PUTTING THE STRATEGY IN SOURCING: CHALLENGES AND OPPORTUNITIES FOR SMALL BUSINESS CONTRACTORS

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SUBCOMMITTEE ON CONTRACTING AND WORKFORCE

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UNITED STATES
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PUTTING THE STRATEGY IN SOURCING: CHALLENGES AND OPPORTUNITIES FOR SMALL BUSINESS CONTRACTORS

THURSDAY, JUNE 13, 2013

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON CONTRACTING AND WORKFORCE,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building. Hon. Richard Hanna [chairman of the subcommittee] presiding.

Present: Representatives Hanna, Tipton, and Meng.

Chairman HANNA. Good morning, everyone. This hearing will come to order.

This morning, we are here to talk about strategic sourcing and what it means for small business. Strategic sourcing is in itself neither good nor bad. It is a tool. It is how we use it that matters. It is not the hammer's fault that someone uses it to cure a headache; rather, strategic sourcing at its heart is about being smarter about how we buy things. It means knowing what goods and services we are currently buying, who is buying these goods and services, who we are buying them from, and where they are in turn acquiring these goods and services. It means understanding what we actually need, rather than what we are buying. It means clearly communicating those needs to the marketplace. It means being aware of the ways the marketplace may change, either in what new products and services are becoming available or what other forces are operating in that market. When you are talking about the federal government, an entity that spends $516 billion throughout the year, it also means understanding that the way we buy things may irrevocably change that market.

This leads to challenges we are here to discuss and address. How can the government buy smarter and realize the benefits small businesses bring to the table. I know I do not need to remind anyone here that small businesses are our job creators and innovators, or that the competition they bring to the government marketplace drives down costs and keeps our industrial base healthy. If we do strategic sourcing well, it can benefit small businesses and taxpayers alike. If we simply use strategic sourcing as a synonym for contract bundling and consolidation, it may undermine that industrial base.

In federal contracting, we have winners and losers. No one is advocating that ever business is entitled to a contract; however, the government should not act in a way that keeps small businesses from competing. Likewise, we cannot contract in a way that forces the majority of contractors out of the market for a long period of time and then expect those same businesses to be there when we need them. Make no mistake; we will need them to offer competition for the incumbent contractors if we want long-term savings. I hope our witnesses today will discuss both the long-term and short-term effects of strategic sourcing. Additionally, as we discussed at our last hearing, not every method of procurement is suited for every type of purchase. The more complicated the good or service being bought, the harder it is to commoditize it. Given our standard strategic sourcing of services poses special challenges for small businesses. Therefore, I hope our witnesses will address which types of goods and services are suitable for strategic outsourcing. Truly strategic outsourcing is not simply a quest for the lowest price at any moment; it requires an understanding of the long-term dynamics of the marketplace and the power wielded by the buyer. As the under secretary of defense recently wrote, the first responsibility of acquisition workforce is to think.

I hope today's hearing will help clarify the issues surrounding strategic sourcing so that the government does not act in a penny wise and pound foolish manner.

I want to thank your witnesses for being with us today, and I turn to Ms. Meng for her opening statement.

Ranking Member Meng.

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

Our Committee has long acknowledged the critical role small businesses play in the $500 billion a year federal marketplace. When small firms are awarded contracts for government agencies, the result is a win-win. The government receives good value for their money as small companies have the dexterity to provide high-quality goods and services at competitive prices. That means taxpayers' resources are spent wisely.

Not only do the agencies benefit by using small businesses, but the economy does as well. Equally important, unlike larger businesses, small businesses must often add staff to meet government demand for their products and services, which results in further job creation. With our economy continuing to recover, it is vital that we pursue every mechanism possible to foster job creation by the federal government and that extends to the procurement process.

As more federal agencies adopt the Strategic Sourcing Initiative, questions are arising about whether the SSI promotes competition and fosters small business participation in the federal marketplace. With 19 agencies moving to make SSI mandatory, many small firms are starting to suffer. One analysis focused exclusively on suppliers of office products. They found that on average, small firms previously competing under the GSA schedule for this business lost anywhere between $20,000 and $10 million in revenue. The Committee has heard from a number of entrepreneurs who suggested that these changes are already resulting in layoffs. If SSI is hurting small businesses and the economy, we must examine this issue closely.

I want to make sure businesses like Data Conversion Laboratory in Fresh Meadows, New York, or Defender Security Services in Regal Park, New York, are still able to compete for federal contracts on the same playing field they are today. Small firms not included in the blanket purchasing agreement tell us they find themselves effectively locked out of a $1.5 billion market. In the meantime, large corporations, like OfficeMax and Staples, are expanding their presence in the federal marketplace. If small firms that had previously won contracts through the GSA schedule are being denied the opportunity to compete even when they could provide the same goods at a lower price, then we have to wonder whether SSI functions as intended.

