

## Maryland Procurement Playbook | Executive Summary

The Maryland Procurement Playbook (“Playbook”) is an effort to strategically assess Maryland’s procurement ecosystem<sup>1</sup> and promote growth for small and diverse firms. The Playbook, funded by the Abell Foundation, J.P. Morgan Chase, BGE, CareFirst, T. Rowe Price, The Annie E. Casey Foundation and Johns Hopkins, is the first assessment of federal, state, and local procurement activity in Maryland. Following a firm-centric approach, the Playbook aims to identify critical success factors for Maryland-based and diverse firms to thrive and utilize public procurement as a catalyst for growth. This initiative was led by the Nowak Metro Finance Lab at Drexel University and performed on behalf of Maryland’s Office of the Comptroller. During the course of the project, the Lab engaged with Maryland-based firms, various state and local units, chambers of commerce, and regional stakeholders.

The Playbook has three key objectives: (1) size the public procurement economy in Maryland, and identify patterns from federal, state and local procurement; (2) evaluate the entrepreneurial support ecosystem and procurement practices across levels of government; and (3) develop firm-centric strategies to foster contracting and growth opportunities for Maryland-based and diverse firms.

### **1. Maryland’s Procurement Economy: a Potential Driver of State Growth**

Given the substantial size of the public procurement economy in the state, which accounts for at least 17.5 percent of the state’s Gross Domestic Product (2022), and the number of opportunities in high growth sectors including Professional Services and Information Technology (IT), Maryland’s procurement economy is essential to the state’s economic positioning. Tapping into the full economic potential of Maryland’s procurement economy would enable it to be a driver of state growth. This is dependent on ensuring that local vendors can effectively compete for public procurement dollars in the state. Currently, roughly 40% of state and federal procurement spending is going to out-of-state firms.

#### **-> Maryland’s procurement economy is substantial and has a strong federal presence**

Annually, federal, state, and local agencies collectively award at least \$68 billion in Maryland via contracts to over 9,100 prime vendors<sup>2</sup>. Additionally, the federal government awards over \$16 billion to Maryland-based firms for performance in other states. This public procurement economy represents 17.5% of Maryland’s GDP (2022).

Around half of this procurement spending comes from federal procurement, given the state’s proximity to the nation’s capital and federal presence in the state, that includes 29 military facilities and 57 federal offices, as well as 10 federally-funded business support organizations<sup>3</sup> providing support to firms in Maryland. The state also has nearly 3,300 firms contracting with the federal government (FY 2023)<sup>4</sup>, including over 1,000 local firms that have successfully grown their business with the federal government over the last 15 years<sup>5</sup>.

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<sup>1</sup> Maryland’s procurement ecosystem includes a large group of players: buyers, vendors, and the support ecosystem. This study analyzes funds directly awarded by federal, state, and local governments through prime contracts. It does not focus on private procurement, nor subprime awards.

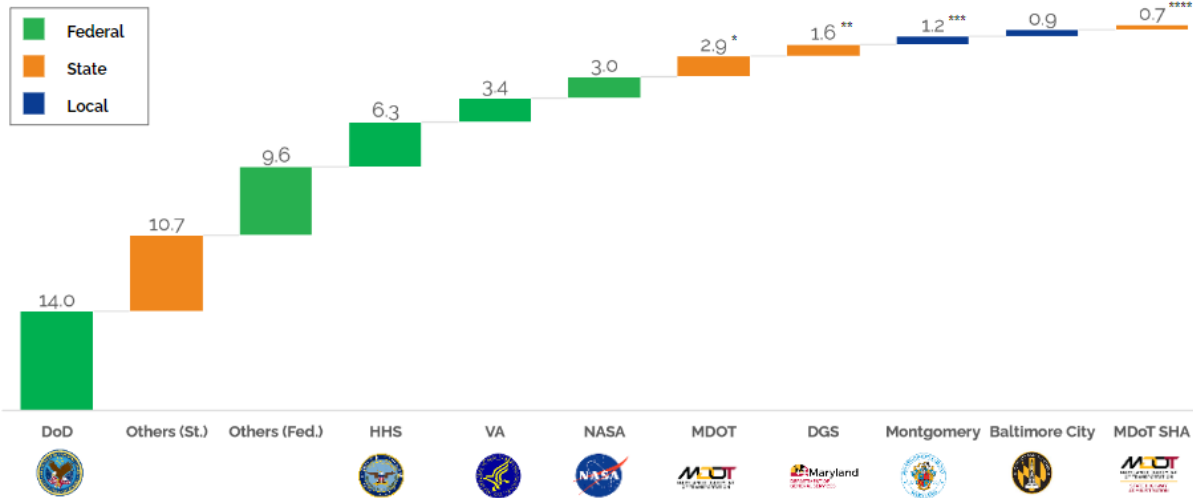
<sup>2</sup> Estimates.

