

Creating a Multidisciplinary GWAC at GSA

Solutions Proposal

Since February 2011, the solution summit process, through a series of working groups, has determined that the biggest challenge for the small business federal contracting community faces in successfully collaborating with the SBA's (Small Business Administration) policymakers and their size standard office team is that the culture built up over the last four decades by SBA managers and policymakers is intrinsically embedded in every single SBA program designed to support micro-sized organizations. That culture, as it is identified by the small business community doing business with the federal government, is only to support "the smallest of the small."

It is invaluable to our nation for the smallest of the small to be supported by SBA and other federal programs, particularly in the private and commercial sectors. SBA and the Minority Business Development Agency (MBDA) have made a significant contribution to this country in supporting the development of small manufacturers, small retail operations, food markets, barbershops, travel agencies, veterinarians, beauty salons, gas stations, garages, etc. However, the track record created by SBA's culture and size standard policies has over the past four decades resulted in decreasing competition and the diminishing development of capacity and capability by small businesses that do business with the federal government. The real-life fact is that the federal government small business contracting community losses significant traction to survive in the federal marketplace, even after exceeding their size standard determination by five times.

To be specific, at present the size standard for a training company is \$7 million; the size standard for an IT company is \$25 million. Even a training company that has achieved \$35 million in annual sales or an IT company that has achieved \$125 million in annual sales, usually disappears from the federal marketplace within 10 years of exceeding their size standard by five times, either forced to sell their business, forced to dramatically downsize their business, or forced to go out of business.

Any fair-minded person would conclude that federal policies on small business are predesigned for small businesses that do business with the fed government not to succeed in the federal marketplace in the long run. It is clear that SBA policies have never been designed to address concrete federal market realities.

The working group of the solution summit process has concluded that it will be decades before SBA culture can be made responsible to address federal market realities. The solutions summit working group has also concluded that GSA (Government Services Administration) has over decades successfully managed a variety of contract vehicles that cover a wide range of technical support services and products. The agency has successful experience in working in support of large company, open-competition, contract vehicles as well as small business, government-wide, contract vehicles. Therefore the solutions summit working group recommends that all SBA procurement programs, such as the small business set-aside procurement program, 8(a) procurement program, HUBZone procurement program, disabled veterans procurement program, veterans procurement program, and women-owned business procurement program, be

transferred to GSA. The solutions summit working group further recommends that SBA continue to provide business, financial and technical assistance to small businesses, including 8(a), HUBZone, disabled veterans, veterans and women-owned firms.

Part of the problem with size standards is applying a discrete NAICS industry code to multi-discipline contracts in which the largest single industry activity may consist of 10 to 20 percent of the work. These, of course, tend to be larger contacts, beyond the size of the “truly small businesses” and more suitable for mid-sized and large businesses.

We therefore recommend establishing a multi-disciplinary small business set-aside IDIQ through the General Services Agency (GSA). The multidisciplinary strategy makes sense because the largest integrators, much like most (90 percent) companies in the federal marketplace provide services across NAICS codes. Therefore we propose that the GSA establish a small business set-aside multidisciplinary schedule in which competitive ranges will be set up in accordance with the number of employees, regardless of the nature of the work to be performed. This kind of procurement would allow competition under several NAICS codes, according to the range of work to be performed under the contract. The associated size standard would be the one permitting the highest level of small business participation, based on the NAICS codes assigned to the solicitation.

Such multidisciplinary contracts have already been released by the Army and NASA, such as the NASA Awards Multi-Disciplinary Engineering and Technology Services II Contract in July 2010.

Background

Under the current system, the definition of small business in a majority of industries hinges on an entity’s three-year average receipts. Most small businesses provide services in which the NAICS ceiling is set either at \$7 million or \$25 million (see Appendix, Table 1). The highest annual receipts-based size standard for small business in any service industry is \$35.5 million.