There are also concerns about whether SSI is sacrificing long-term competitiveness in order to reduce short-term costs. If the vast majority of small business contractors are not chosen to participate in SSI and as a result stop bidding on federal work, will agencies have fewer options in the future? And when prices begin creeping up, would not we want a larger pool of small firms to compete for a right to deliver these goods and services?

Without a diverse range of companies in the federal market, we may find that over the long term, SSI has failed to reduce prices, but instead reduced the number of firms participating in the process. Setting aside questions about how this initiative impacts entrepreneurs, it is important that SSI not be used as a "one size fits all" approach to procurement. What works for the purchase of physical products may be ill suited for contracts related to services.

Similarly, not every agency may find SSI to be a good match. Media reports suggest agencies are feeling increasing pressure to adopt the SSI standards for all purchasing decisions. Although it remains to be seen whether SSI saves the taxpayer money, it seems intuitive that if there are savings, the program should be applied only where it works, while the former GSA schedule should remain intact where it keeps costs low and quality high.

All of this is not to say that the SSI program is without merit. We certainly do not want agencies using less efficient and more expensive procurement processes; however, if small firms that have been offering quality services are being locked out, even having to let go of staff, then it may be time to take a hard look at whether this initiative is achieving the desired result.

On that note, I look forward and thank the witnesses for being here, and thank them for shedding light on this critical topic. I yield back my time.

Chairman HANNA. Thank you.

You each have five minutes. The light will go yellow, then red. We will be lenient. We want to know what you have to say.

So with that, our first witness here today is Mr. Stan Z. Soloway. Mr. Soloway is president and chief executive officer of the Professional Service Council, the National Trade Association of Government Professionals and Technical Service Industry. Prior to joining PSC in 2001, Mr. Soloway served as deputy under secretary of defense directing acquisition reform.

Mr. Soloway, thank you for being here. You may begin.

STATEMENTS OF STAN Z. SOLOWAY, PRESIDENT AND CEO, PROFESSIONAL SERVICES COUNCIL; ROBERT A. BURTON, SENIOR PARTNER, VENABLE, LLP; ROGER WALDRON, PRESIDENT, THE COALITION FOR GOVERNMENT PROCUREMENT; TREY HODGKINS, SENIOR VICE PRESIDENT, GLOBAL PUBLIC SECTOR, TECHAMERICA.

STATEMENT OF STAN Z. SOLOWAY

Mr. SOLOWAY. Thank you, Mr. Chairman, Ranking Member Meng. Thanks for the opportunity to testify and share our views on the potential impacts on small business of the federal government's Strategic Sourcing Initiatives. This is a matter of significant interest to our community given both the unique diversity of our membership base and the equally unique diversity of the services our members provide to the federal government.

Our membership of over 360 companies is comprised of firms of all sizes, including approximately 25 percent that are classified as small businesses, and an additional 25 or 30 percent that would be classified as small mid-tier firms. It is this diversity of function and size that provides the lens through which we have viewed strategic sourcing and the full range of business policies we address with the Congress and the administration and how they will impact all or portions of the federal services sector.

In our view, structured properly, the Federal Strategic Sourcing Initiative (FSSI) has the potential to deliver real benefits for federal agencies and taxpayers alike. As such, we commend the Office of Federal Procurement Policy for making strategic sourcing a priority. Yet, while we fully support the FSSI's intended objectives, we do have some concerns about its practical effects, and those concerns relate more to the way in which the term is used and understood, rather than the concept itself.

So along those lines I would like to make a few overarching observations and conclude with four specific recommendations.

First, we need to be clear that strategic sourcing is not one "thing." It is a set of multi-layered, flexible procurement strategies that evolve and change depending on the nature and complexity of what is being bought. For pure commodities, where cost is the primary, even sole concern, strategic sourcing can be fairly simple. For more complex needs, particularly higher-end services where quality and technical ability become more central to a decision, the challenges and complexities also grow substantially. For products, where place of performance of production is irrelevant, strategic sourcing may mean one thing, whereas, for services where the place of performance is highly relevant, the need to deliver services across multiple geographic regions can bring with it a different set of issues and challenges, especially for small business.

These variations are not insignificant, and as the Government Accountability Office found in their recent report on strategic sourcing, our key elements are the way strategic sourcing is implemented in the private sector. Our concern is not that the senior leadership is unaware of these critical variations. In fact, we believe they understand them very well, but that the frontline, where we are seeing an increased commoditization of even the most complex needs, there are too many people who believe that the term really refers solely to an aggregation of buying for scale to drive down unit costs. Unless and until that frontline awareness and understanding is improved and enhanced, we do have concerns that FSSI could generate a range of unintended consequences.