<sup>3</sup> Encompasses agencies such as APEX Accelerator, MBDA’s, and business centers, among others. This list was compiled primarily through desk research and stakeholder referrals and may not be exhaustive.

<sup>4</sup> Regardless of the place of performance of the contract.

<sup>5</sup> We developed a methodology to identify Maryland-based vendors that grew their federal contracts in the last 15 years.

**Chart 1.** Public Sector Procurement Spending in Maryland. By Agency<sup>6</sup>.  
 Estimates of dollars awarded by selected agencies. In billions. FY 2022.



**Notes:** (\*) The State Highway Administration (MDoT SHA) was excluded from this figure, and it is presented separately. This figure was obtained from the FY 2022 Procurement's Advisor's report. (\*\*) Extracted from Maryland Department of General Services Annual Report. (\*\*\*) Estimate based on CY 2022 and CY 2023 award data. (\*\*\*\*) Data for CY 2022. **Source:** [USASpending](#); data received from government agencies.

**-> This procurement economy has a unique concentration in Professional Services and IT**

Maryland has significant procurement spending concentrated in Professional Services and IT, with the sectors accounting for almost half of annual federal, state and local spending. In CY 2023, the federal government awarded \$16.5 billion to contracts in this sector and the state government \$9.2 billion.

This sector is significant for the state's economy, driving substantial employment and R&D investments. The state's workforce has a substantial share of employment in Professional Services (10.1 percent compared to a national average of 6.9 percent), and Maryland ranks third among states in Professional and Technical workers (2022). In 2023, Johns Hopkins was ranked #1 among 899 institutions in the United States for Higher Education R&D spending, allocating a total of \$3.4 billion to R&D expenditures (NSF). Meanwhile, the University of Maryland ranked 19th nationally, allocating \$1.2 billion to R&D expenditures.

**-> Four out of ten dollars are not directly benefiting local firms and MBEs<sup>7</sup>**

We identify local leakage in the state's procurement economy as the amount of public procurement spending designated to be performed in the state of Maryland that is not captured by Maryland-based firms performing as prime contractors.

At the state and federal level, we estimate that four out of ten procurement dollars, for contract performance in the state, are going to non-local firms (FY 2023). This leakage size is even higher in Professional Services and IT.

It is also becoming increasingly difficult for smaller firms to access opportunities in the procurement economy due to contract sizes that necessitate evidence of past performance and additional resources (i.e., working capital). MBEs encounter even higher challenges tapping into the Maryland procurement marketplace; data and interviews suggest the need for better support for MBEs to become primes.

<sup>6</sup> The chart presents data from July 2021 to June 2022, except for MDOT SHA and Montgomery County, due to data limitations.  
<sup>7</sup> Minority-owned Enterprises (MBEs).

## **2. Barriers to Local Firms Engaging in Procurement**

We conducted comprehensive research, including interviews with over 40 firms and state stakeholders, alongside quantitative analyses. Out of the 18 interviews conducted with firms, 11 were from the Professional Services and IT sectors and all of them were currently engaging in contracts at the federal, state, and/or local levels. Through these analyses, we gained insights into four challenges facing local and diverse firms looking to tap into this procurement economy:

### **-> Hundreds of federal, state and local government entities operating in the region**

The complexity of Maryland's procurement economy, with over 300 federal, state, and local government entities operating under varying regulatory frameworks, creates artificial barriers for firms. Each level has a different regulatory and policy framework for procurement, creating three distinct procurement markets that firms must navigate and hindering vendor's ability to freely operate across markets. Despite the potential for a diversified customer base, less than 5% of vendors in our dataset<sup>8</sup> hold contracts across multiple government levels.

### **-> A fragmented ecosystem of buyers across levels of government and support providers**

The procurement ecosystem - inclusive of buyers, vendors and support organizations - is fragmented with limited coordination, particularly in identifying and addressing resource needs of Maryland-based firms. The separation between buyers across government levels and within the regional support ecosystem, which includes over 60 providers<sup>9</sup>, creates a burden for firms navigating the procurement ecosystem, particularly those that are small and diverse. The distance between these three sets of actors (buyers, vendors, and support organizations) limits potential synergies and collaborative opportunities.

