

Testimony of

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BEFORE THE UNITED STATES HOUSE OF
REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON CONTRACTING AND
WORKFORCE

Regarding “No Man’s Land: Middle Market
Challenges for Small Business Graduates”

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Chairman Knight and Members of the Subcommittee, thank you for the invitation to appear today. My name is Mehul Sanghani, and I am the founder and Chief Executive Officer of Octo Consulting Group, a nationally recognized and award winning technology solutions and management consulting firm located in Northern Virginia. It is a privilege and an honor for me to share my views on how we can encourage entrepreneurship and growth among small and mid-size government contractors. Before I begin, let me state that my comments are my own and I am not speaking on behalf of my company.

I founded Octo Consulting Group in 2006 with a focus on providing cutting edge technology solutions and consulting services to the federal government. As you might expect from a fast-growing government contractor, we have had to leverage innovation to compete. We grew from being a subcontractor to large prime contractors in our early days to a firm that today employs over 400 employees and performs as a prime contractor on 90% of its work with support for agencies all over the federal government. Our use of technology has evolved as well. Over the years, we have consistently positioned ourselves at the forefront of technology and innovation, with our specialty focusing on the modernization of legacy systems to include developing, deploying and migrating these systems into modern cloud computing infrastructure.

Under my leadership, Octo Consulting Group has received numerous awards and accolades including being named the 23rd fastest growing private business in the country by Inc. Magazine, awards for GovCon Contractor and Executive of the Year by the Northern Virginia Chamber of Commerce, and the Washington Business Journal's Corporate Philanthropist of the Year . I am particularly proud of the fact that Octo Consulting Group has also been consistently recognized as one of the best places to work, receiving recognition in Washingtonian Magazine, the Washington Business Journal, and the Washington Post.

Over the years, I have become very familiar with the small business programs and policies that this Committee has worked feverishly to implement. We are ourselves a successful graduate of the 8(a) program for Small Disadvantaged businesses and have benefitted from competitive access to some small business set aside contracts. These programs enabled us the opportunity to compete with other small businesses and enabled us to develop a strong record of past performance that would have been otherwise exceedingly difficult to attain. Without these programs, Octo Consulting Group would not have been able to reach customers in the same way and likely would not have grown at such a fast pace. We are also working to pass along the knowledge we gained through these programs to other firms by participating as an approved Mentor in the Small Business Administration (“SBA”) Mentor Protégé program.

None of this is meant to indicate that our path to achieving this success has been easy. My team and I have faced numerous challenges. For many years, our primary focus was achieving the scale necessary to afford re-investment back into our firm. This reinvestment was applied towards building up our business infrastructure working to convince our Federal customers to take a chance making a prime contract award to a small business. Recently, we’ve found ourselves in direct competition with some of the largest government contractors in the world – and as you might expect, the competition is exceedingly fierce. We are ready, willing and able now at our current size to compete with any government contractor – and more importantly feel our credentials, certifications, and past performance line up favorably too.

However, I am also very much aware of the struggles that growing small businesses face in our space – especially as they navigate the treacherous path towards becoming a mid-size or mid-tier contractor. Everyone in our Government Contracting industry is universally aware of small businesses that outgrew their size status and subsequently failed to compete with our

industry's multi-billion dollar aerospace and defense behemoths. We also know of firms that intentionally remain and judiciously work to remain "small" because they fear that same outcome. Worse still, I have painfully come to acknowledge that there are policies and practices in the industry that specifically disadvantage growing firms. It is those policies that I'd like to address here today.

The State of the Market

Once a small business has exceeded its primary size standard, which can be as low as \$15 million in annual revenue for consulting services, it is no longer entitled to participate in small business programs and is considered a mid-tier company. Mid-tier companies are no longer afforded the preferential protections enjoyed by small business government contractors, they instead must directly compete for prime contracts with multi-billion dollar firms, such as Lockheed Martin and General Dynamics. Worse still, mid-tier businesses are no longer attractive subcontracting partners because they can no longer help large contractors meet their subcontracting goals and targets for small business participation.