Second, strategic sourcing raises a seminal question. Is our principle objective and responsibility to optimize government operations or is it to optimize those operations without impacting the current environment for small disadvantaged HUBZone, veteran-owned, or woman-owned businesses? For example, is it better to have fewer small businesses receiving a higher volume of work from the government, or a larger number of small businesses with smaller shares of the volume? Is it more important to perpetuate the longstanding tenet of fiscal acquisition in which broad, continuous open competition is a primary goal? Or is it more important to seek optimization which almost by definition would reduce the pool of suppliers of both products and services?

These are far more than rhetorical questions. They and their disposition are essential to assessing the future of FSSI. To their credit, the Office of Federal Procurement Policy and the Strategic Sourcing Leadership Council recognize this dichotomy and have worked hard to factor it into their planning, but a much broader conversation is very much needed.

These issues have also been prominent in the discussion about GSA's OASIS solicitation. Among the concerns that it has raised is that it will reduce the number of small business opportunities and that it is overly, if not principally, focused on driving down the unit cost of complex, professional services, and less so on overall value, quality, and performance. Indeed, some GSA officials stated repeatedly in public forums that driving down unit cost was their principal goal.

To GSA's credit, it has conducted extensive outreach to the private sector, and it does appear that they have taken to heart many of the comments they have received. But even as we await GSA's publication of the final OASIS solicitation and their explanation of how they reconciled competing policy and competitive interest, concern still exists as to how the competition and implementation of the awards will ultimately play out.

With all of this in mind, let me just make four basic recommendations for the road forward. First, if I could define one desired outcome from this hearing it would be to gain much more clarity on the question of whether the balance between the number of small business providers and the total dollars expended with small business is aligned with both the administration and Congress's small business agenda. There is little doubt about the effectiveness of recent strategic sourcing for wireless services, laptops, and office supplies. Consensus on that alignment is essential to the effect of an efficient expansion of strategic sourcing however far it may go. OFPP and the Strategic Sourcing Leadership Council recognize this dichotomy and have worked hard to factor it into their planning, but as I said earlier, that conversation needs to be expanded.

Second, we should develop and deploy requisite training tools to the workforce without delay and require that all acquisition personnel involved in any specific strategic sourcing effort for other than the most basic commodities first complete that training.

Third, we should be highly judicious in the use of strategic sourcing for services, particularly for complex services. We should require senior level review of significant strategic sourcing efforts to services to ensure that the strategies being employed are clearly articulated and are not overly focused on simply forcing down labor rates at the expense of overall quality.

And finally, we should pursue a flexible, rather than overly prescriptive strategic sourcing initiative. Let us allow individual agencies some degree of flexibility to pursue their own agency unique initiatives and to develop performance measures for both agency-specific and government-wide initiatives that will meaningfully inform the future shape expansion and/or limitations of the Federal Strategic Sourcing Initiative.

Mr. Chairman, Ms. Meng, the Federal Strategic Sourcing Initiative has great potential but also requires careful attention. Absent answers to the questions above, it is frankly not possible to say with certainty what its impact on small business will be. The Office of Federal Procurement Policy, the SSLC, GSA, and others are to be congratulated for their relentless efforts to ensure that federal agencies buy smart and buy well, and we remain fully committed to working with them and with you and with individual agencies to ensure that we find the right balance and ensure the best possible performance on behalf of the taxpayer.

Thank you once again for the opportunity to be here today, and I certainly look forward to your questions.

Chairman HANNA. Thank you. Any members that have written statements may submit them for the record.

Our second witness is Mr. Robert A. Burton. Mr. Burton is senior partner for the Venable LLP in Washington, D.C., where he is a nationally recognized federal procurement attorney. Prior to joining Venable, Mr. Burton spent seven years at the Office of Federal Procurement Policy serving as deputy administrator, as well as acting administrator for two years.

Mr. Burton, you may begin.

STATEMENT OF ROBERT A. BURTON

Mr. BURTON. Chairman Hanna and Ranking Member Meng, I very much appreciate the opportunity today to discuss what I term the unattended effects of strategic sourcing in small businesses.

Prior to joining the Venable law firm in 2008, I did serve as the deputy administrator of the Office of Federal Procurement Policy, referred to as OFPP. While serving in this capacity, I was closely involved with the first government-wide Strategic Sourcing Initiative and the development of the 2005 Office of Management and Budget memorandum on strategic sourcing, which, for the very first time, directed agencies to develop and implement appropriate strategic sourcing efforts. A lot of discussion with agency acquisition officials and small business advocates preceded the issuance of the 2005 strategic sourcing policy memorandum. The consensus was that any agency's specific or government-wide Strategic Sourcing Initiative had to be focused not only on lowering the price of goods and services, but also increasing the value of each taxpayer dollar spent. This means that agency's strategic sourcing efforts had to improve the quality of performance and increase small business participation.

