

Small Business in Artificial Intelligence

The Federal Government spends more than \$250 million annually on Artificial Intelligence (AI), machine-based systems designed to make predictions, recommendations, or decisions based on human-defined objectives. [Executive Order 14110](#) and OMB [M-24-10, Advancing Governance, Innovation, and Risk Management for Agency Use of Artificial Intelligence](#), offer guidance on use of AI and recognize its utility in the federal business environment. There are many types and applications of AI however, and while some AI can be procured directly (e.g., Generative AI), the government more frequently procures AI as part of an IT solution (e.g., Machine Learning integrated in an IT system). While this reference sheet provides a starting point for market research, it is important to do additional research in the specific application of AI being procured. For Generative AI, the class of AI models that emulates input data to generate synthetic content, additional guidance can be found on [ITVMO site on Generative AI](#).

Federal Contracting	
• FY23 Total IT \$:	\$249.1M
• # businesses:	215
• Small Business:	\$154.7M
• # SBs:	258
• SB utilization %:	62%

Worldwide Industry	
• Total \$:	\$184.05B
• CAGR:	42%
• # Businesses:	~40k
• US-based Businesses:	25%
• 2030 Market Size:	\$1T+

- The AI market is growing rapidly. Federally, it has grown from \$60M to \$250M in just 4 years.
- Small businesses have played an increasingly important role in providing AI to the Federal government, growing from less than 5% in FY20 to over 62% in FY23.
- Agencies heavily use Government-wide contracts, especially SEWP (\$75M), IT Schedule 70 (\$38M) and NITAAC (\$16M), to acquire AI.
- Large businesses are the primary developers of AI, but small businesses are often used for value-add services such as integration and product management.

Insights for Federal Buyers

1. The global AI market is projected to grow from \$184 billion in 2023 to >\$1 trillion by 2030. The Federal government buys from less than 1% of AI businesses; Make sure market research is current when starting new procurements.
2. NAICS code selection influences which small businesses are able to participate in a procurement. The most common AI NAICS code is 541519. This code includes an exception for IT VARs, which has a size standard of >150 employees.
3. Best in Class (BIC) contracts (MAS IT, NASA SEWP, NIH NITAAC) have better SBU (68%) than unmanaged contracts (16%); Consider BIC or SUM as preferred contracts.
4. Consider small businesses 1st as resellers, consultants, and developers. While large businesses are among the top vendors, small businesses have a proven record.

Sources: FPDS-NG, System for Award Management (SAM), [GSA Supplier Base Dashboard and Procurement Equity Tool](#), [Statista](#), [Markets and Markets](#), [Built In](#), [AI.gov](#), [Forrester](#), [Gartner](#), [Bloomberg](#)

Select Views of Federal Artificial Intelligence (Contracting)

Estimating government AI spending can be challenging as AI is generally purchased as part of a broader procurement and is difficult to isolate. Numbers presented in this document should be considered conservative estimates.

FY23 Top NAICS

NAICS	NAICS Description	% Total
541519	Other Computer Related Services	45%
511210	Software Publishers	17%
541512	Computer Systems Design Services	11%
541511	Custom Computer Programming Services	8%
Other		19%

FY23 Top Vendors

Indicates SB

Vendor	Reseller (Primary)	Obs (\$M)
PALANTIR TECHNOLOGIES INC.		23.8
GOVERNMENT ACQUISITIONS, INC.	x	14.4
THE MATHWORKS INC		14.3
RED RIVER COMPUTER CO., INC.	x	14.1
SWISH DATA CORPORATION		12.8
INTERNATIONAL CONSULTING ASSOC	x	12.5
A & T MARKETING INC.	x	10.0
SCALE AI, INC.		7.0
FEDRESULTS, INC.	x	6.5
THUNDERCAT TECHNOLOGY	x	5.2
STELLA JV LLC	x	5.2
BLUE TECH INC.	x	5.2
CTG FEDERAL LLC	x	5.0
COLOSSAL CONTRACTING, LLC	x	4.5
ADVANCED ALLIANT SOLUTIONS TEAM	x	4.4
SEED INNOVATIONS, LLC		4.3
URBAN INTERACTIONS	x	4.3
INDEX ANALYTICS LLC		3.4
GENERAL DYNAMICS C4 SYSTEMS	x	3.4
ANIKA SYSTEMS INCORPORATED	x	3.0
Others		85.7
	Total	249.1

