



Testimony of

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House Committee on Small Business

“Under the Microscope: Reviewing the SBA’s Small Business
Size Standards”

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Chairman Williams, Ranking Member Velázquez, and Members of the Committee, it is an honor to appear before you on behalf of Government Acquisitions, Inc. (GAI). My name is Jay Lambke, and I am the President of GAI, a Historically Underutilized Business Zone (HUBZone) certified small business that has provided the government with information technology (IT) services for over 30 years. GAI is also a member of GovEvolve, an advocacy organization for small and midsize businesses that works to support the technology industry by promoting public policies that encourage innovation and competitiveness.

At GAI we have built a special company – and I don't just say that as the President. I say it because we embody everything that is great about American small businesses. Our success is the result of deliberately building a strong family culture full of people who are heavily involved in supporting our local communities and who all share a powerful commitment to serving the single most important customer on planet earth, the U.S. Federal Government. We have strong convictions that the world is a much better and safer place when the U.S. and our allies are in a leadership position. To that end, as our name reflects, the company was specifically built to serve the unique missions of this customer in its various forms. Our entire company is proud of the innovative work we do of solving our customers' most complex technological problems. We clearly understand that each of our civilian, Department of Defense (DoD) and intelligence community customers have unique missions. We work to leverage best of breed technology such as artificial intelligence (AI), robotic process automation and cybersecurity to enable them to better carry out those missions. Our aspiration is to build this company into one of the best companies in our industry. A company who is heavily relied upon by the customers we serve and the families of the people we employ.

Over the course of my 17 years at GAI, I have seen how acquisition policies shape the environment for small businesses doing business with the federal government in both positive and negative ways. GAI has experienced great success as a federal IT Value-Added Reseller (ITVAR), but we have also faced continual challenges regarding size standards as an ITVAR, given government trends toward purchasing from large, government-wide contract vehicles. I greatly appreciate the hearing today and its focus on a critical component of determining success in selling to the federal government.

Before I delve into issues relating to size standards, let me set the stage for the enormous shift in technology in the last two decades. When I started working in the technology field 20 years ago, an ITVAR sale to the federal government was pretty simple: “buy a box – sell a box.” It was not a super complicated business and required far less employees than it does now. Today, nearly everything we do with our customers as a small business innovator is providing complex solutions that involve numerous technologies needing to be integrated together. These solutions include AI, robotic process automation, and cybersecurity, all requiring multiple hardware and software vendors. Complex solutions require multi-disciplinary engineering resources and frequent teaming arrangements between multiple companies.

Twenty years ago, we did not have teams who went on-site for customers to deploy and manage these solutions. Today, we employ deployment teams whose job it is to go onsite and install the solution, integrate it with existing customer systems, and stay onsite often for many years to develop the inside of those systems. Twenty years ago, there were also far fewer contracts to bid on and the bids were fairly straightforward, requiring a small proposal team or light outsourcing of the proposal. Today, proposal efforts are often extremely large, very complex and require a large staff to be successful. Additionally, opportunities in my industry are regularly solicited through large five- or ten-year contracts. So, if you lose a bid for a spot on the contract, you cannot do business with that federal customer for many years. The stakes today are much higher.

Given that bids are now longer and more complex, we have seen a massive spike in protests. Protests lead to delays for both businesses and the government customer. A CEO of a large defense contractor once said, “In today’s world you can add at least a year to every major proposal effort.” These complexities create the need for more government contracting professionals on staff, which includes lawyers, technical writers, and subject matter experts. Not only does this add significant expense for businesses, but it also adds to the number of employees – a concern that we watch closely given the current size standards.

I would be remiss if I did not mention compliance costs, especially those associated with International Organization for Standardization (ISO) certification and the DoD’s Cybersecurity Maturity Model Certification (CMMC). In an effort to protect against the ever-present cyber threats and ensure secure supply chains, federal contractors are required to comply with ongoing and specific requirements. While we believe the government is doing the right thing to protect and secure the defense industrial base, these certifications add significant costs, complexity, and people to our business. My internal IT team has grown from a few people to a small army, and the expense has skyrocketed with no signs of letting up.

Given the complex nature of a technology sales in today’s environment, size standards and the use of North American Industry Classification System (NAICS) codes play a significant role in determining our success. Not everyone may understand the significance of a small office at the Small Business Administration (SBA) that has a big mission – the Office of Size Standards. They, and they alone, decide what size a commercial company can be to be considered small, either in terms of revenue or employees. Size standards are industry specific and set through NAICS codes. The SBA calculates size standards by computing a weighted average of businesses in an industry using five factors: average firm size, average assets size, four-firm concentration ratio, Gini coefficient (measure of statistical dispersion intended to represent the income inequality, the wealth inequality, or the consumption inequality within a nation or a social group), and small business participation in federal contracting. On that note, the SBA has asked for comments to proposed changes to their formula for determining industry size standards, due on February 9, 2024.

The method of calculating whether a business is small seems like it should be pretty straight forward, but in our industry, it is not. For IT resellers, there is no one NAICS code that easily fits all the products and services we provide. The acquisition workforce is required to designate a single NAICS code to a procurement. A solicitation for IT-related acquisitions can often be for a mix of both products and services, which is inadequately captured by the current NAICS system. Recognizing the traditional rules and regulations cannot properly be applied to IT resellers, federal agencies have sought numerous workarounds. The rules have not adapted to quickly changing technology-related procurements and ultimately this piecemeal approach has failed. Therefore, the SBA came up with a solution: “Footnote 18” under NAICS code 541519 - Other Computer Related Services.

Misapplication of the ITVAR code is particularly problematic for small businesses. In this case, many businesses that otherwise meet the value-added requirements are often faced with a difficult choice. Bid, with the potential of not being able to provide services that align with the 15-50% requirement of 541519 or forgo the opportunity while competitors that are less worried about compliance are awarded the work.

The solution to this government and industry problem is the creation of a new NAICS code for the ITVAR community. Even though our industry has approached the General Services Administration (GSA), the Department of Commerce and Office of Management and Budget’s Office of Federal Procurement Policy (OFPP) advocating for dedication of a new NAICS code to IT resellers, no one in any of these agencies has been able to point to the process necessary to secure a new code. The only option available to us is a directive from Congress, and we implore this Committee to assist us in our quest to fix this problem. By doing so, the small business ITVAR community will be better equipped to bid on federal contracts and meet agency missions. Given all the changes in federal acquisition policies, federal buying strategies and the IT sector, it is high time to move beyond being a footnote to a NAICS code specifically tailored toward the ITVAR industry.

In summary, small businesses who sell IT customizable solutions to the federal government have undergone significant changes in the last several decades as have the government’s requirements. Being small in the federal space comes with benefits of restricted competition for contracts and can be a considerable leg up to get started and grow in winning federal work. Size standards and corresponding NAICS codes need to be modernized to accommodate the changes necessary for this industry to be successful.

This concludes my testimony. I will be happy to answer any questions.