We quickly learned that strategic sourcing is not a simple concept; rather, it requires careful analysis, planning, and implementation. We rolled out the first government-wide Strategic Sourcing Initiative for express and domestic delivery services because very few vendors provide these specialized services, no small businesses were impacted, and it was relatively easy for the government to effectively leverage its combined buying power for these services. But as we explored the use of other government-wide strategic sourcing vehicles, it became much more challenging, and small businesses expressed concerns with the use of government-wide strategic sourcing vehicles. Specifically, they were concerned that the consolidation of contracting vehicles across government would reduce competition and opportunities for small businesses.

Today, existing and proposed government-wide strategic sourcing vehicles highlight some of the negative effects strategic sourcing can have on small businesses. For example, GSA's recently proposed strategic sourcing vehicle for janitorial and sanitation supplies, commonly referred to as JanSan, manifests several legitimate concerns of small businesses. First, nothing in the JanSan strategic sourcing vehicle guarantees that small businesses will receive any significant contract dollars, even if they are awarded a blanket purchased agreement or BPA. Although GSA has set aside 8 of 15 JanSan BPAs for small businesses, such set-asides do not necessarily guarantee small business success. Simply put, agencies are not required to place orders under the small business set-aside BPAs.

Second, JanSan will reduce the pool of approximately 540 small business contractors that provide the government with janitorial supplies. Under JanSan, a total of only 15 BPAs can be awarded. This means that hundreds of vendors will be foreclosed from contracting with the government. This will be especially true if agencies are mandated to use the JanSan vehicle. Currently, small business vendors who fail to win a government-wide strategic sourcing contracting opportunity have the ability to maintain their businesses by competing on GSA schedule contracts or participating in other forms of open competition.

The JanSan example highlights the importance of not making government-wide strategic sourcing vehicles mandatory for use by the agencies. And this is why OFPP did not make strategic sourcing vehicles mandatory in 2005 when we announced the first government-wide strategic sourcing effort. The mandatory use of a single strategic sourcing vehicle will reduce contracting opportunities for small businesses and the pool of small business contractors even if the vehicle incorporates small business set-asides and achieves small business goals.

Finally, the government's Strategic Sourcing Initiative was designed not only to increase small business participation, but also to ensure best value. The emphasis on value is a cornerstone of strategic sourcing. As discussed in the 2005 OMB strategic sourcing memorandum, agencies were to maximize the value of every dollar spent through strategic sourcing. Because some of the strategic sourcing vehicles are constructed as low priced, technically acceptable procurements, the government is emphasizing price at the expense of overall value.

In conclusion, the government should carefully plan and implement proposed strategic sourcing vehicles to ensure that savings are not achieved at the expense of small businesses and value for the taxpayers. This is particularly true in cases where cost savings may be short term and eliminated in the long run because of less competition and fewer small business contractors.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions that you or members of the Subcommittee may have. Thank you.

Chairman HANNA. Thank you, Mr. Burton.

Our third witness today is Mr. Roger Waldron. Mr. Waldron is president of The Coalition for Government Procurement. He has over 25 years of government contracting experience, including a 20 year tenure at the General Services Administration, where he held various positions, including acting director, chief acquisition officer.

Mr. Waldron, you may begin.

STATEMENT OF ROGER WALDRON

Mr. WALDRON. Chairman Hanna, Ranking Member Meng, member of the Subcommittee, thank you for the opportunity to appear before you to address “Putting the Strategy in Sourcing: Challenge and Opportunities for Small Business Contractors.”

The Coalition for Government Procurement is a nonprofit association of firms selling commercial services and products to the federal government.

Coalition members include small, medium, and large business concerns from across the country. Coalition members account for approximately 50 percent of the commercial solutions purchased annually by the federal government and focus much of their access to the federal marketplace through their GSA schedule contracts.

Effectively used, the GSA Schedules program is a highly successful strategic source for the government to leverage the marketplace and achieve its socioeconomic goals. Year in and year out the GSA Schedules program is one of the most successful government-wide small business contracting programs available. In a typical fiscal year, over 30 percent of the dollar volume of purchases under the GSA Schedules program goes to small business concerns.

The fundamental keys to success of the GSA Schedules program for small business are: (1) continuous open seasons; and (2) ordering procedures and electronic tools that allow customer agencies to consider socioeconomic status when competing and placing orders. Although the coalition generally supports the government’s strategic sourcing efforts, we have a number of concerns about the impact of GSA’s current acquisition strategies on businesses of all sizes, but particularly on small companies.

