



Written Testimony of

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Before the
House Small Business Committee

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

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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.