

THE IMPACT OF CATEGORY MANAGEMENT ON THE SMALL BUSINESS INDUSTRIAL BASE

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Questions for the Record:

None.

Answers for the Record:

None.

Additional Material for the Record:

None.

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WEDNESDAY, JUNE 13, 2018

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 11:02 a.m., in Room 2360, Rayburn House Office Building, Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, Luetkemeyer, Knight, Blum, Comer, Fitzpatrick, Marshall, Velázquez, Evans, Lawson, Adams, Espaillat, and Schneider.

Chairman CHABOT. Good morning. The hearing will come to order. I want to thank our witnesses for being here.

We are here today to continue this Committee's longstanding oversight of Federal procurement initiatives impacting small businesses. This Committee has long advocated for policies that ensure a strong industrial base. As we all know, small businesses play a critical role in increasing competition, innovation, and stimulating our economy.

However, the industrial base has shrunk by as much as 27 percent over the last decade, even as total dollar amounts awarded to small businesses remain level. Past Federal spending initiatives applying contract consolidation principles have contributed to this decline. The current Federal spending management framework, also known as category management, proposed by the Office of Management and Budget, raises some of these concerns of the past.

While category management can be useful in tracking the Federal Government's purchasing habits in order to identify efficiencies and keep contracting costs down, the proposed plan may be problematic. There is great concern among the small business community that recent efforts steering spending towards best-in-class contracting vehicles will restrict competition and significantly reduce opportunities for the majority of small businesses. Current category management efforts seem to benefit the few, to the detriment of many.

In the struggle to simplify and manage Federal spending, the Federal Government should not lose sight of its responsibility to maximize opportunities for small businesses, nor should it disregard the impact that this may have on the industrial base. Merely paying lip service to the small business community is not enough; the Federal Government should take proactive steps to ensure the majority of small businesses can thrive in this new environment.

I would like to thank our witnesses for being here this morning and for their expert testimony that we will hear shortly. And I would now like to yield to the Ranking Member, Ms. Velázquez, for her opening statement.

Ms. VELAZQUEZ. Thank you, Mr. Chairman, for holding this important hearing.

Our committee has long acknowledged small businesses' critical role in the \$500-billion-a-year federal marketplace. When small firms are awarded federal contracts, the result is a win-win. The government and the taxpayer receive good value for their money, as small companies have the dexterity to provide high-quality supplies and services at competitive prices.

It, therefore, comes as no surprise to those in this room that small businesses are at the heart of the government's supply chain. Recent data demonstrate that the average contract size is increasing, meaning more revenue for small companies if they get those contracts. However, this trend also suggests that more contracts are being consolidated, resulting in fewer opportunities for small businesses. I am particularly interested in hearing witnesses' perspective on this phenomenon.

More broadly, numerous policies and protections have been implemented to ensure small firms' continued participation in government contracting. Many of these initiatives have evolved over the years to reflect the changing needs of small firms. One such evolution is the adoption of strategic sourcing and category management.

Category management is a broad concept used to optimize acquisition vehicles, processes, and knowledge available to best address agencies' needs and generate savings. There are concerns that, despite any benefits, this model could result in greater consolidation and bundling of contracts and a reduction in the usage of the federal schedule system.

While category management is billed as the strategy to get agencies the lowest price, our committee has heard the contrary at previous hearings. Vendors on the multiple award schedule continually provided lower prices than those offered by category management contract holders. Yet, agencies and contracting officers cannot take advantage of lower prices, because some category management vehicles have become mandatory by their agency.

The current course of this administration is increasing the number of agencies heading in this direction. There is added concern that the best-in-class criteria poses a threat to emerging businesses that do not have the past performance to enter a vehicle and might be effectively locked out of the marketplace.

All of this is not to say that category management is without merit. We certainly do not want agencies using less efficient, more expensive procurement processes. However, if small firms with a history of offering quality services are being locked out, we must consider if this initiative is achieving the intended result.

During today's hearing, I look forward to learning about challenges facing small contractors and potential solutions. Doing so is not only essential for small firms and our nation's industrial base, but the overall economy.

I want to thank the witnesses for being here today. I yield the balance of my time. And, Mr. Chairman, I would like to say hello to Anastasia MacEwen, a New York University student who was my district intern currently in the audience. Welcome.

[Applause.]

Ms. VELAZQUEZ. Thank you. I yield back.

Chairman CHABOT. Thank you. The gentlelady yields back.

And if Committee members have an opening statement prepared, I ask that they be submitted for the record.

And I will take just a moment to explain our rules here, timing particularly. We operate under the 5-minute rule. Each of you will have an opportunity to talk for 5 minutes, and there will be a light on there. For 4 of those minutes, it is green; it will go to yellow when you have 1 minute to wrap up; then the red light will come on. And we ask that you try to stay within those constraints if at all possible, and we operate the same way. There will be 5-minute questions, and we will stay within those parameters also.

And I would now like to introduce our distinguished panel here today. Ms. Shirley Bailey is testifying in her capacity as board chair of the HUBZone Contractors National Council. Ms. Bailey appeared before this Committee last year, discussing legislative reforms of the HUBZone Program undertaken by this Committee, and we welcome you back today.

Our second witness will be Alan Chvotkin. Am I pronouncing that correctly? Thank you. He is also a familiar face at the Committee, and is testifying today in his role as the Vice President and Counsel of the Professional Services Council, where he is responsible for legislative and regulatory policy. Mr. Chvotkin brings extensive experience on a multitude of small business contracting issues, and we appreciate your expertise and thank you for your testimony to begin shortly.

Our third witness is Ms. Beth Laurie Strum. Ms. Strum has over 20 years of experience advising and supporting contractors and government agencies on policy development and project management. She currently serves as the Vice President of the Business Development for Volanno.

Ms. STRUM. Volanno.

Chairman CHABOT. Volanno. Sorry about that. Volanno, formerly known as IT WORKS, a women-owned small business located in Washington, D.C. Volanno has successfully delivered innovative solutions to the transportation industry over the past 15 years, and we welcome you here, also.

And I would now yield to the Ranking Member for the purpose of introducing our fourth and final witness.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

It is my pleasure to introduce Ms. ML Mackey, CEO of Beacon Interactive Systems, a company she cofounded in 1994. Prior to starting her company, she worked as an engineer at Digital Equipment Corporation, where she was on both hardware and software teams. Ms. Mackey is the past chair of the NDIA National Small Business Conference. She is a powerful advocate for women in business and a winner of the Women Entrepreneurs in Science and Technology Leadership award. Ms. Mackey holds a BS in electrical

engineering from Lehigh University. Welcome, and thank you for being here today.

Chairman CHABOT. Thank you, Ms. Mackey.

And, Ms. Bailey, you are recognized for 5 minutes.

STATEMENT OF SHIRLEY BAILEY, CEO AND MANAGING MEMBER, MSC MANAGEMENT SERVICES, LLC, TESTIFYING ON BEHALF OF THE HUBZONE CONTRACTORS NATIONAL COUNCIL; ALAN CHVOTKIN, EXECUTIVE VICE PRESIDENT & COUNSEL, PROFESSIONAL SERVICES Council; BETH LAURIE STRUM, VICE PRESIDENT OF BUSINESS DEVELOPMENT, IT WORKS, TESTIFYING ON BEHALF OF THE U.S. WOMEN'S CHAMBER OF COMMERCE; AND ML MACKEY, CEO, BEACON INTERACTIVE SYSTEMS, TESTIFYING ON BEHALF OF THE NATIONAL DEFENSE INDUSTRIAL ASSOCIATION

STATEMENT OF SHIRLEY BAILEY

Ms. BAILEY. Thank you. Chairman Chabot, Ranking Member Velázquez, and members of the Committee, my name is Shirley Bailey and I appreciate the opportunity to be here today to provide testimony on behalf of the HUBZone Contractors National Council. I am also CEO and managing member of MSC Management Services, LLC, a women-owned HUBZone small business located in Garrett County, Maryland.

Today's topic, "The Effect of Category Management on Small Businesses," is a policy that greatly concerns the Council. The cause for concern is pretty simple: small business access to contracts. But understanding category management has been difficult because there are so many moving parts and confusing terms.

Category management is another iteration of the government's desire to consolidate purchases to achieve cost savings. Since 1997, Congress and small business advocates have raised concerns about the effect procurement initiatives have on small businesses. In 2005, the OMB directed agencies to use strategic sourcing and establish the Federal Strategic Sourcing Initiative Program to manage governmentwide efforts. Strategic sourcing has now morphed into category management. So here we are today, raising the same objections that these practices shut out small businesses.

Category management breaks Federal buying into 10 categories, assigning different agencies the lead. The government has put contracting vehicles in four categories: Tier Zero, which are direct contracts with companies or termed local by the OMB; Tier One, agency-wide contracts; Tier Two, governmentwide contracts; Tier Three, best-in-class contracts.

The President's management agenda set two goals for Federal agencies in fiscal year 2018. The first, a 20-percent requirement for agencies to move contracts in Tier Zero to agency-wide or governmentwide contracts. The second goal is to move 35 percent of existing contracts in Tier Two and Three to best in class.

Currently, there are 36 BIC contract vehicles identified on the GSA acquisition gateway. These vehicles totaled approximately \$27 billion in spend in fiscal year 2017. Not to be forgotten is the President's management agenda's goal of meeting small business goals. According to the PMA, achievement of category management goals

is not an excuse for missing an agency's small business goal. Every agency is expected to work with solution providers and small business offices at the agency to meet or exceed the baseline.

We are gratified that the small business goals apply to the agencies and category management. That being said, the HUBZone Council believes that relying on agency-wide or governmentwide contracts erects barriers to small businesses. We want to raise the following concerns: One, as the government moves away from direct contract with businesses, the Tier Zero opportunities decrease for smaller businesses. The vehicles used in category management require substantial resources to bid and to win task orders. These contract vehicles do not lend themselves to small businesses trying to enter the market. So our concern is pretty obvious: A strong industrial base requires a continuous pipeline of emerging companies with innovative solutions.

Two, most big dollars go to a small share of companies, meaning the same ones continue on managed contracts. In fiscal year 2017, just 4.3 percent of BIC contract holders received 80 percent of all BIC dollars. Also, in fiscal year 2017, 63.5 percent of the fiscal year 2013 incumbents received 91 percent of BIC spending. This is counter to other government procurement objectives that seek to diversify the small business base that performs in the Federal marketplace.

Three, we are concerned that category management consolidates contracts into larger and longer term contracts and task orders with limited, if any, on-ramping provisions. If the government is going to issue larger and longer-term contracts and task orders, small business size standards and certification processes must reflect this new reality, and the contracts should provide on-ramping to ensure adequate competition and representation of all socioeconomic classifications within contract vehicles.

Four, the criteria for a contract vehicle to be designated as best in class is unclear, and we are unsure whether or not there will be consistent criteria across contract vehicles. The term itself, best in class, also raises concern.

Five, the Council believes the government policy of counting a company with more than one certification multiple times skews the reporting data. For example, 75 percent of all HUBZone dollars credited towards goals are solicited under other set-asides. We suggest Congress take a look at this policy so that the true number of contracts awarded to socioeconomic set-aside programs is accurate.

In conclusion, no one would disagree with the goals of efficient government buying and saving the taxpayer money. However, we believe that category management comes at a cost. Fewer small business awards not only limits the supply of vendors to the government, the ripple effect limits the ability of small businesses to grow through Federal contracting. In our view, category management will make reaching governmentwide small business goals even more difficult. The utilization of HUBZone companies already poses a problem for the government. It has never reached the 3 percent goal. Further limiting contract competition to utilize only multiple award contracts through category management will have

a devastating effect on small business participation in Federal contracting.