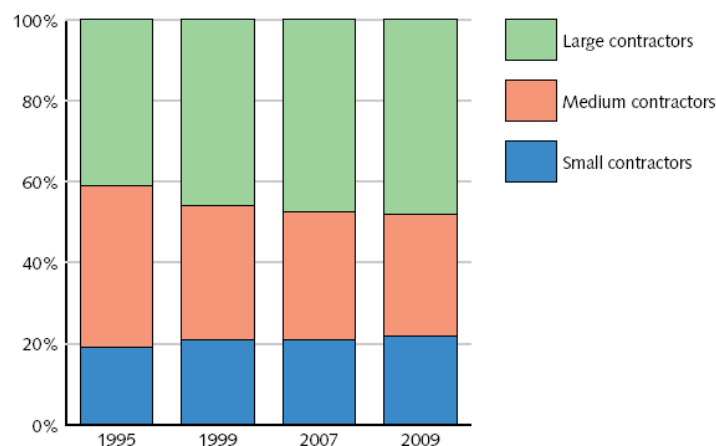
This system fails to effectively address economies of scale when small businesses are forced to compete against significantly larger businesses such as Northrop Grumman, Lockheed Martin, SAIC, EDS-Hewlett Packard, and General Dynamics. These mega-corporations average sales of \$30 billion per year and have 130,000 employees. Once the dollar threshold of the NAICS definition for small business is surpassed, every business, even one with only \$8 million per year in sales, is thrust into the unrestricted fully competitive market without the infrastructure and capital needed to compete successfully against significantly larger businesses, such as the top six federal government systems integrators named above. How can an \$8 million be expected to compete against a \$30 billion giant on a consistent basis?

The purpose of small business set-asides is to provide a level playing field for competitors of similar size. However, the present size standards design cannot be interpreted as being reasonable in promoting competitive viability for developing firms or aiding their ability to gain competitive capacity. Due to the lack of any realistic modification to size standard thresholds over the years, small businesses’ ability to sustain themselves after exceeding their size standard thresholds is questionable. They are forced to travel a bumpy road just to survive. Consequently many have been sold or closed their doors.

For many years, second-tier companies in the federal services sector have been highly regarded as a source of innovation and productivity. They have the ability to perform and manage complex contracts with low risk. Because of their success in establishing themselves beyond the first-tier small business threshold, they have proven infrastructures and management processes, capabilities invaluable to the government and to our economy as a whole.

Changing the revenue size standards to employee head count more properly reflects the reality of today's marketplace. Having never been defined formally, there is much discussion about what constitutes the size of a mid-tier company. Regarding the professional services industrial base, the November 2010 report by the Gregory Sanders et al.'s report *Structure and Dynamics of the U.S. Federal Professional Services Industrial Base 1995-2009* clearly shows that second/mid-tier firms, by virtue of being neither small enough nor large enough to successfully compete, have seen their share of the market decline considerably, as demonstrated in the figure below.

Figure 3-14. Market Share of Small, Medium, and Large Contractors in the Federal Professional Services Industry, 1995, 1999, 2007, and 2009



Source: Federal Procurement Data System; analysis by CSIS Defense-Industrial Initiatives Group.

Below are reprinted some of the report's significant findings:

"The scale, range, and magnitude of critical mass has changed. In 1995, contract awards near a half billion dollars allowed an organization to be contractor number 20 in the top 20; in 2009 that ranking required annual awards of \$1.9 billion."

"[I]t is clear that those in the middle tier have suffered an erosion of their relative share. (...) Thus, the middle tier has been squeezed from above by consolidation and from below by the slight growth in small contractors' share of the market."

"Policymakers must determine whether a robust middle tier of services companies is important or desirable for the federal marketplace. If so, current incentives for companies to enter and remain in this mid-market level must be revisited."

Indeed, mature/second-tier small businesses lose all of the contracting incentives provided under the Small Business Programs. The impact this has on the marketplace, was illustrated by the House Armed Services Committee report on acquisition reform in March 2010, which states:

"Mid-tier companies are either absorbed or decide to abandon defense acquisition for [the] more competitive commercial sphere (...). Winning or losing individual contracts

becomes such a critical matter that the incentives to protest contract awards are overwhelming. (...) The end result of this process is the gradual erosion of competition and innovation in the defense industrial base.”

Many are beginning to realize that something needs to change for mature/second-tier small businesses to remain competitively viable. The numerous size standards based on three-year average annual revenue/receipts is no longer consistent with marketplace dynamics. All annual revenue dollars are the basis for calculation of the three-year average. Often, computer size standards, hardware and subcontracting are part of the contract award dollars. The success of a graduated small business is dependent on building an infrastructure to compete with companies that have billions of dollars in annual revenue.