Last year, GSA proposed a mandate-based model that would have eliminated continuous open seasons under the GSA Schedules program. The coalition submitted comments opposing the closure of GSA schedules to new offers. A copy of our comments is attached to our written testimony. Coalition members remain uniformly opposed to closing the GSA schedule program to new offers as it would limit opportunities for small businesses, restrict competition, and inhibit access to commercial innovation by the government. We are concerned that GSA's strategic sourcing initiatives are being used to implement the demand-based model's closure of GSA schedules to new offers.

At the same time, the government is moving towards a mandatory use contracting model for blanket purchase agreements established under the GSA Schedules program. Mandatory use will have the unintended long-term consequence of reducing opportunities for small businesses. By its very nature, mandatory use limits access of the federal buyer to a small group of contractors. Mandatory use will restrict access to the federal marketplace for small businesses.

Rather than imposing mandatory use terms as a means of leveraging the government's volume, the coalition supports use of volume commitments or guaranteed minimums that are based on improved requirements development, which is after all commercial practice. Volume commitments create the economic incentives to offer lower prices for commercial solutions. At the same time, the government maintains the flexibility to access a commercial marketplace and compete opportunities for small businesses. It is a win-win for government and industry.

The coalition is also concerned that the current approach to strategic sourcing includes the use of generic, government-wide blanket purchase agreements established under the GSA Schedules program, agreements that do not include specific requirements or volume commitments upon which effective competition can be based. The intermediate step of establishing such a agreements results in vertical contract duplication that increases bid and proposal costs for government and industry and definite hurts small business. These agreements should be limited to the maximum extent practicable. Agencies should compete task orders or establish blanket purchase agreements under the GSA Schedules program based on specific requirements, including volume commitments. This approach will enhance rational, realistic competition, competitive pricing, and improve deficiency. A program of agency-specific blanket purchase agreements established under the GSA schedule program will also provide greater opportunities for small business concerns.

In summary, when effectively used, the GSA Schedules program is a highly successful, strategic source for government. At the same time, GSA schedule contracts are a powerful marketing tool for small business concerns when dealing with contracting offices across federal, state, and local governments. However, it appears that rather than focusing on the strengths of the program, its openness and access to the commercial marketplace, its flexible, streamlined ordering procedures and electronic tools, the current strategic sourcing approach closes the GSA marketplace, reduces competition, and limits access to commercial solutions and small business.

The Coalition for Government Procurement is pleased to submit our written testimony for the record, and we stand ready to provide you with any additional input you may request. Thank you.

Chairman HANNA. Thank you, Mr. Waldron.

I yield to Ranking Member Meng to introduce the next witness.

Ms. MENG. It is my pleasure to introduce Mr. Trey Hodgkins. Mr. Hodgkins is the senior vice president of the Global Public Sector at TechAmerica. TechAmerica represents over 34,000 member businesses in the information and communications technology industry, including many small businesses. Mr. Hodgkins is a recognized expert in procurement, cyber security, and national security, and he has over 30 years of experience in the federal, state, and local government arenas.

Welcome, Mr. Hodgkins.

STATEMENT OF TREY HODGKINS

Mr. HODGKINS. Good morning, Mr. Chairman and Ms. Meng. I appreciate the opportunity to be here. I want to thank you for letting us represent some of the challenges and opportunities small businesses face in the adoption of strategic sourcing by the federal government.

TechAmerica is uniquely positioned, representing technology companies from the IT, communications, and defense industrial-based sectors, and our members range from large companies whose names are common household terms to the most innovative and agile of small technology companies from across the nation. While many of the companies are oriented with the government as a customer, a large number of our members are completely outside of the public sector and are commercial in nature, offering commercial items developed and manufactured in a global economy and distributed and sold around the world. The ubiquitous nature and complexity of the goods and services our members sell create unique perspectives on strategic sourcing in federal government contracting and I would like to share a few of those this morning.

Before I turn to that issue, however, I would like to touch on something the chairman noted in his opening remarks, that the biggest challenge to small businesses today in the public sector market is the tidal wave of government unique requirements they face and the burdens those requirements create as they try to enter the market or stay in the market. Many of the commercial companies mentioned above consider the burden too significant and not worth the costs and risks and choose to simply forego government work entirely. This condition means that the government does not have access to many of the most innovative companies offering cutting edge technologies and software products and services focused on critical issues like cyber security. The condition also results in diminished competition and higher prices for the goods and services the government does acquire, because the burdens created by the government unique requirements end up as part of the cost of doing business and are passed along to the buyer. To address this and other conditions that hinder achieving best value for the taxpayer, TechAmerica would solicit the Committee's support for a wholesale review of government acquisition, similar in scope and objective to the Section 800 Panel convened in the early '90s. Without such an effort, we are concerned that legislative and administrative attempts to address shortcomings in federal acquisition will only have limited impact at the edges of the issue.