The Council urges this Committee to exercise its authority to ensure the government's procurement policies and implementation of such policies, specifically category management, utilizes small business to the maximum extent practicable rather than limiting it. Thank you.

Chairman CHABOT. Thank you very much.

Mr. Chvotkin, you are recognized for 5 minutes.

STATEMENT OF ALAN CHVOTKIN

Mr. CHVOTKIN. Thank you, Mr. Chairman, and thank you for the invitation to the Professional Services Council to testify today.

Category management has evolved through four major phases. It began as a Federal initiative intended to develop and provide the Federal acquisition community with more efficient acquisition strategies, based on major categories of Federal procurement. It has transitioned into a combination of both management information analysis and Federal purchasing strategies.

Last November, Mr. Chairman, you and the Ranking Member wrote to the Office of Management and Budget, challenging the implementation of category management and raising concerns about the ability of small business to fully and fairly compete for Federal contracts. Those concerns remain valid.

The first phase, as I see it, of category management was the establishment of the program. It was intended to provide acquisition executives with better visibility into agencies' spend, and, thereby, enable the Federal Government to approach the purchase of goods and services as if the Federal Government were a single enterprise. PSC has supported and continues to support these goals, even though the metrics for success are hard to articulate, and even harder to validate.

The second phase was the determination by OMB that certain contract vehicles satisfy key criteria defined by OMB to earn the designation of best in class. As of April 23rd, 32 contracts have been designated as best-in-class awards. But it is also important to recognize that many of these best-in-class contracts have very specific scopes of work or have limited application in the Federal procurement world.

The third phase was the imposition of agency quotas for spending through category management principles, referred to as spend under management. Agency contract spend through any of the three tiers of OMB-designated contracts counts as spend under management. Where agency contract dollars are obligated through contracts that do not fit into any of these categories, awards are designated as unmanaged, and the agencies are urged to do more to bring those opportunities under that spend under management concept.

OMB, as you know, has established governmentwide targets of awarding 35 percent of available spend through best-in-class contracts, and decreasing the available spend categorized as unmanaged by 20 percent. But nothing, just to remind the Committee, nothing in the category management evolution alters the agencies' responsibility to achieve their individually negotiated

small business contracting and subcontracting goals, pursuant to the Small Business Act.

The fourth phase, and for us, the most troubling, is the requirement for the mandatory use of specifically designated best-in-class contracts. These vehicles are the exclusive method by which agencies must purchase goods and services. As of February, only six contracts across four of the 10 categories in the category management ecosystem have been designated for mandatory use. Mandatory use of certain contracts is certainly not new, but it remains controversial.

With CM's focus on lower prices, PSC is concerned that the government may begin to purchase complex services in the same manner as common office supplies, which will limit the value and reduce the innovation available to the agencies. In addition, as this Committee has previously addressed, these techniques may have the effect of limiting the number of firms, small or other than small, able to compete for the specific goods or services provided for under these mandatory use and spend under management contracts.

Five years ago today, PSC testified before this Committee on the use of strategic sourcing. We stated that the government's goal should be to foster an environment of robust competition, higher performance, agility, innovation, balanced opportunity for companies of all sizes, and accountability.

We cautioned then, and we do so again today, that more needs to be done to prevent the unintended consequences on the small and other than smaller companies that are, or are capable of meeting the government's needs. Particularly, as category management has transitioned into a procurement policy, there have been negative consequences for the supplier base and for the marketplace.

Additionally, many of these competitions and awards for what are now designated as best-in-class contracts occurred before the best-in-class designation was even made, and certainly, in many cases, before any mandatory use designation was established.

This raises two additional important questions: Are the contracts structured in a way to provide on-ramps for companies who are not currently a holder of that vehicle? And secondly, when a best-in-class contract is recompeted, will noncontract holders be able to successfully compete for any of the future opportunities?

On behalf of the Professional Services Council and our members, I thank you for your attention in holding this hearing on this important issue. I would be happy to try to answer any questions you may have.

Chairman CHABOT. Thank you very much.

Ms. Strum, you are recognized for 5 minutes.

STATEMENT OF BETH LAURIE STRUM

Ms. STRUM. Chairman Chabot, Ranking Member Velázquez, members of the House Small Business Committee, thank you for the opportunity to speak here today.

To begin, I must convey to you a fervent message of concern from the U.S. Women's Chamber of Commerce. We have never encountered a threat to small business' full and fair access to Federal contracts like what is confronting us now. The anticompetitive con-

tracting practice, known as category management through best-in-class acquisition vehicles, has been quickly, summarily, and without consideration and regulatory authority, inserted in front of the Federal acquisition practice, seemingly as a predicate to the existing FAR and requirements of the Small Business Act.

In its current form, the best-in-class acquisition process picks winners and losers without assuring full and fair competition, thereby locking out thousands of small businesses from the very contract opportunities that were guaranteed us through the Small Business Act. The abrupt transformation of the Federal acquisition process to best-in-class vehicles will have a crippling effect on small business' competitive opportunities. For example, roughly 25,000 small businesses provide IT services to the Federal Government, but only approximately 200 have the IT vehicles currently deemed best in class.

Locking out 99 percent of small businesses from prime contractor competitive opportunities will have a devastating effect on the small business industrial base. How can the Federal Government possibly claim to be providing the maximum practicable opportunity for small business concerns? This new process has been rushed so quickly into the acquisition system, without clarity, regulations, or training, that contracting officers have not received the information or training they need. Many contracting officers think they must exclusively use vehicles designated as best in class.

Some agency-level contract vehicles have not been named best in class while others have received this designation. Winners and losers are being selected without competition, adherence to the FAR and Small Business Act, or consideration of the nuanced needs of individual agencies, offices, and regions.

If a small business is not already on one of the anointed best-in-class vehicles, they are left out, literally, of the competitive pool. Consequently, while large dollar amounts may end up flowing to a very few small businesses who are on these selected best-in-class vehicles, hundreds of good, viable small companies will be totally shut out for competing.

For example, OASIS, one of the GSA best-in-class vehicles, has pools with only 40 businesses per pool. Alliant 2, which was just awarded, has only 80 small businesses. Some best-in-class vehicles are 10-year contracts. So these companies are left out from competing for 10 years. If you are not on a vehicle today, you must wait 5 years for the small business on-ramp to secure the right to compete. And some of these best-in-class vehicles don't have an on-ramp.

There are existing acquisition vehicles and methods that could have been used to achieve government acquisition savings while assuring maximum practicable competitive opportunities for small businesses. However, the rush into category management without assuring that Small Business Act requirements are met, without assuring strong and open competitive field of firms remain engaged with real incentives to lower prices, and without assuring that the needs and nuances of agencies are met through the acquisition process.

Examples of good competitive methods include the GSA multiple schedules, but the use of these schedules has decreased by agencies

over the last few years. An IDIQ created for an entire department with more frequent on-ramps could also satisfy category management requirements.

Small businesses need your help now to assure we secure maximum opportunities as Federal suppliers. We ask you to compel increased training from the top of acquisition leadership down to the front-line contracting officers, to assure they understand that category management and best-in-class vehicles do not supersede our existing laws and regulations. We need an easily accessible database of available vehicles so that small businesses and contracting officers know the full array of vehicles available to them rather than just best in class.

Thank you for your support of the American small business industrial base.

Chairman CHABOT. Thank you very much.

Ms. Mackey, you are recognized for 5 minutes.

STATEMENT OF ML MACKEY

Ms. MACKEY. Chairman Chabot, Ranking Member Velázquez, and other members of the Committee, thank you for giving me the opportunity today to testify before you. And I also want to thank you for your consistent efforts in supporting America's small business community.

My name is ML Mackey. I am the CEO and cofounder of Beacon Interactive Systems, a small business with offices in Waltham, Massachusetts, and Norfolk, Virginia. Beacon delivers innovative, efficiency improving, and cost savings technology for the Department of Defense. Today, I am representing the national small business—the national small business—the Small Business Division of the National Defense Industrial Association. Have you ever been so vain you don't wear your reading glasses, but you really should? Is there any way to cut that—

The Small Business Division of the National Defense Industrial Association, with a membership of nearly 1,600 corporate and over 80,000 individual members.

While category management greatly impacts the full spectrum of the U.S. industrial supply chain, my testimony this afternoon will focus on the constraints that it places on small businesses trying to deliver innovative solutions to support the U.S. warfighter at home and abroad.

The intent of making government procurement efficient, streamlined, and cost-effective is a goal with which I and my small business colleagues are aligned. Getting best-in-breed products and services as rapidly as possible to the men and women who protect us is of paramount importance.

Unfortunately, the contract approach prescribed by category management will have an opposite and deleterious effect on this goal. It drastically reduces competition within the existing supply chain and creates a tremendous barrier for new contractors to participate and deliver the valuable innovations necessary.

As battle space needs evolve even more rapidly, so, too, must acquisition processes evolve on both cost and capability vectors. Category management, by only addressing cost through contracting requirements, ignores the overwhelming need and value of innova-

tion. Without thoughtful implementation, the acquisition of innovation is unplanned, disruptive, fluid, and, in the past, has been costly. A cost-only approach to contracting does not incentivize industry to explore innovation or longer term solutions, because contract requirements sacrifice taking new approaches in order to cut costs.

As the owner of a small business that provides cutting-edge Internet of Things (IoT) technology to solve many of the DOD's mission critical operational needs, the myopic approach of limiting access to contract vehicles simply is an attempt to limit cost while making it even more difficult for the innovation economy to participate.

Category management, through the practice of strategic sourcing, would consolidate the number of contracts the Federal Government awards to small businesses. As an approach to cost savings, it is well-intentioned, but it, unfortunately, drives high-technology small businesses out of the Federal marketplace, resulting in reduced competition within the procurement process and the loss of small businesses who choose creating innovation over building a business based on cutting corners and costs.

An additional impact of category management is that small businesses must align themselves with current contractors on a cost basis, as opposed to value or capability, to even be able to engage with the government. Small businesses must be recognized as more than just a reliable supply chain for larger companies to utilize in their own cost savings approaches. The small business community represents the valuable marketplace of ideas and innovation.

Category management, like Lowest Price Technically Acceptable (LPTA) methods, when applied to broad acquisition, does not consider that innovation is an aberration to standard government contracting requirements, yet provides incredible value.

One of the stated laudable intents of category management is to accomplish a streamlined best-of-breed acquisition practice. The Small Business Innovation Research (SBIR) and the Small Business Technology Transfer Programs are examples of where the small business community delivers directly on this intent. Technology acquired from the SBIR program is an example of accessing best-of-breed solutions in a streamlined manner. During the development phases of the SBIR investment—SBIR investment, I shouldn't speak slang—SBIR investment, Phases I and II, the needs of the warfighter are explicitly addressed with new and innovative approaches. Furthermore, acquisition of the resulting SBIR Phase III goods and services is streamlined, as the competitive threshold has already been met in the highly competitive Phase I and Phase II processes. Instead of helping, category management will impinge on the ability of the U.S. Government to acquire these results by limiting access to contract vehicles.

Across the board, my small business colleagues are overwhelmingly opposed to the category management approach. Anything that winnows down the ability to compete on a fair and level playing field across the industrial base makes it especially difficult for small businesses.

We have a couple recommendations that we think might actually address some of the intent of the category management approach. We have three, in fact. One is, support the contracting community

with increased funding in order to provide the resources necessary to enable innovation and widespread small business participation within the contracting process.

Two, reevaluate LPTA with an eye towards focusing on how to best procure what will meet the evolving needs of the warfighter. Focus on what is the best value, not what is the least expensive acquisition.

Third, develop and deliver best-of-breed innovative goods and services in a streamlined acquisition process by implementing a pilot program at the DOD for SBIR Phase III transitions, as described in Section 1710 of the 2018 NDAA.