FY23 Socio-economic and subcategory detail

	OSB (\$M)	SB (\$M)	% SB
Capability As a Service	16.4	13.0	34%
IT Professional Services	7.6	83.5	88%
Products	57.1	57.0	50%

Type	# Businesses	% Utilization
SB	258	62.1%
WOSB	34	16.3%
SDVOSB	33	21.3%
SDB	3	.2%
8(a)	31	15.4%
Hubzone	21	11.8%

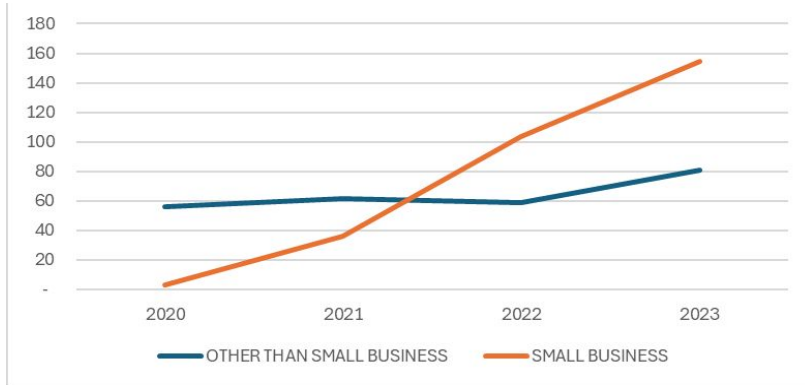
FY23 Top Contracts and SUM Breakout

Contract Name	SUM Tier	SBU %	% Spend	Obs (\$M)
NASA SEWP	BIC	97%	30%	75.5
Blank	Tier 0	16%	19%	48.3
Socioeconomic Disadvantaged	TIER 2	98%	16%	41.1
Sched 70 HWSW	BIC	12%	10%	24.5
NITAAC CIO-CS	BIC	11%	6%	15.7
SCHEDULE 70-INFO TECH	TIER 2	55%	6%	14.1
FIRSTSOURCE II	TIER 1	100%	3%	7.1
MathWorks Products and Services	TIER 1	0%	2%	4.6
8(a) STARS II	BIC	100%	2%	4.2
Other			6%	13.9
		Total	100%	249.1

SUM Tier	%SBU	% Spend	Total Obs (\$M)
BIC	68%	49%	121.2
TIER 2	84%	25%	62.8
TIER 1	66%	7%	16.7
TIER 0	16%	19%	48.3

Select Views of Federal Artificial Intelligence (Contracting Cont.)

SB vs OSB Contracting Obligations (\$M) Trends



FY23 Top Funding Agencies

Top Funding Department Name	OSB (\$M)	SB (\$M)	SBU %
DEPT OF DEFENSE	35.1	24.2	33%
HEALTH AND HUMAN SERVICES	8.7	30.2	78%
VETERANS AFFAIRS	.2	23.9	99%
TREASURY	14.4	9.3	39%
AGRICULTURE	4.8	14.6	75%
JUSTICE	.6	16.9	97%
HOMELAND SECURITY	.9	14.8	95%
NASA	4.7	2.7	36%

Select Views of Artificial Intelligence (Industry)

AI Subcategories Total = \$184.05B

Subcategory	% Total
Machine Learning	36.8%
Natural Language Processing	21.7%
Computer Vision	14.9%
AI Robotics	12.6%
AI Infrastructure	6.4%
Other	7.6%

Top Vendors by Select AI Subcategories

* Small Business

Computer Vision	Machine Learning	Natural Language Processing
<ul style="list-style-type: none"> • Descartes Labs* • Magic Leap • Orbital Insight* • Shield AI* • Verkada 	<ul style="list-style-type: none"> • Alteryx • DataRobot • Glide AI* • Mathworks • Palantir 	<ul style="list-style-type: none"> • Anthropic* • Meta Llama • OpenAI • Perplexity AI* • SparkCognition*
Robotics	Cloud and Storage (Infrastructure)	Chips (Infrastructure)
<ul style="list-style-type: none"> • Anduril • Boston Dynamics • Saildrone* • Sanctuary AI* • UI Path 	<ul style="list-style-type: none"> • C3.ai* • H2O.ai* • Hugging Face* • MongoDB • Snowflake 	<ul style="list-style-type: none"> • AMD • Groq* • Intel • Nvidia • SambaNova*

The AI marketplace encompasses a diverse range of applications, from niche tools to broad enterprise solutions, each with its own growth rate and market dynamics. This diversity can lead to overestimation or underestimation when aggregated into a single market size figure.