As taxpaying corporate citizens who employ millions of people around the country, the members of TechAmerica are supportive of efforts like the Federal Strategic Sourcing Initiative that can derive savings by consolidating the acquisition of commoditized goods. We would caution, however, that such efforts have diminishing success when goods and services of a complex or diverse nature are shoehorned into these vehicles. Strategic sourcing works best when the offering is relatively uniform, and that is simply not the way the government buys information technology goods and services.

Many of the products and services in the ICT space do not lend themselves well to strategic sourcing. Government does not buy technology in a consistent fashion either, and that further complicates any effort to fit them into such an initiative. For hardware items, like laptops or servers, the government does not buy them in large quantities, and when they buy them, they do not ask for a consistent configuration. One customer wants more memory, another wants a CAC card reader, and a third wants a different sized screen.

For small businesses, we see two direct and immediate challenges under the strategic sourcing initiative. Many of these companies will face diminished access to the federal government market because under FSSI there will be less award winners and more losers. The second challenge impacts those small businesses that are the most innovative providers of IT goods and services, which are frequently offered in response to narrow, unique mission requirements or as a specialized component to a broader prime contractor activity. The offerings of these companies simply do not fit into the commoditized labor categories envisioned under strategic sourcing, and these companies will face increased market pressures given the requirements to drive more and more acquisitions into strategic sourcing.

The One Acquisition Solution for Integrated Services (OASIS) GWAC was originally proposed as a new vehicle specifically for the acquisition of complex integrations of technology and services, but it was announced earlier this year that it would become part of the FSSI and the goods and services offered under the contract would be commoditized. As noted above, complex and specialized goods and services, like the ones small technology businesses can deliver, do not lend themselves well to strategic sourcing, so industry reacted with confusion and apprehension about proceeding with the offering. While we await the solicitation to be completed, questions remain about how goods and services will be commoditized in the future under this contract vehicle.

Small businesses can and should compete for contracts in FSSI, but not all goods and services lend themselves to strategic sourcing. Congress should ensure that small business opportunities to offer innovative and unique goods and specialized services are preserved and that we strike a balance as we implement the FSSI.

Thank you for the opportunity to speak to you today. I would be happy to answer your questions.

Chairman HANNA. Thank you. Thank you.

For each of you, I mean, clearly, there is general agreement that there are problems with the system. I was surprised, Mr. Burton, to hear that people can be awarded a contract and never be the beneficiary of anything of that contract. And Mr. Waldron, you said the same thing. Without minimums, this particular—so it is possible to put an enormous amount of work in bidding these, understanding them, and then being successful, being pleased with that success, and come to nothing. For both of you, does that make any sense, and would you change that so that there was a guaranteed minimum?

Mr. BURTON. Mr. Chairman historically, the government has really pushed back on guaranteed minimums. I think that will be difficult to do. There is a strong history of not doing that. But that is one thing the private sector does quite well, and that is a distinction between really private sector procurement and government procurement. Especially in the area of strategic sourcing, we see companies using guaranteed minimums. I certainly think that is something that could be explored.

But I do think that the larger problem is the fact that even if you are successful, even if the government meets its small business goals, even if some of those businesses get a fair amount of work, the small business community as a whole is negatively impacted, and you are going to reduce the base of small businesses competing. And my biggest concern for the government is five years from now when some of these vehicles come up from recompetition, will any small businesses—how many small businesses will be around to compete? And will the prices go up at that point in time? So I think one of the biggest concerns, Mr. Chairman, is short-term savings balanced against maybe long-term increased costs and a reduced small business base. And that is true even if the small businesses are awarded opportunities on the BPAs.

Mr. WALDRON. During my time at GSA, we actually used guaranteed minimums. We used them effectively for orders under the GSA Schedules program and for blanket purchase agreements. It enhanced competition, it created opportunity, and it created the right economic incentives for schedule contractors to provide price reductions at the order level during competition.

I think one of the biggest challenges that the government and with the use of the GSA schedules is this growth of the sort of generic BPAs. So you can think of it as—I think of it and characterize it as vertical contract duplication. So you have the GSA schedule contract. The intent with those contracts is to compete task orders or compete BPAs and establish those BPAs generally for recurring requirements. But what happens is, and what has happened and exploded over the last few years, is you will have the GSA schedule contract. Then the agency or the Federal Strategic Sourcing Initiative will have a generic BPA with no guarantee of usage as Rob mentioned, and as a company you have to compete and expend funds to get on that BPA because then they are eventually going to compete orders under the BPA. So you have sort of three competitive events—the award of the schedule, the award of the generic BPA, and then actual competition for the real requirement at the task order level.

Our members are very concerned about this growth and complexity of process. We would much rather see competition for orders at the order level and skip this intermediate process.