Chairman Chabot, Ranking Member Velázquez, and members of the Committee, thank you for the opportunity to appear before you this morning, and thank you for your continued efforts in supporting the small business community. I look forward to answering any questions you may have.

Chairman CHABOT. Thank you very much.

And I will now recognize myself for 5 minutes. And, Ms. Bailey, I will start with you. Could you describe the impact that these category management 20 percent and 35 percent goals might have on emerging small businesses?

Ms. BAILEY. Yes, thank you. I think that with the idea that you are going to be transitioning to these more sophisticated contracts, where they have more increased requirements and performance, past performance requirements, emerging small businesses won't tend to have that type of experience, and you are going to leave out those innovative solutions into those contract vehicles and their opportunity to compete.

Chairman CHABOT. Thank you very much.

Mr. Chvotkin, I will go to you next. It seems that the spend under management and mandatory best-in-class approach may require more nuance than is currently being applied. For example, as you mentioned, it makes little sense to procure complex weapon systems the same way one would buy office supplies. What can Congress and this Committee specifically do to help bring about a more tailored approach to best-in-class use?

Mr. CHVOTKIN. Mr. Chairman, thank you. There is a number of techniques and approaches you can have. Some of them are through the oversight such as you are doing.

You have also initiated a number of pilot programs. We talked earlier about some of the burdens in past performance, and this Committee was a lead in enacting a provision for a pilot program on small business past performance reporting and capabilities through the SBA. They just issued some preliminary information on that.

So I think addressing these symptoms is not enough. I think the core here is whether the mandatory use makes sense as a Federal Government, even across the limited number of companies, and will the contracts provide continuing opportunities for new and emerging firms to join in. I think those on-ramps are very, very important, and many of the emerging contracts do not have that capability today.

Chairman CHABOT. Thank you very much.

Ms. Strum, I will go to you next. You mentioned that there are alternative contracting vehicles and methods that can be used to achieve cost savings while protecting opportunities for small businesses. Can you provide some examples and describe how they are more advantageous than the current policy?

Ms. STRUM. So, for example, GSA has schedules. So you have got IT 70, which is an IT schedule. When you are on the schedule, you are supposed to have provided your best price to GSA. Also, GSA has 874, which is a professional services schedule. What is the conflict between OASIS, which is a professional services best-in-class vehicle, and 874, which is a professional services schedule? Why buy through OASIS versus buy through the GSA schedule?

Chairman CHABOT. Thank you very much.

Ms. STRUM. Sure.

Chairman CHABOT. Ms. Mackey, given your experience with past Federal initiatives such as strategic sourcing, how does this current category management strategy compare with past initiatives?

Ms. MACKEY. Unfortunately, it is very familiar. So I have been running and working in the legislative affairs policy area for NDIA Small Business Division for the last 9 or 10 years, and it has come through once or twice. And I can't convey to you enough the people that worked through the FSSI challenges before who either sent me emails or came and talked to me with the slumped shoulders of here we go again kind of thing. It has really got a dramatic effect on small business.

And one of the things that we need to keep in mind when we think about small business is, you know, that joke about deep pockets are short pockets. It is important to think that small businesses have short pockets. It is really hard for us to weather protracted delays. It is really hard to build up again and be able to move it forward. And just with a little bit of compassion for the owners of small businesses, often we manage those dips and valleys on our own personal expense. And if we are Federal contractors, they are not things that are allowable expenses then when we get back on track.

So there is just this large attenuation at the end of the whip that is really, really hard for the small business part of the industrial base to recover from.

Chairman CHABOT. Thank you very much.

I will yield back my time.

And the Ranking Member, the gentlelady from New York, is recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Ms. Mackey, the contribution of small businesses to R&D and innovation as a whole has long been recognized as critical to our economy and national security. Yet, it has been noted that contracting in the sphere of the DOD is on the decline, along with a general underutilization of the SBIR/STTR programs. Can you explain what this trend means for the industrial base, and what implementing category management means for innovative companies like your own?

Ms. MACKEY. So the strain on the industrial base, the defense industrial base, the Federal marketplace, is that my colleagues in

Boston, my friends in San Francisco that work in well-known innovation areas, they don't participate, because it is too hard, it is too difficult.

It is not too difficult sometimes to get started, you know, with some of the on-ramps for small business and R&D, some of the initial, maybe, SBIR Phase I awards that you get. It is really hard to move beyond that to market launch, either within the Federal space, or many of them will take investment from SBIR and move back into the private sector.

So I personally would like to see SBIR and small business R&D used for what it was intended for, to funnel innovation to our Federal customers as well as leverage into the economy. So that is the impact on the industrial base of category management is difficult in that it keeps people from wanting to play. That is the first question I think you asked me.

Ms. VELAZQUEZ. Yes. And how can we reverse this trend? What can we do here? What type of recommendations could you offer?

Ms. MACKEY. So, from our personal experience, we have been able to take SBIR investments and translate them through to Navy defense business systems. So it is a market launch in the Department of Defense. We are working with private sector and taking it there.

I can tell you from our experience, the most difficult thing, the thing that you could do to mitigate for others is make contracting easier. It is the exact opposite of category management. So I can share from our personal experience, if you are interested, I could give you just a quick couple of examples.

We go and talk to contracting officers when program officers want our technology, when fleet wants our technology. We work a lot with the U.S. Navy. When directives come out that say, If only we had this capability, and the SBIR pipeline says, Great, we have developed this for you, and they can't get us under contract. And when I go and say, It should be easy, it is follow-on work for SBIR, they have no idea how to act on that.

So I think one of the things—I have two concrete suggestions, if I could. One is, let's make Centers of Excellence around SBIR follow-on contracting, so that we don't put the contracting officers at risk to do something new and different when they are the people that are supposed to be careful of not new and different so that bad things don't happen.

The second is, I think it might be really interesting to understand that SBIR technology, goods and services can be offered as government-furnished equipment, GFE, on the larger proposals, so they don't necessarily—you can put the acquisition program out, but you say this piece will be GFE, and understand that is an SBIR follow-on.

I am hoping those two suggestions might be helpful.

Ms. VELAZQUEZ. Thank you. Thank you.

Ms. Strum, despite the numerous safeguards in place, we continue to see bundling and consolidation of contracts. In your opinion, is the consolidation or bundling of contracts under category management being used to ease administrative burdens in the procurement process?

Ms. STRUM. I think that that is okay, though. I think having these large IDIQ, or indefinite delivery/indefinite quantity contracts and then having task orders under them is okay. I think having them agency-wide or department-wide is okay, and I think you can achieve the efficiencies and the cost savings through them that the government is looking for. And as a taxpayer, I am all about, you know, cost savings, right?

But I think when you have them as these best-in-class with 10-year contracts with no on-ramps, and you are really keeping the small businesses out of it, I think that is when you start having the issues.

Ms. VELÁZQUEZ. Ms. Bailey, enforcement actions are rare, and there is a need for defining realistic enforcement triggers. I would like to hear if you have any recommendation to be a sufficient trigger. What would you recommend?

Ms. BAILEY. As a sufficient trigger for the enforcement of this, I think that, you know, you are putting a lot of those processes in place right now with the reporting of subcontract type of activities. I think we need more enforcement on the large businesses to encourage the small business participation.

But also, I think that from the agency perspectives on these contracts, we really need to start looking below the layers of just the small business goaling, and to look to make sure that we are hitting all of the socioeconomic, you know, goals, you know.

And also, from the aspect of us using these multiple certifications to obtain these goals, I think we are skewing that even further, because you are seeing that, you know, fewer companies are able to participate. So you may see that all of the goals are met, but if they are met by one company achieving all three certifications or four certifications, it is doing a disservice as well. So I think we need to start layering back and looking at that detail as well.

Ms. VELAZQUEZ. Any short brief comment on that same question?

Mr. CHVOTKIN. On the enforcement question?

Ms. VELAZQUEZ. Yes.

Mr. CHVOTKIN. Yes, ma'am. I think it is important that we look at holding the agencies accountable. The challenge here is that the agencies are losing the flexibility on their own when the best-in-class contracts and objectives, top-down objectives are set.

So I think the key is, as you suggest, and I don't have a ready answer for what the enforcement actions are to be, but I believe that the agencies do not have enough responsibility for meeting the small business objectives that they have.

Chairman CHABOT. The gentlelady's time has expired.

Mr. CHVOTKIN. I would work on that with you.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Chairman CHABOT. The gentleman from Missouri, Mr. Luetkemeyer, who is Vice Chairman of this Committee, is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman, and thank you all of you for being here today.

I am kind of curious. Is there an ability by small businesses to partner with a larger entity to be sort of a subcontractor on the main contract? Ms. Strum?

Ms. STRUM. If I may. There is always an ability to do that. What that does is it decreases our revenue. It decreases the ability to go after prime contracts and be a prime contractor. And on the best-in-class contracts, the only way to get on them is to have prime contract past performance.

Mr. LUETKEMEYER. Okay. Is there an ability of a number of small businesses to sort of work together, to partner together to be able to get a bigger contract?

Mr. CHVOTKIN. There is. Congress has given the authority to the agencies for companies that are, quote/unquote, "similarly situated." If four women-owned small businesses were to come together, the statutory authority gives them the ability to bid as one, bringing the capabilities together.

Mr. LUETKEMEYER. Do they do that?

Mr. CHVOTKIN. I am sorry?

Mr. LUETKEMEYER. Do they do it? Do they take advantage of that provision?

Mr. CHVOTKIN. Well, the Small Business Administration has issued the regulations for that. The Federal Acquisition Regulation, which is what the contracting community reads, has not yet been issued. So we are waiting 3 years, 3-1/2 years, I think, since the law has been passed to see the Federal Acquisition Regulation issued. So some agencies are testing that on their own, most are not.

And there is also, this Committee was very actively involved in creating the Mentor-Protégé Program, the all agency Mentor-Protégé Program. That is another way that large businesses and small businesses can come together and essentially share in that prime contract responsibility.

Mr. LUETKEMEYER. Each of you is not too happy with the process. I understand and I agree with you. Is there a way for contract management to coexist with small business access to government contracts? Is there a way to get that done? Ms. Bailey?

Ms. BAILEY. Yes. I think that if we look at increasing the number of set-aside vehicles within these vehicles, so that you have the small business set-aside programs being represented adequately through separate vehicles within each one of these best-in-class contract vehicles; and also, to reduce the restrictions for initial entry into these, so that you can get the emerging contractors in there and have more on-ramping and more frequent on-ramping, to enable the newer companies to get in there in a timely manner.

Mr. LUETKEMEYER. Have you seen, with implementation of this, that there has been a disruption of the supply pipeline for different businesses to the government, because of the inability of a contractor to do what you are trying to do, or it is all going to one or the small guys can't get there? Have you seen a disruption of the—

Ms. STRUM. So there is definitely a disruption. So you will see a lot of the work that you are trying to go after, you will be talking to different agencies and they will say, Yeah, we are going to put this RFP on the street. And then it goes on, you know, one of the best-in-class vehicles that you are not on.

So the disruption happens where you are not on a vehicle, and you are looking then for a partner that is on that vehicle so then

you can sub to them, and sometimes that doesn't work out. And so you lose out on business that you know about, that you are talking to the client about, that you are trying to capture, and then it goes on these vehicles that you are not able to bid on.

Mr. LUETKEMEYER. Have you seen where the government is trying to get these contracts issued and request for different supplies and product? Have you seen them not be able to get as much stuff as they want or to have a competitive bid? Yes, Ms. Mackey.

Ms. MACKEY. So we deliver the operational energy management system for shipboard Navy use. And they are ready for it. We deliver the safety system for the Navy. And the contracting delays and the process that we have to get through holds our—I can give you our example—holds our technology up from getting to them. And the fleet has expressed frustration about not being able to get to it quickly.