### **-> Lack of targeted capacity building and capital programs**

The business support ecosystem in Maryland lacks targeted capacity-building efforts and flexible capital programs to introduce and advance firms in the procurement marketplace, posing challenges for MBE firms, particularly in high-growth industries. Support for Maryland vendors focuses on smaller firms, with only a few programs designed to build capacity and scale Maryland-based, mid-size firms. While there are a broad range of services and programs available, less than a third of support providers identified offer procurement-related curriculum business services or programs, and only half of the firms interviewed reported using local or federally-funded resources. This gap in targeted capacity building and capital programs limits the ability of firms to enhance their capabilities and navigate complex procurement processes effectively.

### **-> Untapped opportunities in Professional Services and IT sectors**

In CY 2023, at least \$ 27 billion were awarded by federal, state and local entities to firms in the Professional Services and IT sectors. Over 2,500 vendors served this demand (from in and out of Maryland), yet we estimated that almost 6 out of 10 dollars went to firms outside of the state. Mid-sized vendors based in Maryland in Professional Services and IT reported limited support to connect to more federal opportunities, and mentioned that breaking into state procurement could be more challenging than entering federal procurement. This highlights the need for sector-specific initiatives to boost local participation and address barriers for firms in these high-wage industries.

## **3. The Path Forward: Turning Maryland's Procurement Economy into a Driver for Growth**

The public procurement economy presents a prime opportunity for greater private sector growth in Maryland - particularly given the state's assets and strengths in high-wage sectors, like Professional Services and IT.

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<sup>8</sup> We developed a master database with contracts awarded by the federal government in Maryland, the state government and two local jurisdictions - Baltimore City and Montgomery County - in CY 2023.

<sup>9</sup> This research was conducted primarily through desk research and stakeholder referrals and may not be exhaustive.

Fully leveraging this opportunity will depend on strengthening the support ecosystem for Maryland-based firms and addressing barriers to entry and mobility across federal, state, and local procurement markets. To leverage the potential of Maryland's procurement economy, we identified a set of actions to turn the procurement economy into a driver of growth for local and diverse firms.

**-> Strengthen capacity building and capital programs for firms**

Actions aimed at facilitating the development of relevant content and capital programs tailored to the needs of businesses, and supporting existing and emerging state-based firms.

**Sample Initiatives:** (1) A **state-supported grant** resource to strengthen the capacity of business support providers and increase targeted business advisory services to local MBEs entering and growing in Maryland's procurement economy (with a focus on mid-size firms). (2) A **state-supported grant resource** that increases the availability and accessibility of low-cost, low-collateral revolving credit lines and performance bonds. (3) **Invest in the APEX Accelerator to expand outreach and operations.**

**-> Develop a navigable and firm-centric ecosystem**

Actions aimed at connecting buyers, support organizations, and MD firms, and empowering top buyers to strengthen their network and the pipeline of local firms. This can make it easier for buyers, support organizations, and local firms to connect with one another, fostering new customer relationships and business partnerships.

**Sample Initiative:** *Form a **cross sectoral coalition or working group** of support and capital providers that serves as an intermediary to coordinate actions and investments of MD support organizations and buyers.*

**-> Unlock opportunities for MD firms in Professional Services & IT**

Actions aimed at tackling regulatory, policy and ecosystem barriers for MD firms in Professional Services & IT, and evaluating procurement practices that are leading to reduced competition.

**Sample Initiative:** *Form a **Professional Services & IT Consortium** of buyers, support providers and Maryland-based firms focused on identifying and tackling regulatory, policy and ecosystem barriers for Maryland firms in Professional Services and IT.*

**-> Mitigate barriers for MD-based firms and MBEs to win prime contracts at the state level**

Actions aimed at ensuring vendor perspectives and meaningful engagement with local firms and MBEs. While state-based firms should be able to have a diverse customer base that can provide for resiliency and growth, few firms contract with multiple levels of government. State bodies, like the Procurement Improvement Council, have been working to improve state procurement by addressing policy and procedural topics, however it is important to ensure that the perspectives of the vendor community are fully incorporated into those discussions.

**Sample Initiative:** ***Incorporate firm perspectives** directly in ongoing discussions of procurement reform to address causes of complexity in state procurement, particularly relative to local, federal, and peer procurement markets (i.e., other states).*