Because of these dynamics, small businesses on the verge of graduation from the small business program often have two sobering choices: be acquired by a large business or attempt to compete with large businesses. When a successful small business is acquired by a large business, the Federal market and Federal supply base loses a valuable and often innovative participant. Conversely, if a small-business is able to compete and graduates into a mid-tier business, the economy expands, innovation continues, competition is increased, and jobs are created.

In addition, mid-tier companies are part of the natural progression of small business growth. Without providing a structured path to mid-tier growth, we place a cap on how far these

businesses can go and we institutionalize a scheme that has damaging ramifications to our supply base and in turn the services we provide our taxpayers. Further, it very clear that our industry is blessed with numerous exceptional entrepreneurs. However, without a defined path to and through mid-tier status, entrepreneurs will be less likely to choose our industry.

There are several simple reforms that can help mid-tier businesses compete for government contracts and serve as robust components of our supply base. Specifically, I would like to suggest to the Committee that it investigate the following policies:

1. Eliminate “quantitative” competitions based on the number or size of contracts a firm has been awarded.
2. Incentivize mid-tier businesses to work together by requiring consideration of each team members’ past performance; and
3. In multiple award contracts, require that small and recently graduated small business be able to compete for unrestricted task orders.

Each of these solutions will remove significant barriers to mid-size business growth without any downstream harm to our small businesses and also without adding any more complex regulations for entrepreneurs to learn.

Before I address each of these simple changes, I’d like to address previous efforts that originated within this same committee to support mid-tier firms. Specifically, in 2012, Congress considered establishing a Small Business Growth Pilot Program to create a mid-size category benefit. A bill called the Small Business Growth Act was introduced that would create a 5-year pilot program for General Services Administration (“GSA”) contractors with fewer than 1,500 employees. This bill would have created a program under which GSA could set-aside a contract

for mid-tier businesses so long as the contract would otherwise be awarded to an entity other than a small business concern. While adding yet another set aside category is likely to be met with some skepticism by this committee, we should strongly consider these significant steps as previous efforts at more modest reforms have fallen woefully short.

Quantitative Evaluations Disadvantage Mid-Tier Firms

The first specific reform I'd like to address is limiting "quantitative" evaluations. As the Committee is no doubt aware, billions of dollars in federal contracts are now awarded through large "government-wide" contracts that are held by a small number of contractors. For example, in fiscal year 2017, some \$6.0 billion in sales went through government-wide contracts administered by the General Services Administration alone. Some examples of such large, government-wide contracts include GSA's OASIS and Alliant 2 vehicles. Contractors who win a spot on these huge, government-wide acquisition vehicles win exclusive access for up to a decade for a lion's share of the government contracting opportunities. Firms that do not win are effectively shut out of competing for opportunities with customers or markets for five and sometime ten years.

Because winning these contracts is absolutely essential, the Government is flooded with dozens, and sometimes more than one hundred, proposals for each new contract vehicle. The Government has responded to this overwhelming number of proposals by making awards based on a movement towards "self-scoring." Instead of judging each proposal on its merits, the Government instead assigns point scores that account for the number of contracts a firm has performed, the overall size of those contracts, or whether the contracts were cost-type or fixed price.

The problem is that even the best and most experienced mid-tier firms do not have the same number of contracts as the market's multi-billion dollar industry leaders. We are happy to compete on value, price and innovation – but we cannot on fair footing when the evaluation dimension is slanted more towards the total number of contracts we hold.

For example, the recent solicitation for the GSA Alliant 2 contract required firms to provide references to seven projects of relevant experience completed within 5 years and valued at more than \$8 million. Firms receive bonus points for project values exceeding various thresholds, topping out at \$100 million. There were also points available for work outside the United States, cost-type contracts and the like. Only the top 60 firms based on these points received a spot on the multiple-award, government-wide contract vehicle.