I can also share some of my colleagues' experience at NDIA, where they are not able to deliver on their products. We can get you more information if you would like on that, if that would be helpful.

Mr. LUETKEMEYER. Fantastic.

Mr. CHVOTKIN. If I could just add one item.

Mr. LUETKEMEYER. Yes, sir.

Mr. CHVOTKIN. The biggest challenge we have right now is in the transition, the designation of best-in-class contracts has come after the awards and the determination for mandatory use has been after the contracts have already been awarded. So we are in that interesting transition period of the evolution of category management.

I think if the OMB, and they are well aware of the need, if they could designate those contracts in advance of the solicitation, then agencies—then companies would know where to bid or that this contract is a best in class. Today, those companies had no knowledge that the contract was going to be designated or the agencies would be using it in that manner.

Mr. LUETKEMEYER. Thank you very much. My time is expired.

Chairman CHABOT. Thank you. The gentleman's time has expired.

The gentleman from Pennsylvania, Mr. Evans, who is the Ranking Member of the Subcommittee on Economic Growth, Tax and Capital Access, is recognized for 5 minutes.

Mr. EVANS. Thank you, Mr. Chairman.

I want this question probably to go to every person. I will start out with Ms. Strum. And this is what I have heard. If you wanted to secure the industrial base, what changes should be made when using category management? I have kind of heard that. Can you speak to that?

Ms. STRUM. Do you mean what do I recommend as changes?

Mr. EVANS. Yes, yes.

Ms. STRUM. I think, for example, I have been working with NOAA, for example, on an IDIQ that they have been trying to put out for small business to replace an IDIQ that they currently have out. And rumor has it that GSA is pushing them to use OASIS for it. They feel compelled to use OASIS. It seems to them to be mandatory, and they may not end up putting out their own IDIQ.

The changes that I believe need to be put in place is education to the contracting officers so that they understand that these best-in-class vehicles are not mandatory, that they can put out their own vehicles. Now, for category management purposes, that vehicle should be able to be used for all of NOAA, for maybe even all of commerce; and it is an IT vehicle, and why not let all of commerce use it, and that satisfies the category management requirement. Does that answer your question?

Mr. EVANS. Yes. Others want to respond?

Ms. MACKEY. So one way to think of changing category management is to maybe look at Section 1710 of the NDAA last year that said, let's pilot a contract vehicle, perhaps in one of these Centers of Excellence, that is already best of breed in a way that has a fluid on-ramp to it, that just by completing your Phase II, you can become part of that contracting opportunity.

So I think combining some of the best of things that have gone before, CPORTI (ph) has the ability to on-ramp frequently and has wide openings to it, putting that with a best of breed contract. I also think that category management is just difficult. I think we are missing the point of we really need to be supporting the contracting offices with enough resources to be able to effectively meet the requirements levied on them for a diverse inclusion over the industrial base. Forgive me for editorializing.

Mr. EVANS. Yes.

Ms. BAILEY. I think, to follow on with them then as well is, if you look at the categories that we have in category management, maybe one of the things is to break those things down to the sub-categories, and look at issuing vehicles at those subcategory levels, which would enable more small businesses to be able to participate, rather than looking at the whole entire category as a whole.

Mr. EVANS. Yes. Thoughts?

Mr. CHVOTKIN. Thank you, Mr. Evans. You know, the industrial base in quotes, and that includes both the services and the products, is changing so rapidly. One of the issues in category management is it freezes the contract and the scope of work. And so we ought to, instead of focusing in on achieving arbitrary goals, one of the burdens is that it freezes out—it locks the agencies into long-term solutions.

So I just think there ought to be greater flexibility and certainly staying away from mandatory use, because the agencies' needs are going to rapidly change, and we are pushing them into unique and maybe inappropriate vehicles to achieve the solutions they are trying to accomplish.

Mr. EVANS. Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman CHABOT. The gentleman yields back. Thank you very much.

The gentleman from Kentucky, Mr. Comer, is recognized for 5 minutes.

Mr. COMER. Thank you, Mr. Chairman.

My first question is for Ms. Strum. What options does a small business have if it does not hold a spot on a best-in-class contract? Are subcontracting opportunities or teaming opportunities available for such companies?

Ms. STRUM. Yes. I mean, you can find large businesses and small businesses that are on the contract that you can team with. You also can talk to the agencies and make friends with the customers and try to get the work on other vehicles, direct contracts, use the GSA schedules if you have a GSA schedule—if you are a GSA schedule holder. Sorry, that is the proper term. There are other avenues to contracting.

Mr. COMER. How difficult is it for someone to get their foot in the door to have a subcontracting or a teaming opportunity?

Ms. STRUM. It is a matter of networking. Difficulty is in the eye of the beholder.

Mr. COMER. Right.

Ms. Bailey, let me ask you a question. Given the Federal Government has never met its 3 percent HUBZone goal, and I am a big proponent of HUBZone, do you think category management will make it even more difficult for agencies to achieve this goal?

Ms. BAILEY. Yes, absolutely. One of the major recommendations I have is that if you are going to continue along this line is to have specific set-asides for HUBZone firms and to make sure that there are adequate competition and number of firms in those HUBZone set-asides.

With the HUBZone, compliance is also an issue. And if you don't have a HUBZone prime contract, then you don't have the benefit of attempt to maintain in order to maintain compliance and allow you to get back up to compliance when you do have an award. So——

Mr. COMER. While we have heard of the many dangers category management potentially imposes on small businesses, can you think of any benefits this strategy might have for small businesses? I am switching gears here.

Ms. BAILEY. Well, I think that from the education, if the education gets out and all of the information of pricing of the goods and materials, and individuals have access to that information, it may help small businesses strategize on where to go and which vehicles and the cost patterns that they have got to get into.

The problem with entering into the Federal marketplace is if you don't have past performance—and in most cases, as a prime, we are seeing more and more requirements as a prime requirement for past performance—it is very difficult to enter into the market.

Mr. COMER. So one quick question—I have a little over 2 minutes remaining—for all the witnesses. Briefly answer, if you can. What can this Committee do? What can we do to improve the situation?

Ms. BAILEY. I think that the one thing is to really seriously look at making sure that we have adequate on-ramping, frequent on-ramping, that all the socioeconomic categories are represented, and that you have vehicles that are specific for those.

Mr. CHVOTKIN. I would recommend that OMB look very carefully at its future awards. Restack whether the current list of best-in-class contracts has sufficient opportunity for small business participation, and then make sure that future awards both have broad enough scope of work to keep technology refreshed, as well as to bring on future companies through that on-ramp process. Not everyone does that today.

Ms. STRUM. So my recommendation would be to have contracting officers trained in what vehicles are available to them besides the best-in-class vehicles, and possibly even have a database created so that they know what other contracts are out there that they can use to put RFPs on, so whether it is within their own agency or outside their agency, if it is using a GSA schedule, et cetera.

But then I would also question how best in class is awarded, and look at whether or not it is really following the FAR, and if it is, you know, the on-ramping issues and some of the other issues just in how they are competed.

Ms. MACKEY. So I have three quick suggestions, two technical, one strategic. The first is Centers of Excellence for contracting, so that people know that are trained, that are together and can reinforce their learning around different types of contracting.

The second is contract vehicles, making sure they are available. Speaking as an innovator who, therefore, has not planned for necessarily, the ability to have the frequent on-ramps, as mentioned, are really important on those contract vehicles.

And the third piece that you asked in terms of what can Congress do, I think making sure that program officers and contracting officers raise the visibility of the successful small business contracts that have happened, how they have happened, and that you are happy that they happened. Help us mitigate the risk by raising visibility to the successful engagements.

Mr. COMER. Well, thank you all very much. Appreciate your testimony.

Mr. Chairman, I yield back.

Chairman CHABOT. Thank you very much. The gentleman yields back.

The gentleman from Florida, Mr. Lawson, who is the Ranking Member of the Subcommittee on Health and Technology, is recognized for 5 minutes.

Mr. LAWSON. Thank you, Mr. Chairman.

Welcome to the Committee. Several years ago, the Federal Government set aside a percentage of contracts that small business should receive, somewhere in the neighborhood, according to the text here, around 23 percent, as compared to the larger firms. Are we able to reach that 23-percent goal, based on all of the testimony that I have heard here this morning? Can you all elaborate on that? Are we capable, under the circumstances we have, to reach those goals or have we already reached them?

Ms. BAILEY. No, we definitely already reached them. And under category management, and you look at total of dollars, we have exceeded it. The problem is, is when you start peeling back and looking at how many contractors are receiving that to achieve those goals is the issue.

So, for instance, you know, DHS has a First Source contract, and they have hit all of their goals. You know, they have done really, really well. But when you look at the number of companies that they had involved in that, for instance, with HUBZone, it is six companies. They had \$842 million spread across six companies.

So that is what the real issue is is when you start looking at the socioeconomic classifications underneath the small business numbers.

Mr. LAWSON. Does anyone else care to respond? Because that is very interesting. I mean, that is hard to believe, really.

Ms. MACKEY. So I would respond with adding onto the socioeconomic classes that you look at, because it is important to understand whether you meet goals or not, are you meeting them in the diversified approach that set-asides intend for, so that there are launching points for us to do further into the marketplace.

I would say you should look also at what types of work they are doing. Are we pulling across the industrial base? Are we giving them on-ramps, if you will, into the market from which they can build? And that is our goal, right, is to have a healthy industrial base across small and large geographically, socioeconomically. So I think looking at the spread of who is doing what and where is important.

Mr. LAWSON. Anyone else care to respond?

Mr. CHVOTKIN. I would suggest that this Committee really ought to take a look at the larger purpose of the small business programs. Today, the agencies look at those objectives or those goals as once they achieve it, they stop the awards. And if they achieve it in one area, they are happy as long as—it is a numerics game only. And category management is getting in that same position.

I think we need to look at how we grow small businesses and how we take advantage of the programs as a growth orientation and not as a limitation. And I think that is a larger conversation for another day, but I think I am concerned that the category management is going to fall into the same trap of numerical goals only, without regard to the who or the what.

Mr. LAWSON. Okay. Ms. Strum.

Ms. STRUM. If I may, just one quick comment. In 2017, we missed our women-owned small business goal by \$1.28 billion.

Mr. LAWSON. That is incredible. And one other thing you said earlier when you were talking about networking, does that contribute a great deal to a lack of participation when you have such a small group that are getting all of the resources?

Ms. STRUM. Definitely. Right. So, I mean, a big part of our jobs every day is to go out and talk with companies and meet with companies and do business with other companies. And so, some of the gentlemen asked about, you know, can you work with other companies and, you know, sub to other companies as small businesses. Can you, you know, do subcontracting. And, of course, we can do subcontracting.

But in order to bid on contracts, you need to have prime past performances. So a lot of what we do, again, is to make the connections and do the networking. But we also, you know, in order to make money for our companies, you know, we want to have that prime contracting goals.

Mr. LAWSON. Right. And back in Florida, being in a government town like I am, oftentimes I hear from African American firms who say that they can't break in, you know, because of the way things are set up.

And I know I don't have enough time to probably go into that today, but just listening to what you all are facing as women, the Chamber of Commerce and so forth, I can understand what obstacles they are faced with. And there shouldn't be any reason to have these obstacles placed for those firms who are trying to break in, are capable of doing good governmental work.

But the way it is set up, Mr. Chairman, and eventually we might look at it again, that is what is happening to a lot of them, why a lot of them are complaining. It is simply the way the process is set up.

And with that, Mr. Chairman, I yield back.

Chairman CHABOT. Thank you very much. The gentleman yields back.

And the gentleman from Kansas, Dr. Marshall, is recognized for 5 minutes.

