to expand that," Mitchell said.

Technology transfer

Tiny, specialized-technology companies such as MagneMotion are mining gold with military work. At Industrial Computing Inc. of Waltham, for example, defense work has grown from about 25 percent of the company's revenue two years ago to about half of its current \$8 million take, said president Donald Berman. The 16-employee company makes flat-panel displays for such customers as Waltham-based defense contractors Foster-Miller Inc. and Raytheon Co. But it also works directly for the U.S. Navy, Berman said.

"Since last summer, we've seen a considerable increase in military business," Berman said.

So has Adimec CCD Cameras Inc. of Stoneham, a division of Holland-based Adimec that produces industrial cameras that can be made rugged for military use. Although vice president of sales and marketing Jay Rice declined to release revenue or contract amounts, he said Adimec has "seven-figure contracts" with several U.S. defense contractors, including Bethesda, Md.-based Lockheed Martin Corp.

"There's definitely an increase in the amount of activity out there," Rice said. "Adimec has begun to focus on marketing, which has allowed us to become more visible."

Defense contract dollars for small businesses secured with the help of the Massachusetts Small Business Development Center Network's Procurement Technical Assistance

Center jumped to \$30 million in fiscal 2003, which ended Sept. 30, from \$15.2 million in the prior year. Much of the growth has been from emerging-technology companies doing work with the Defense Department and the U.S. Department of Homeland Security, said Georgianna Parkin, the network's state director.

"This is certainly the highest year ever that we've had," Parkin said.

Preferred players

Raytheon has also boosted its purchase orders issued to Massachusetts-based suppliers, to \$348 million in 2003, compared with nearly \$309 million in 2002 and nearly \$305 million in 2001.

Spokeswoman Sabrina Steele said the rise in supplier and subcontractor work for Bay State companies tracks the company's revenue growth. Raytheon's sales grew from \$16.7 billion in 2002 to \$18.1 billion in 2003. The subcontracting share for Massachusetts-based companies remained relatively stable at just under 2 percent.

"The reason we've got a growth in our supplier commitments is very simply that our business is growing," Steele said.

Such increases are translating to top-line growth at businesses in the so-called preferred categories.

At minority-owned CDP Fastener Group Inc., subcontracting business has increased by about 35 percent over the previous year, according to vice president Paul Wagner. The 14-employee Brockton outfit supplies bolts, nuts, screws and other hardware to Raytheon and to the local offices of Scottsdale, Ariz.-based General Dynamics C4 Systems, Wagner said.

"(Subcontracting) seems to be growing on a monthly basis and steadily," Wagner said early this month. "We actually hired another warehouse employee ... and we're looking to add a salesman."

Subcontracting dropped in 2002 at Lowell-based information technology hardware and network provider Mill City Connections Inc. But it has ramped up in 2003 and boosted company revenue 48 percent, to \$5 million, said president, CEO and owner Peter von Jess. Mill City is certified in several small-business categories: minority-owned, veteran-owned and historically underutilized business zone, or HUB zone, von Jess said.

"The prime contractors are buying more because the economy is turning and their customers are buying more," von Jess said. "It's a trickle down."