For firms that have been large for at least five years, it is easy to compile much larger point totals. A multi-billion dollar firm with hundreds of contracts will have little issue finding seven, high value previous contracts and getting far more points than a mid-tier company. That does not make that firm any better, more innovative or price competitive than a mid-tier firm that does not have the same history of contract awards. For small firms, there are often set-aside versions of these contracts that award points based on lower standards. For mid-size firms, however, these math competitions are incredibly hard to win. They do not let us demonstrate how we can do things differently - and often better - than household name contractors. Given the increasing importance of these contracts, this practice needs to stop.

Specifically, to preserve competition, mid-tier firms should be afforded an opportunity to compete qualitatively. In other words, I would ask this Committee to consider specific tactical legislation requiring that multiple-award contract competitions not be based on a mathematical

self-scoring calculation of the *number* of large contracts a firm has performed, but instead that these contracts be accessible to mid-tier firms with agencies required to review the *quality* of the work these firms have performed. This change will allow small firms that have recently grown into mid-tier status to continue to compete on a level playing field.

Agencies Should Be Required To Consider Subcontractor Experience

Mid-tier firms understand that they will never be able to compete with the scale of the industry leaders. As a result, it is common for these firms to join forces to compete for larger contracts. However, many solicitations do not allow a prime contractor to benefit from the experience of its subcontractors. For example, the Alliant 2 RFP required that prime contractors, standing alone, “represent all proposal submission documents required under Section L.5., including all Relevant Experience, Past Performance, Systems, Certifications, and Clearances, as applicable, under this solicitation.” This means that the agency would look at the experience and past performance of the single contractor to meet its requirements. If you are an industry leader, that is easy. If you are a recently graduated small business, however, all the teaming agreements and subcontracts in the world cannot help you compete. This is a tremendous disadvantage.

When this Committee and the SBA implemented the mentor protégé program, you recognized that it was essential for the parties to be able to rely on each-others’ past performance. Without that support, each party standing alone would be unable to compete with more established industry players. Mid-tier firms face the same problem and should benefit from the same solution. Specifically, agencies must be required to consider the past performance, experience and skills of *both* prime contractors and significant subcontractors. All of these firms will be involved in contract performance and it makes no sense to exclude their skills and past

work. Further, this modest and small change will allow mid-tier firms to team together to compete for the largest contract awards.

Further, some agencies will only consider past performance information from firms that performed as a prime contractor. That is a significant disadvantage for small businesses that often enter the federal market as subcontractors. Again, these restrictions serve only to harm small businesses, mid-tier businesses, and the supply base that serves our citizens. This Committee should consider legislation that requires agencies to consider a firm's prior work as a subcontractor if it is relevant to the prime contract at issue.

Small Businesses and Recent Graduates Should be Able to Compete With Large Firms

Finally, I'd like to address what happens when a small business graduates from size status during the course of a multiple-award contract. As the Committee is aware, multiple award contracts are often awarded in pairs: One contract for small business and one for large businesses. Because of this construction, small firms can neither compete for large business awards or transition to that contract if they grow.

There are two major problems with this approach for small and mid-size businesses. First, if multiple award contracts are the way of the future and a small business is not allowed to compete with large businesses on those contracts, how can small firms prove that they can offer comparable goods and services? We are looking for opportunities to compete, and these types of awards make it impossible.

Second, when a small firm grows to be mid-size, it is often told that it cannot win new work on its current contract. However, that same firm is not automatically offered a position on the full and open contract. In short, growth is the kiss of death for these firms. All the effort that

firm put into winning the contract is wasted simply because it grew. Further, the Government is robbed of another competitor that could offer superior services at a better price.

You can solve this problem by considering legislation that would allow small business holders of multiple award contracts to compete for task orders awarded on large business contracts. Give us a chance and we may surprise you.

Further, a small business contractor that grows to be mid-tier during performance of a multiple-award contract should not simply be thrown off a vehicle. Instead, we should encourage growth by allowing small business contractors that grow to “graduate” to the full and open version swim lanes of these same contracts. That will create a win-win situation that encourages growth while increasing competition.

Conclusion

In conclusion, I would like to commend this Committee for considering the plight of firms that graduate from the small business program. Mid-tier companies have much to offer the government contracts marketplace and should be afforded an opportunity to continue to grow. I look forward to your questions.