Mr. MARSHALL. Good afternoon, everybody. My first question is for Ms. Strum. I am not sure we will get past my first question.

Ms. Strum, I have been an OB/GYN for 25 years. I have been a man in a women's world. I found myself advocating to make sure that mammograms and pap smears were covered by insurance companies, making sure that women had access to family planning. And now as a Congressman, it seems like I continue to focus on a lot of the women issues.

Just to kind of briefly describe, what are two or three other, the major barriers, the challenges that female businesses have? And if you were in Congress, what would you do about it? If you were Queen, what would you do about it? Give me, you know, a specific solution. So I am just kind of teeing this up and go ahead and knock it out of the park.

Ms. STRUM. Wow. If I was Queen. Fun.

Mr. MARSHALL. We got to dream big and think outside the box sometimes.

Ms. STRUM. So I think the challenges are probably similar to what a lot of other small businesses find, whether you are an SDVOSB, a small disabled veteran-owned business, or if you are a HUBZone business. I think we all face a lot of similar challenges. We look specifically for set-asides for women-owned small businesses.

That being said, I don't think that the women-owned—the set-asides for women businesses—I am not saying this correctly—are not coming around as often as maybe they used to be. And some of the ones that are coming around, so my personal experience—my company is a software development company. We do data analytics, and we are not seeing those coming around as often.

I am constantly checking different websites of the different contracts that we are on, and we are not seeing—I will tell you, we see like janitorial services. We do a lot of work with the FAA, and we will see things like building a tower, or replacing carpets, and that is just not the stuff that we do. We do software development. I want to see stuff for, you know, they need people that do Java or, you know, things like that.

So we are just not seeing the requests for work for the things that we do, and so that has been our biggest struggle as of late.

We are trying to break into new places in the market, into other agencies. And that in itself is the same struggle that anybody would have trying to break into new places in the market. You know, you have to meet new people, make new networks, that type of thing.

I am not sure if I answered your question fully.

Mr. MARSHALL. Is there anything else you wanted to add to just like plain and simple solutions to the problem before us today, this Federal procurement system, anything else that you think is very women-specific that you didn't get to share yet, or you want to really emphasize?

Ms. STRUM. I mean, of course, I would like to see more women-owned set-asides, women-owned business set-asides. But I think when you do these large procurements, these large IDIQ procurements, it is always great to see the small business set-asides. And when you have the small business set-asides to have specific ones for women-owned small business, for the HUBZones, for the SDVOSB, et cetera. I think that would really help push our numbers and make it to, you know, that 23 percent that we have been, you know, looking to achieve.

But I think that also helps our numbers in terms of making sure it is not six companies getting, you know—I forget what number Ms. Bailey used before in terms of the dollar amounts. But I am not surprised to hear that, because it is not the first time I have heard that.

Mr. MARSHALL. Thanks, Mr. Chairman. I yield back.

Chairman CHABOT. Thank you very much. The gentleman yields back.

The gentlelady from North Carolina, Ms. Adams, who is the Ranking Member of the Subcommittee on Investigations, Oversight and Regulations, is recognized for 5 minutes.

Ms. ADAMS. Thank you, Mr. Chairman.

And thank you all for your testimony. I want to follow up on that six companies. I am curious about were there African American companies involved there?

Ms. BAILEY. Those were all HUBZones. I didn't get down to whether or not that they were. But even further on that DHS First Source is you have several of those companies. Although you may have several, they are accounting for several of the certifications. So they could very well have had several companies that were hitting the 8A, hitting the women-owned, hitting SDVOSB and HUBZone.

So actually, the total number of companies that you look at for the diverse thing is a lot smaller than looking at the total number of contracts issued.

Ms. ADAMS. Yeah, we got to do better.

So, Ms. Strum, one of the policies that helps to ensure that small businesses receive their fair share was establishing the governmentwide 23 percent goal. And I think we have had some discussion about it, but it also includes the small disadvantaged women and veteran-owned businesses. So how are these businesses, business contractors impacted by this decrease in the contracts?

Ms. STRUM. I am not sure I understand the question.

Ms. ADAMS. Well, the contracts have been decreased. Is that correct?

Ms. STRUM. That is correct.

Ms. ADAMS. What is the impact, in your opinion?

Ms. STRUM. So what I have seen happen is we have larger dollar amounts and smaller contracts. Is that what you are—

Ms. ADAMS. Yes.

Ms. STRUM. Okay. So how has that impacted us? In terms of dollars of revenue per company, it is harder to grow your company, right, because you have got fewer contracts to go after and bid on, and thereby win or lose, and, therefore, even though the contracts have more money.

So you are seeing yourself making that 23—when I say seeing yourself, the Federal Government might be making the 23 percent in total dollars, but there are fewer contracts for the small businesses to go after and, therefore, fewer companies are actually helping to achieve that 23 percent.

Ms. ADAMS. Thank you, ma'am.

Let's see. Ms. Mackey, small businesses are innovative and nimble, which is why it is vitally important that the Federal Government ensure that small businesses are able to compete fully in the category management contracting approach. So how can we work to ensure that the category management approach is ensuring the successful participation of these companies like your own?

Ms. MACKEY. So first, the problem with that is that innovation is, by its nature, unplanned and disruptive. And category management is a planned approach and a structured approach to contracting that says, At this point we will need this much. But with innovation, you have a different cycle.

So I think, to try to directly answer your question, the idea of what we can do with category management, if there was a way to broaden the best-of-breed definition to include maybe as a first pass just the SBIR technologies, goods and services, that we are allowed to do follow-on contracting, because the competition barrier has already been crossed, perhaps adding sort of a first pass on-ramp that is flexible in its timing nature to the best-of-breed concept of category management.

I am making this up on the fly. I hope it makes sense. But that concept of bringing the nimble and the fluid to what is structured, you know.

Ms. ADAMS. Okay. So insight from each of you or anyone that wants to answer. Low Federal funding for Small Businesses Administration has an impact on the amount of aid and technical assistance they can provide small business owners.

So are you seeing an impact on the number of small businesses that are able to compete for contracts due to these effects and, if so, what type? So anybody can answer. We have got like 53 seconds.

Ms. MACKEY. So I will tell you that at the SBA, I would love to see more funding going to the Office of Innovation. I can't give you the numbers on the impact, but I can give you the impact. I am not seeing as much outreach to the innovation economy from them, that I would just love to see more of that.

Ms. ADAMS. Okay. Ms. Strum.

Ms. STRUM. I yield.

Ms. BAILEY. Especially from the HUBZone program office, I think that more funding from the HUBZone program office to really help companies understand and to educate the contracting groups on the HUBZone program and the benefits of the HUBZone program, and to encourage firms to be able to issue more HUBZone set-asides. If there are more HUBZone set-asides, there are more companies that are going to enter the market.

Ms. ADAMS. Very good. Thanks very much.

Mr. Chair, I yield back.

Chairman CHABOT. Thank you very much. The gentlelady's time has expired.

The gentleman from New York, Mr. Espallat, is recognized for 5 minutes.

Mr. ESPAILLAT. Thank you, Mr. Chairman.

Thank you all for your testimony. My question is to Mr. Alan Chvotkin. Did I pronounce that right?

Looking at some of the most recent data available from the past two fiscal years, there has been a significant decrease in small businesses' contracting actions. This means, on the whole, that small businesses are either being priced out beyond their capacity, right, on what they can meet, what they are able to meet as small businesses, or that the market in which they operate may no longer be viable for them.

Is this a trend that you believe is due to a demand for goods and services beyond what small businesses can offer, or have larger companies started to dilute and take away avenues for small businesses in the industry space?

Mr. CHVOTKIN. That is a great question. The answer is more complicated. Certainly, small businesses have the capabilities, and what we see in the aggregation of contracts into larger and larger dollar value means that it puts a greater burden on those companies. There are also some significant rules changes that have an impact on the companies, a shift in how much they can subcontract, a limitation on subcontracting.

I don't think there are segments of the marketplace that have been excluded, but what we see in the evolution of the procurement process, whether it be strategic sourcing or mandatory use, is that larger and larger segments of Federal spending are being taken off the marketplace. And because it is an objective to achieve a dollar value only, without regard to how many companies participate, many of the agencies are using that as a way to simply achieve their numerical goals and declare victory.

Mr. ESPAILLAT. I see. My next question is first a statement. We want to support new entrants and the 10-point criteria in category management in a spirit meant to be a tool for greater inclusion of industrial base entrants.

My first question is, with the use of contracting and bundling to meet the minimum benchmark, is it worth revisiting the standard? Any of you.

Ms. BAILEY. Yes. I really think that that is a huge concern, because the larger these contracts are, the smaller companies are not going to have the past performance requirements in order to enter into the market, because we have seen cases where a small busi-

ness has to have two or three \$100 million contracts in order to be able to be qualified to participate in a bid. Not too many small businesses have those, especially in the NAICS codes that a lot of the small businesses have in professional services and those like.

So, I mean, as you bundle and make these larger and make them more restrictive, it is going to only allow the larger small businesses or those who have, you know, significant other past performance to participate.

Mr. ESPAILLAT. So what would be the best help for small businesses in this aspect to become more competitive? What should they be doing? What should we be doing for them to make them more competitive then?

Ms. BAILEY. I think that one of the things as far as with the category management, like I said before, is look at breaking down these vehicles into smaller components, where they are more specific, where smaller businesses can have past performance to participate in those areas. And by looking at those subcategories, that might enable more of these set-aside vehicles to be used at those levels and be able to participate from all of the socioeconomic classifications.

Mr. ESPAILLAT. Thank you, Mr. Chairman. I yield back the balance my time. Thank you.

Chairman CHABOT. Thank you very much. The gentleman yields back.

I think that is all the questioners we have this morning and now into this afternoon. And we want to thank our witnesses, our very distinguished panel for all their testimony today.

As we have heard the testimony, category management may have vast implications for small businesses and the industrial base that must be monitored closely. We need to continue working together in a bipartisan manner, as this Committee virtually always does, to ensure that the Federal Government acts swiftly and diligently to make sure these outcomes do not occur.

And I want to, again, thank the panel for really shedding a lot of light that will help folks on both sides of the aisle on this very important issue.

And I would ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record. Without objection, so ordered.

And if there is no further business to come before this Committee, we are adjourned. Thank you very much.

[Whereupon, at 12:17 p.m., the Committee was adjourned.]

A P P E N D I X



Written Testimony of

Shirley Bailey

CEO and Managing Member
MSC Management Services, LLC
Mt. Lake Park, MD

On Behalf of
HUBZone Contractors National Council

Before the
House Small Business Committee

“The Impact of Category Management on the Small Business
Industrial Base”

June 13, 2018

Chairman Chabot and Ranking Member Velazquez, and Members of the Committee, my name is Shirley Bailey and I appreciate the opportunity to be here today to provide testimony on behalf of the HUBZone Contractors National Council. I am also CEO and Managing Member of MSC Management Services, LLC, a HUBZone company located in Mt. Lake Park, Maryland.

The HUBZone Contractors National Council (Council) is a non-profit trade association providing information and support for companies and professionals interested in Small Business Administration's (SBA) HUBZone program. We would like to thank the Committee for their commitment to small businesses and for advancing small businesses in the federal marketplace.

The HUBZone Council has existed since January 2000 and strives to contribute to the economic development of disadvantaged communities by reducing unemployment and homelessness by strengthening, improving, and promoting the HUBZone Program and by helping HUBZone-certified companies maximize their success in earning federal contracts.

The Council's membership includes HUBZone-certified small businesses, other small businesses, prime contractors, and organizations interested in the HUBZone Contracting Program. In addition, the HUBZone Council is an advocate as it relates to procurement and entrepreneurial policy, and continues to seek needed modernization of the program from the Congress and Small Business Administration (SBA).