Chairman HANNA. Interesting.

The subjective nature, the more complicated the good or service that is being purchased, particularly Mr. Hodgkins, do you think that it is being handled appropriately? And do you believe that the people who are involved in designing the purchase orders or the bidding documents have an appropriate handle or balance? Obviously, some of you do not feel they have the right balance between ensuring long-term competition and making their job easier by limiting that competition. Is there in government a natural momentum to deal with those people, those companies that are larger, those industries that are more available to you as opposed to looking at the long-term goal, which is to ensure vibrant competition and yet competent competition?

Mr. HODGKINS. Mr. Chairman, I think you perhaps are correct. There is a tendency to move toward companies that the government is used to dealing with. That is one of the challenges small businesses face. They are not necessarily a known name in the market. But the complexities around information technology, we believe that there is a dearth of organic experience in the acquisition work force in general around technologies, market trends, and that puts the government at a disadvantage when it is buying those things.

Additionally, when you look at issues like cyber security and you are trying to drill down on specific capabilities or counter a specific risk, small businesses frequently can step in and offer those kinds of things that a large company, they may come in as a subcontractor to the large company or they may come in with a unique capability of their own. But I think that companies do have the ability—the government, rather, has trended toward using larger companies, but that is not to say that they are cutting out the small businesses.

Chairman HANNA. Thank you.

I yield to——

Mr. SOLOWAY. Mr. Chairman, may I make a comment on that?

Chairman HANNA. Certainly.

Mr. SOLOWAY. I think it might be helpful to step back because I think the question you asked is really a critical one.

I think, first of all, if you look at the available data and you look across different market sectors, the trends relative to your question are different in different spaces. We see in certain markets in our membership, that our members work in, where the government is entirely setting aside entire categories of work, which almost amounts to an industrial policy where we are saying, okay, if you are a small business and you want to work with us, that is where we are going to let you work, no place else. And if you are not a small business and you do that work, we are not interested. That is not a very healthy balance either.

I think the second piece is that when we talk about can strategic sourcing work, does it do this or whatever, I want to come back to one of the key points I tried to make in the testimony, which is strategic sourcing is not one thing. And so I think the issue that concerns us, and I think Trey was probably referring to also, is that there is a tendency across government today to look at everything through the prism of driving down a unit cost, rather than stepping back and looking at overall value, performance, and so forth. And the higher up the chain you go of complexity, the more that becomes a problematic strategy.

And so strategic sourcing, you can strategically source the most complex requirements on the planet, but in that case you would not be doing it on the basis of lower unit price; you would be doing it on the basis of technical quality, technical history, past performance, all of these other sort of discriminators that may not be as applicable when you are doing it for simple commodity. So it is a continuum. It is a spectrum. It is not one thing, and I think our concern is that it is too often seen in just one category through one lens.

Chairman HANNA. So it is not at all surprising to anybody here, I imagine, that people seek to make their job easier, rather than less complex. And the more difficult the job, the less likely that people are capable of understanding the scope and depth of it and breadth of it.

Mr. SOLOWAY. Well, and that is a general acquisition challenge we face in government.

Chairman HANNA. Sure. How would you change that? What would you focus on?

Mr. SOLOWAY. Well, I think that there is a lot of education and training and development issues at stake here, and it is not just around strategic sourcing, but it is a good example. If you went across the 360-plus member companies that we represent and asked them what their number one concern is today in the federal market, a small, medium, or large company would say that everything is being bought on the basis of the low price, not on the basis of quality and value because it is a workforce that not only does not have the tools, but frankly, they are not encouraged to do that. No one ever got an award for paying a little bit more for something because they thought it might have better long-term value. When we think about price at the government level, we think about how much does it cost to operate this system? When Wal-Mart thinks about price, they think about what is the impact on the entire company supply chain and ability to stock shelves? So they look on an enterprise level rather than on the immediate level. So there is a lot of education and training involved here. I think it is wrapped up. Strategic sourcing is just one part of a bigger set of challenges.

But I guess my point is that strategic sourcing complex services makes eminent sense if you understand the disciplines and the skills that go into doing that. And we have agencies that have done that. But what we see today is an increased commoditization across the market and the concern is that is what would bleed across, and people's presumptions would therefore be incorrect.

Chairman HANNA. And of course, simplicity, is that—correct me if I am wrong, but that is almost human nature. And without some kind of formal intervention or processes that guarantee that more complicated issues are handled in a more complicated, broader way, that is the atrophy that we are going towards.

Mr. SOLOWAY. Potentially, that is true. Again, on the other hand, if we think about the government workforce, the pressures they are under today, all the budget reductions and budget uncertainty they face, almost all they hear now is drive your cost down. Drive your cost down. Drive your cost down. We make short-term investment decisions and no consideration for long-term cost impacts because it is all about that immediate budget and those budget pressures. And so they are getting conflicting direction and conflicting information also.