Today's topic, the effect of category management on small businesses, is a government buying strategy that greatly concerns the Council. The cause for concern is pretty simple: small business access to contracts. However, understanding category management has been difficult because there are so many moving parts and confusing terms. I can only imagine the difficulty a small business has understanding how this government buying strategy affects them.

Category management is not just a federal buying strategy, it is also a commercial practice started by a few professors in the late 1980s. The idea behind the concept was to encourage collaboration between the retailer and the supplier. In the federal world, the collaboration is done between agencies rather than vendors. Cross agency teams of experts study the market for goods and services and share market intelligence with other agencies through the GSA's Acquisition Gateway.

According to the General Services Administration (GSA), Category Management (CM) is a strategic and systemic approach, widely used in the private sector, that the federal government is adopting to buy smarter and more like a single enterprise. CM enables the government to eliminate redundancies, increase efficiency, and deliver more value and savings from the government's acquisition programs. It involves:

- Identifying core areas of spend;
- Collectively developing heightened levels of expertise;
- Leveraging shared best practices; and
- Providing acquisition, supply and demand management solutions.

Category management breaks federal buying into these 10 categories: Facilities & Construction; Professional Services; Information Technology; Medical; Transportation & Logistics; Industrial Products & Services; Travel; Security & Protection; Human Capital; and Office Management. Current spend for common goods and services is approximately \$303 billion.

The government has given different agencies the lead on these categories. GSA leads five of these categories: Facilities & Construction; Professional Services; IT Industrial Products & Services, travel and Office Management. DOD leads Transportation & Logistics; DHS leads the security & protection category; OPM leads the Human Capital category and Medical is co-led by DOD and VA.

To put this in perspective, the government has put contracting vehicles in four categories: Tier Zero (direct contracts with companies- or termed “local” by the OMB); Tier One (agency-wide contracts); Tier Two (Government-wide contracts); Tier Three (Best in Class contracts (BIC)). The President’s Management Agenda set two goals for federal agencies in FY18. The first— a 20% requirement for agencies to move contracts in Tier Zero to agency-wide and government-wide contracts. The second goal is to move 35% of existing contracts in Tier Two and Three to Best in Class. Best in Class contracts are contracts that have met rigorous requirements and planning processes. They must demonstrate data driven strategies to change buying behavior and reflect competitive pricing strategies. According to OFPP, there are currently 26 BIC contract vehicles in place totaling \$22 billion in spend. These numbers reflect a 5 year high.¹

¹ Paul Murphy, Bloomberg Government Best-in-Class (BIC) Contract Report 2 (2018).

Not to be forgotten is the President's Management Agenda's (PMA) objective of meeting small business goals. According to the PMA, achievement of category management goals is not an excuse for missing an agency's small business goal. Every agency is expected to work with solution providers and small business offices at the agency to meet or exceed the baseline. We are gratified that the small business goals apply to the agencies and category management.

That being said, the HUBZone Council believes that relying on agency-wide, government-wide or agency wide contracts erects barriers for small businesses. We want to raise the following concerns:

1. As the government moves away from direct contracts with businesses (Tier Zero), opportunities decrease for smaller businesses. The vehicles used in category management (agency-wide, government-wide or BICs) require substantial resources to bid and substantial resources to win task orders. For example, past contract requirements have been structured to keep small businesses from bidding or winning by including stringent past performance and other requirements a small business cannot meet. One such example was a requirement that a business had to have three past performances on contracts totaling \$100 million each. The highest small business size standard is \$38.5 million, so clearly small businesses did not qualify.

These contract vehicles do not lend themselves to small businesses trying to enter the market. Our concern is pretty obvious – a strong industrial base requires a pipeline of emerging companies with innovative solutions.

2. According to the Office of Procurement Policy (OFPP), the percentage of BIC spending that went to small businesses in FY17 was 43%.² Bloomberg Government estimates this number to be lower at 36.62%.³ This compares to the overall small business spend government-wide of all vehicles at 23.2%. At first glance, this appears to be a good strategy to increase small business spending. But according to Bloomberg Government, most BIC dollars go to a small share of companies. In 2017, just 4.3% of BIC contract holders received 80% of BIC dollars. So, these dollars do not go to a diverse set of firms, rather the same ones continue on the managed contracts. In other words, a relatively small group of vendors continue to perform the work. Over the period of FY13 – FY17, there was only a 36.5% “churn” on BICs. This flies in the face of other government procurement objectives that seek to diversify the small business base that perform government contracting.

3. Contract management consolidates contracts into larger contracts and larger task orders. Yet, the Small Business Administration’s size standards have not adapted to this new marketplace. In fact, an average BIC task order is now worth an average of \$610,000, up 147% over 5 years.⁴ This growth is reflected in most category management markets. Winning a slot on an agency-wide or government-wide contract can quickly bust a small business out of its small business eligibility. If the government is going to issue larger contracts/task orders, small business size standards must reflect this new reality.

² Office of Federal Procurement Policy, *Harmonizing Category Management and Small Business Goals* 10 (2018).

³ Government Wide Performance FY17 Small Business Procurement Scorecard (2018).

⁴ *Id.* at 14.

4. It is unclear what the criteria is for a contract vehicle to be designated as a “best in class” and whether or not there will be consistent criteria across contract vehicles. It seems that the GSA schedules are in fact issued along category management lines and have a continuous on-ramping of contractors to enable greater access into the federal marketplace whereas current BIC contracts have a small number of contractors and limited if any on-ramping options.
5. The government policy of counting a company with more than one certification multiple times skews reporting data. We suggest Congress take a look at this policy so that the true number of contracts awarded to socio-economic set-aside programs is accurate.

The Office of Federal Procurement Policy (OFPP), based in the Office of Management and Budget, has yet to issue a directive on the execution of category management, adding to the confusion of small businesses on how to operate in this environment. Strategies that have been suggested by the OFPP are: (1) guidance for agencies; (2) tools to support data-driven decision-making and (3) increasing small business participation on BIC and other government wide solutions.

The question remains as to strategies the federal government will employ to increase small business participation. One suggestion has been to have “on-ramps” recently used by GSA to increase participation in its OASIS contract. GSA explains on-ramps this way in a blog⁵:

“As you probably know, the OASIS contracts contain provisions allowing GSA to execute on-ramps, which add new industry partners to the competitive pools. These can be done by Pool or

⁵ Oasis Blogger, GSA Interact, available at <https://interact.gsa.gov/blog/ramps> (2018).

Sub-Pool on each contract. We included on-ramps in the contracts to ensure that we maintain a healthy competitive environment. We made approximately 40 awards in each competitive Pool because we believe that this will result in approximately 3 to 5 bids per task order. That's a healthy level of competition which will ensure innovation and competitive pricing without overwhelming contracting officers. As OASIS and OASIS Small Business mature and increasing numbers of task orders are issued and awarded, we will be monitoring the numbers of bids received. If we do not achieve the desired level of competition, we will execute on-ramps to refresh the group of industry partners in a particular Pool. We fully expect to execute on-ramps as the initial contract period expires in 2019 and many of our successful OASIS SB small businesses are positioned to migrate to the OASIS contract.

When we decide to execute an on-ramp, we will advertise it on the FedBizOpps website (www.fbo.gov) to ensure that all potential offerors are aware of the opportunity. We will also use this Interact site to announce on-ramps." The Council thinks this is not just a good idea, but should be part of all large contract vehicles, giving small businesses more opportunities to compete for this work.

Another suggestion has been to increase the use of Government Wide Acquisition Contracts (GWAC)s administered by the GSA, such as a Women-Owned GWAC or HUBZone GWAC, similar to the veterans GWAC. We agree, but do not think this takes the place of direct contracts with small businesses. We are aware the women's business community has requested GSA look into the possibility of doing a WOSB GWAC and support any opportunity to expand the pool of eligible businesses into the federal marketplace.

Lastly, another suggestion has been to issue a small business contracting vehicle in parallel with an unrestricted contract, such as Alliant and OASIS. We agree this approach will help mitigate the number of vendors that will be reduced with the FY18 20% and 35% reductions in direct contracts.

We understand the government expects to issue a small business dashboard in June, a BIC finder tool and additional training for agency staff with respect to category management—but that is not enough. While we appreciate the input of SBA and the OSDDBU community into the interagency process, we believe the government should be engaging small businesses in the conversation. Government acquisition policies of this size should engage its industry partners, especially the small business vendor community.

In conclusion, no one would disagree with the goals of efficient government buying and saving the taxpayer money. However, we believe category management comes at a cost. Fewer small business awards not only limits the supply of vendors to the government, the ripple effect limits the ability of small businesses to grow through federal contracting. In our view, category management does not achieve the law's stated goal of utilizing small businesses to the "maximum practicable extent possible," and will make reaching government-wide small business goals even more difficult. The utilization of HUBZone companies already poses a problem for the government – it has never reached the 3% goal. Further limiting contract competition to utilize only multiple award contracts will have a devastating effect on small business participation in federal contracting. The Council urges this Committee to exercise its authority to ensure the

government 's procurement policies, specifically category management, utilizes small businesses rather than limiting them.



**Statement of Alan Chvotkin
Executive Vice President & Counsel
Professional Services Council**

**“The Impact of Category Management on the
Small Business Industrial Base”**

**Committee on Small Business
U.S. House of Representatives
June 13, 2018**

Introduction

Chairman Chabot, Ranking Member Velázquez, and Members of the Committee, thank you for the invitation to testify on behalf of the Professional Services Council's (PSC) nearly 400 member companies and their hundreds of thousands of employees across the nation. I appreciate the opportunity to discuss with you Category Management's evolution and impact on the small business industrial base.

For over 45 years, PSC has been the leading national trade association of the government technology and professional services industry. PSC's member companies represent small, medium, and large businesses that provide federal agencies with services of all kinds, including information technology, engineering, logistics, facilities management, operations and maintenance, consulting, international development, scientific, social, environmental services, and more. Together, the association's members employ hundreds of thousands of Americans in all 50 states in support of virtually every federal agency and perform work in all ten categories. The diversity of functions performed and the business size of PSC members gives us a unique perspective on the objectives and evolution of Category Management within the Executive Branch.

Today, I will offer some considerations and criteria that PSC urges you to take into account as your Committee evaluates the impact of Category Management and potential changes to the current process, both in this hearing and in your future efforts. They include:

- How has Category Management impacted the ability of federal agencies to meet their mission needs?
- Are there sufficient safeguards to ensure competition in the marketplace for small business participants, both now and in the future?
- Does Category Management meet the government's objectives of assisting small businesses?

Contractors Provide Significant Value to the Government

The contractor community plays a vital role in assisting the government in providing services to the American people. Contractors' contributions are necessary to maintaining government operations. Many of the capabilities that contractors provide do not exist, or are insufficiently available, within the government, and contractors can quickly expand or adjust capacity to meet changing mission needs. Contractors of all sizes are a strong, diversified national interest business base that support current and emerging requirements for every agency of the government.

In fiscal year 2017, the U.S. government spent more than \$308 billion to acquire services from federal contractors. Government-wide, services spending accounts for roughly 60% of contract awards, and that has grown over the last two years. These numbers highlight the importance of ensuring that any federal procurement initiative, including Category Management, is designed, implemented, and overseen in the most effective manner.

Category Management's Evolution

Category Management (CM) began as a federal initiative intended to develop and provide the federal acquisition community with more efficient acquisition strategies based on major categories of federal procurement by capitalizing on subject matter expertise and lessons learned across the government. The CM approach includes "strategic sourcing, but also a broader set of strategies to drive performance, like developing common standards in practices and contracts, driving greater transparency in acquisition performance, improving data analysis, and more frequently using private sector (as well as government) best practices."¹

The ten categories that comprise the CM initiative are:

- 1) Information Technology
- 2) Professional Services
- 3) Security and Protection
- 4) Facilities and Construction
- 5) Industrial Products and Services
- 6) Office Management
- 7) Transportation and Logistics Services
- 8) Travel and Lodging
- 9) Human Capital
- 10) Medical

Each category is led by a senior government executive (Category Manager) designated as an expert in that category. That executive is also charged with implementing a government-wide strategy to drive improved performance. The Office of Federal Procurement Policy (OFPP) announced the initial 10 government-wide Category Managers on February 10, 2016.² While the ten categories have not changed since that time, many of the categories have new leaders. Many agencies have also designated managers who are responsible for each category of spend at the agency level.

Since its inception in 2014, I believe that CM has evolved through four major phases and, in doing so, has transitioned from what began as a management technique for collecting and analyzing federal spending into an integrated combination of both management information analysis and federal purchasing strategies.

Last November, the Chairman and Ranking Member of this Committee wrote to the Office of Management and Budget (OMB) challenging the implementation of CM and raised the concern

¹ OFPP Administrator Anne Rung Dec. 4, 2014 Memorandum: Transforming the Marketplace: Simplifying Federal Procurement to Improve Performance, Drive Innovation, and Increase Savings. Available at: <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/procurement/memo/simplifying-federal-procurement-to-improve-performance-drive-innovation-increase-savings.pdf>

² "A Major Step Forward in Category Management: Announcing New Government-wide Category Leaders." Feb. 25, 2016. Available at: <https://obamawhitehouse.archives.gov/blog/2016/02/24/major-step-forward-category-management-announcing-new-government-wide-category>

about the ability of small businesses to fully and fairly compete for federal contracts.³ It remains a valid concern.

The four phases of CM that I have observed are as follows:

First Phase: Establishment and Spending Analysis

The first phase was the establishment of Category Management. When CM was initiated, it was intended to provide acquisition executives—both within each purchasing organization and across the “category”—with better visibility into agencies’ spending per category and thereby enable the federal government to approach the government’s purchase of goods and services as if it were a single enterprise.

The approach also provided for the collection of government-wide buying data for each category and enhanced the ability of government to track spending trends over time. It provided the foundation for the government to find efficiencies, reduce unnecessary duplication or inconsistencies in both the purchasing decisions and the acquisition vehicles, and enhance value for agencies when purchasing such goods and services. Additionally, through the designation of Category Managers, CM helped to meaningfully improve the skills and expertise of the federal acquisition workforce. PSC has supported, and continues to support these goals, even though the metrics for success are hard to articulate and even harder to validate.

Second Phase: Designation of “Best-In-Class” Contract Vehicles

The second phase in the evolution of the CM was the determination by OMB that certain contract vehicles satisfy key criteria defined by OMB and earned the designation of “Best-In-Class” (B-I-C).⁴ As of April 23, 2018, thirty-two contracts have been designated by OMB as “B-I-C” awards;⁵ OMB will update that listing periodically.

But it is also important to recognize that many of the B-I-C designations have very specific scopes of work or have limited application in the federal purchasing world. For example, under the Medical category, the two B-I-C contracts are for Veterans Affairs (VA) hearing aids and the Department of Defense/VA national contracts for generic pharmaceuticals. In Travel and Lodging, one B-I-C is for the U.S. Government’s rental car program and another is for civilian employee relocation.

Third Phase: Institution of “Spend Under Management” Tiers and Targets

The third phase in the evolution of CM was the imposition of agency quotas for spending through category management principles, referred to as “spend under management.” Under OMB’s three-tier system for evaluating qualifying spending, the highest tier for applying approved category management principles is dollars obligated on “Best-In-Class” contracts.

³ “Chabot, Velázquez Challenge OMB on Procurement Policy.” House Small Business Committee press release, Nov. 10, 2016. Available at: <https://smallbusiness.house.gov/news/documentsingle.aspx?DocumentID=399375>

⁴ Category Management Policy 15-1: Improving the Acquisition and Management of Common Information Technology: Laptops and Desktops. Oct. 16, 2015. Available at:

<https://obamawhitehouse.archives.gov/sites/default/files/omb/memoranda/2016/m-16-02.pdf>

⁵ Best-in-Class Solutions (as of April 23, 2018). Available at: <https://hallways.cap.gsa.gov/app/#/gateway/category-management/6243/best-in-class-bic-consolidated-list>

However, agency spend through any of the three tiers of OMB-designated contracts counts as “spending under management.” Where agency contract dollars are obligated through contracts that do not fit into any of those tiers, awards are designated as “unmanaged contracts” and agencies are urged to do further analysis of their spend to “find opportunities” for shifting to solutions that qualify as “spend under management.”⁶

It is my understanding that OMB has established government-wide targets of making 35 percent of available spend through B-I-C awards and decreasing the available spend categorized as “unmanaged” by 20 percent. Agencies are held accountable for meeting B-I-C and spend under management targets.

In addition, each category has a unique set of key performance targets for fiscal years 2018 and 2019, including spend under management, savings and/or cost reductions, reduction in contract duplication, and achieving percentages of awards to small businesses. Nothing in the CM evolution detracts from the additional responsibility on agencies to achieve their individually negotiated small business contracting and subcontracting goals pursuant to the Small Business Act.

Category Management is also an important component of the March 2018 President’s Management Agenda. Cross-agency goal #7 establishes as an objective “leveraging common contracts and best practices to drive savings and efficiencies.” In addition, this cross-agency agenda sets a goal that “by the end of FY 2020, the Government will achieve \$18 billion in savings for taxpayers by applying category management principals [sic]—or smart decision-making where agencies buy the same kinds of goods and services through best value contract solutions—to 60% of common spend. In addition, the Government will reduce duplicative contracts by 50,000, potentially reducing administrative costs by hundreds of millions of dollars.”⁷

Fourth Phase: Mandatory Use “Best-in-Class” Contracts

The final phase of CM in place today is the requirement for the mandatory use of specifically designed B-I-C awards. These vehicles are the exclusive method by which agencies must purchase covered goods and services. As of February 5, 2018, six contracts across four of the ten categories have been designated as “mandatory use” for the agencies.⁸

Mandatory use of certain contracts is not new, but it remains controversial. Many may recall the so-called “Brooks Act” that required the mandatory use of the GSA schedules for what was then called automated data processing without a specific delegation of procurement authority from GSA. More recently, the government implemented mandatory use policies when OFPP prohibited agencies from issuing new solicitations for laptops and desktops and required the use

⁶ Best-In-Class & Spend Under Management, Feb. 5, 2018. Available at: https://www.gsa.gov/cdnstatic/BIC_%26_SUM_One-pager_252018.pdf

⁷ “The President’s Management Agenda: Modernizing Government for the 21st Century.” Mar. 20, 2018. Available at: <https://www.whitehouse.gov/wp-content/uploads/2018/03/Presidents-Management-Agenda.pdf>

⁸ Best-In-Class & Spend Under Management, Feb. 5, 2018. Available at: https://www.gsa.gov/cdnstatic/BIC_%26_SUM_One-pager_252018.pdf

of specific contract vehicles for any future purchase.⁹ It has also been applied more broadly to the so-called Federal Strategic Sourcing Initiative (FSSI), the precursor to CM.

Distinction between Products and Services

There is a significant difference between the way the government buys basic products versus how it buys services—particularly IT and complex knowledge-based services. For pure commodities, procurement policies can be fairly simple and straightforward; for more complex needs, particularly higher-end services, the challenges and complexities grow substantially. Commodities tend to be more widely available and the barriers to market entry are typically more modest. But such differences become far more pronounced when the services being procured are complex or highly technical, involve capabilities and skills that are in short supply across the economy, and for which opportunities outside of government are plentiful. With commodities, in many cases basic quality may be adequate and price becomes the principal driver. With services, quality and innovation are often, appropriately, of greater importance than price.

With CM's focus on lowering prices, PSC is concerned that the government may begin to purchase complex cybersecurity services in the same manner as common office supplies—which will limit value and reduce innovation. In addition, as this Committee has addressed previously, these techniques may have the effect of limiting the number of firms—small or other-than-small—able to compete for the specific goods or services provided for under these “spend under management” contracts.

Issues for Congress

Five years ago today, PSC testified before this Committee on the use of Strategic Sourcing and stated that “the government’s goal should be to foster an environment of robust competition, high performance, agility, innovation, balanced opportunities for companies of all sizes, and accountability.”¹⁰ A copy of that statement is attached as an appendix to this testimony.

PSC cautioned then, and we do so again today, that more needs to be done to prevent unintended consequences on the small and other-than-small companies that are—or that are capable of—meeting the government’s needs. Since then, and particularly as CM has transitioned from what

⁹ Category Management Policy 15-1: Improving the Acquisition and Management of Common Information Technology: Laptops and Desktops. Oct. 16, 2015. Available at:

<https://obamawhitehouse.archives.gov/sites/default/files/omb/memoranda/2016/m-16-02.pdf>

¹⁰ Testimony of PSC president Stan Soloway, June 13, 2013, before the Committee on Small Business, U.S. House of Representatives, titled “Putting the Strategy in Sourcing: Challenges and Opportunities for Small Business Contractors.” Available at:

https://www.pscouncil.org/Issue_Areas/SmallBusiness/Resources/SmallBusiness/Testimony_on_Small_Business_Impact_of_Strategic_Sourcing.aspx

began as a management technique into a procurement policy, there have been negative consequences for the supplier base and for the marketplace. These include:

Implementation of a One-Size-Fits-All Approach Across Government:

The goal of any procurement policy, whether established by the Executive Branch or directed by Congress, must be to foster a competitive environment where agencies can contract in a manner to meet their mission needs. Category Management, however, can potentially limit an agency's ability to do so if the agency is required to use certain acquisition vehicles, and therefore only the contractors on those vehicles, for certain goods and services. This strategy could further limit access to innovative technologies and processes from companies that are not current contract holders.

Limiting the Flexibility of Agencies to Pursue Unique Solutions:

Restricting the access to only certain contract awards—whether through the designation of “mandatory use” or through setting goals for “spend under management”—could restrict individual agencies' flexibility when pursuing agency-unique initiatives.

Narrowing Competition in the Marketplace:

The government benefits when it fosters an environment for robust competition in the federal marketplace. The mandatory use of Best-In-Class vehicles does not simply drive changes in the market; the vehicle becomes the market. As a result, companies that are not B-I-C contract holders could be excluded from certain federal contracting opportunities for the duration of the period of performance of the B-I-C contract designation.

Currently, there is a broad array of suppliers participating in the federal marketplace that can be easily accessed by any government customer. For mandatory use contracts, the number of suppliers is limited (and we should acknowledge, though we do not have to accept, that the available contracting opportunities are also limited). As this Committee has asked previously, does it meet the government's objective to have fewer small businesses receiving a higher volume of government work, or should a larger number of small businesses compete for a smaller share of the volume?

Additionally, many of the competitions and awards for what are now designated as “Best-In-Class” occurred before the B-I-C designation (and any mandatory use designation) was established. This raises two additional issues:

- The ability of small businesses (or any business) to become a B-I-C contract holder after a contract award. Are the B-I-C contracts structured in a way that provide on-ramps for companies currently not a holder of the vehicle?
- The advantage given to incumbency. When the B-I-C contracts are recompeted, will non-contract holder offerors be able to successfully compete for future opportunities?

Focuses Too Heavily on Low Price:

Small businesses—particularly those who provide knowledge-based or professional services to the federal government—are disproportionately impacted by shortsighted efforts to drive down prices. This often manifests itself in solicitation evaluations known as Lowest-Price Technically Acceptable or “LPTA.”

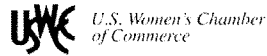
Focuses Too Heavily on Inputs, not Outcomes:

The B-I-C contracts are approved by OMB based on favorable terms and conditions and reporting requirements, not on the outcomes to be achieved for the agency or the past or expected performance by the vendors on those contracts. Achieving the government’s desired outcomes should be the most important objective of any acquisition strategy.

Conclusion

On behalf of PSC and our members, I thank you for your attention to this important issue. As always, PSC is available at your convenience to address any questions or concerns the committee has, now and in the future. I will try to answer any questions you may have.

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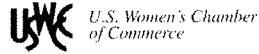


U.S. Women's Chamber of Commerce
uswcc.org

Testimony of
Ms. Beth Laurie Strum
Vice President of Business Development
IT WORKS
Washington, DC

Before the
House Small Business Committee
"The Impact of Category Management on the
Small Business Industrial Base"

11:00 A.M. on Wednesday, June 13, 2018
Room 2360 of the Rayburn House Office Building.



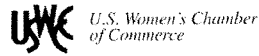
Chairman Chabot, Ranking Member Velázquez, Members of the House Small Business Committee, thank you for the opportunity to speak today.

To begin, I must convey to you a fervent message of concern from the U.S. Women's Chamber of Commerce: We have never encountered a threat to small business' full and fair access to federal contracts like what is confronting us now.

The anti-competitive contracting practice known as Category Management through Best-in-Class acquisition vehicles has been quickly, summarily – and without thorough consideration and regulatory authority – inserted in front of the federal acquisition process – seemingly as a predicate to the existing Federal Acquisition Regulations (FAR) and the requirements of the Small Business Act. In its current form, the Best-in-Class acquisition process picks winners and losers without assuring full and fair competition, thereby locking out thousands of small businesses from the very contract opportunities that were guaranteed to us in 1978 through Public Law 95-507 “Amendments to the Small Business Investment Act.”¹ This law states, “No contract shall be awarded to any offeror unless the procurement authority determines that the plan to be negotiated by the offeror pursuant to this paragraph provides the maximum practicable opportunity for small business concerns. . .”²

¹ Public Law 95-507, Amendments to the Small Business Investment Act of 1958: <https://www.gpo.gov/fdsys/pkg/STATUTE-92/pdf/STATUTE-92-Pg1757.pdf> (October 24, 1978)

² Small Business Act: https://www.sba.gov/sites/default/files/Small_Business_Act.pdf

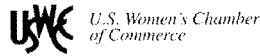


The abrupt transformation of the federal acquisition process to Best-in-Class vehicles will have a crippling effect on small business competitive opportunities. For example, roughly 25,000 small businesses provide IT services to the federal government, but only approximately 200 have the IT vehicles currently deemed Best-in-Class. Locking out ninety-nine percent of small businesses from prime contractor competitive opportunities will have a devastating effect on the small business industrial base. Even before Category Management, the number of federal small business suppliers dropped twenty-seven percent over the last ten years.³ How can the federal government possibly claim to be providing the “maximum practicable opportunity for small business concerns?”

This new process has been rushed so quickly into the acquisition system – without requisite clarity, regulations, or training – that contracting officers have not received the information or training they need. Many contracting officers think they must exclusively use vehicles designated as Best-in-Class such as GSA Oasis or Alliant. Some agency-level contract vehicles have not been named Best-in-Class while other existing vehicles have received this designation. Consequently, winners and losers are being selected without competition, without adherence to the FAR or Small Business Act, and without consideration of the nuanced needs of individual agencies, offices and regions.

If a small business is not already on one of the anointed Best-in-Class vehicles, they are left out – literally restricted from the competitive pool.

³ U.S. Women's Chamber of Commerce, “Small Business Meets Category Management,” <https://www.dropbox.com/s/ovy8ds1a66psmnx/small-biz-meets-category-management.pdf?dl=1> (May 24, 2018)

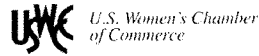


Consequently, while large dollar amounts may end up flowing to a very few small businesses who are already on the selected Best-in-Class vehicles, hundreds of good, viable small businesses will be totally shut out from competing. For example, OASIS has pools with only 40 businesses per pool. Many of these businesses are in multiple pools. Alliant2 has only 80 small business.

Also, some Best-in-Class vehicles are 10-year contracts. For Some Best-In-Class vehicles, if you are not on the vehicle today, you must wait 5 years for the small business on-ramp to secure the right to compete. For the GSA OASIS contract, GSA has announced that the on-ramp will only fill the missing spaces. We don't know if the spaces opened up will be one year, ten years, or more. And, GSA will fill these spaces based on small business certifications to make sure they have at least three WOSB, SDVOSB, HUBZone, etc. per pool. If they already have those certifications in the pool they will not add any additional businesses.

Some Best-in-Class vehicles have no stated on-ramp at all. It's impossible to know when spaces might become available. For example, right now I am unaware of any on-ramp being prepared for Alliant 2 SB; this is a ten-year vehicle with no on-ramp planned at all – leaving small businesses with no foreseeable future to on-ramp to this vehicle.

There are existing acquisition vehicles and methods that could and have been used to achieve government acquisition savings while assuring maximum practicable competitive opportunities for small businesses. However, the rush into Category Management without assuring the Small Business Act requirements are met, without assuring a strong and open



competitive field of firms remain engaged with real incentives to lower prices, and without assuring that the needs and nuances of agencies are met through the acquisition process, will thrust irreversible damage on the small business industrial base.

Examples of good, competitive methods include GSA multiple schedules that qualify as Category Management such as PSS and IT70. The use of these schedules has decreased by agencies over the last few years. Also, an IDIQ created for an entire department with more frequent on-ramps could satisfy Category Management requirements.

Members of Congress, small business needs your help now to assure that small business continues to secure maximum practicable opportunities as federal suppliers. We need you to step in and assure our existing federal acquisition regulations and the Small Business Act are being followed. Given the requirements of this Act, why aren't all interested small businesses simply accepted as competitors on all Best-in-Class vehicles?

We ask you to compel increased training from the top of acquisition leadership down to front line contracting officers to assure they understand they must comply with the FAR and the Small Business Act – that Category Management and Best-in-Class vehicles do not supersede our existing laws and regulations.

We need an easily accessible database of available vehicles so that small businesses and contracting officers know the full array of vehicles available to them rather than just Best-in-Class.

Thank you for your support of American small business and protection of our industrial base.



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**“The Impact of Category Management on the Small Business Industrial Base”
 Testimony before the Committee on Small Business
 United States House of Representatives
 115th Congress**

**ML Mackey
 CEO & Co-Founder
 Beacon Interactive Systems
 Legislative Affairs & Policy Committee Chair, Small Business Division
 National Defense Industrial Association (NDIA)**

**11:00 AM
 Wednesday, June 13, 2018
 Rayburn House Office Building, Room 2360**

Introduction

Chairman Chabot, Ranking Member Velázquez, and Members of the Committee, thank you for the opportunity to testify here today, and for your consistent efforts in supporting America’s small business community.

My name is ML Mackey, and I am the CEO and Co-Founder of Beacon Interactive Systems, a small business with offices in Waltham, Massachusetts and Norfolk, Virginia. Beacon delivers innovative, efficiency improving, and cost-savings technology to the Department of Defense. Today I am representing the Small Business Division of the National Defense Industrial Association (NDIA), the nation’s oldest and largest defense industry association, comprised of nearly 1,600 corporate and over 80,000 individual members. While Category Management greatly impacts the full spectrum of the U.S. industrial supply chain that provides goods and services to the DoD, my testimony this afternoon will focus on the constraints that it places on small businesses trying to deliver innovative solutions to support the U.S. warfighter at home and abroad.

The intent of making government procurement efficient, streamlined and cost effective is a goal with which I, and my small business colleagues, are aligned. Getting best in breed products and services as rapidly as possible to the men and women who protect us is of paramount importance. Unfortunately, the contract approach prescribed by Category Management will have an opposite and deleterious effect on this goal. It drastically reduces competition within the existing supply chain and creates a tremendous barrier for new contractors to participate and deliver the valuable innovations necessary for staying one step ahead.

As battlespace needs evolve ever-more rapidly, so too must acquisition practices evolve on both cost and capability vectors. Category Management, by only addressing cost through contracting requirements ignores the overwhelming need and value of innovation. Without thoughtful implementation, the acquisition of innovation is unplanned, disruptive, fluid, and in the past has



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been costly. A cost-only approach does not incentivize industry to explore innovative or longer-term solutions because contract requirements sacrifice taking new approaches in order to cut costs. As the owner of a small business that provides Internet of Things (IoT) technology to solve many of the DoD's mission critical operational needs, the myopic approach of limiting access to contract vehicles simply as an attempt to limit cost will make it even more difficult for the innovation economy to participate in helping the warfighter.

Implications of Category Management to Small Business Innovation

Category Management, through the practice of Strategic Sourcing, would consolidate the number of contracts the Federal Government awards to small businesses for a single or multiple goods and services delivery. As an approach to cost savings, it is well intentioned, but it unfortunately drives high technology small businesses out of the defense marketplace resulting in reduced competition within the procurement process and the loss of small businesses who choose creating innovation over building a business based on cutting corners and costs.

An impact of Category Management is that small businesses must align themselves with Prime Contractors on a cost basis (as opposed to value or capability) to even be able to engage with the Government. Small businesses must be recognized as more than just a reliable supply chain for larger companies to utilize in their own cost savings approaches. The small business community represents the valuable marketplace of ideas and innovation. Category Management, like Lowest Price Technically Acceptable (LPTA) methods when applied to broad acquisitions, does not consider that innovation is an aberration to standard government contracting requirements yet provides incredible value. The bottom line is that industry is concerned that the Federal Government is mistaking lowest cost for best value in how they spend taxpayer's money, creating requirements that eliminate the ability to access the best options from industry.

One of the stated laudable intents of Category Management is to accomplish a streamlined best-of-breed acquisition practice. The Small Business Innovation Research Program (SBIR) and the Small Business Technology Transfer Program (STTR) are examples of where the small business community delivers directly on this intent. Technology acquired from the SBIR Program is an example of accessing best of breed solutions in a streamlined manner. During the development phases of the SBIR investment (Phases I & II) the needs of the warfighter are explicitly addressed with new and innovative approaches. Acquisition is streamlined as the competitive threshold has already been met in the highly competitive Phase I and Phase II processes. Instead of helping, Category Management will impinge on the ability of the US Government to acquire these results by reducing access to contract vehicles.

Many of my small business colleagues have spoken with me directly in terms of the Category Management approach as well as previous strategic sourcing initiatives. Across the board, they are overwhelmingly opposed. Anything that winnows down the ability to compete on a fair and level playing field is challenging across the industrial base.

Recommendations

HSBC Testimony of ML Mackey 2



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While we are not in support of a Category Management approach, we are supportive of the intended outcome; the streamlined acquisition of best-in-breed goods and services. And specifically for those of us who deliver much needed innovation to the DoD we are absolutely interested in a nimble acquisition process in support of the warfighter. Along those lines we have three suggestions:

- 1) Support the Contracting Community with increased funding in order to provide the resources necessary in enabling innovation and widespread Small Business participation within the contracting process.
- 2) Reevaluate LPTA with an eye towards focusing on how to best procure what will meet the evolving needs of the warfighter. Focus on what is the best value not what is the least expensive acquisition.
- 3) Deliver best of breed innovative goods and services in a streamlined acquisition process by implementing a Pilot Program at the DoD for Streamlined Technology Transition from the SBIR/STTR Programs as described in Section 1710 of the 2018 NDAA.

Conclusion

Chairman Chabot, Ranking Member Velázquez, and Members of the Committee, thank you for the opportunity to appear before you this morning and thank you for your continued efforts in helping the small business community. I would be pleased to respond to any of your questions.