Mr. WALDRON. Just on that note I would suggest that requirements development and improving requirements development for complex services, integration efforts, is vital at this point more than ever given the budgetary constraints we are operating under. You have got to get more value for money. It is not about low price. It is about well-articulated requirements.

Chairman HANNA. Ranking Member Meng, please.

Ms. MENG. Mr. Soloway, in your testimony you discussed how strategic sourcing incorporates the full spectrum of procurement techniques outlined in the FAR. However, you indicate that while the Strategic Sourcing Leadership Council understands it, that is not the case with those who are actually implementing the initiatives. Why do you think this disconnect exists?

Mr. SOLOWAY. The only qualification I would give is it is the people who are going to be asked to implement in a lot of ways because it is just beginning to mature and roll out.

Our organization does a survey of federal acquisition leaders every two years. We go out and talk to them and ask them what is going on in your world? What are your biggest concerns? We just issued—it is the tenth year we have done it, just a few months ago, and what we found was the same concerns come back to us from the acquisition leadership that they have been having for the last decade, which are our workforce does not have adequate training and skills in negotiations, in market research, in pricing. And if you think about the model of strategic sourcing, what really is at its heart is really good market research, it is really good negotiation, and it is really good pricing skills and understanding how pricing models work because again, back to the point of value versus low price, smart pricing people know that five or six percent more might get you a whole lot more value down the road. It might be very much worthwhile.

So we have a skills deficiency, and I again think that the workforce is often under conflicting direction. On the one hand, Mr. Chairman, you mentioned the admonition from Secretary Kendall for the workforce to think. On the other hand, they are increasingly being driven into sort of a rigid rules-based "check the block" lack of critical thinking process to the compliance regime and other issues that Trey and other witnesses have raised. So there is a multitude of issues, which is why our view as an organization—and it includes our small businesses—is that done right, strategic sourcing can be a terrific tool. But do we have yet the workforce ready to implement it broadly, particularly as you move up the chain of complexity?

Ms. MENG. Another question for anyone.

GSA puts numerous upfront requirements on strategic sourcing vehicles that must be met if a business hopes to be awarded a BPA. These range from delivery method to reporting requirements. Do you believe that small businesses have the required capabilities or have the money they need to meet these types of prerequisites?

Mr. HODGKINS. Ms. Meng, we think that many companies, not just small businesses—of course, the scope and scale of their struggle is increased—but all companies trying to sell the federal government face very significant burdens trying to meet the different requirements, even something as simple as information collection. We encountered a Paperwork Reduction Act request that was an exemption that we opposed the exemption that was being granted because the government estimated that for contractors to comply with this one information requirement it was going to cost them over a billion dollars a year. There are huge costs in government requirements, and as I noted in my comments, we think that remains one of the significant challenges for any company trying to do business in the public sector.

Mr. BURTON. Ms. Meng, I might add to those comments.

I do think one of the things that small businesses and the government have going on here is really a noncompliance situation. These strategic sourcing vehicles generally are consolidated procurements and there are certain rules that the government is supposed to be following. Most notably, the government is supposed to be conducting market research. They are supposed to be talking to small businesses and asking the questions that you just asked. There is supposed to be justification when they decide to consolidate the procurement. They are supposed to do a written justification. We are finding that these requirements are not being followed. So it is not really just a matter of training; it is a matter of compliance. And I think this is a very important point; that before these vehicles are put into place, robust market research and a justification under the FAR are required to be completed. And I at least have some knowledge that those requirements are not being met.

Mr. WALDRON. With regard to the government-unique requirements, there are barriers to entry for businesses and especially for small businesses. In the area, for example, of data collection, a lot of the strategic sourcing BPAs include robust additional data collection requirements, and data is not a free good. It costs the companies money to actually collect that data and report it back to the government. And often it is data the government already has. And they are essentially trying to shift the cost of that collection and report it back. Ultimately, I think the taxpayer pays. I mean, it drives prices higher and it does reduce competition and create barriers to entry.

And another area I think that hurts businesses of all types, but especially small businesses, is that there has sort of been a rollback of commercial item contracting, which was the Federal Acquisition Streamlining Act in 1994 established commercial item contracting. The idea was to gain access to the commercial marketplace. Well, as the government has wanted to do since enactment, there has been sort of a rollback and a layering on of additional unique government laws and regulations. That is a barrier to entry to small businesses. That increases costs across the federal enterprise. And I think it is time to raise comment to take a wholesale look at the procurement system, and especially look at commercial item contracting because the government is missing out on increased competition, access to small businesses, and better value. Thank you.

Ms. MENG. Thank you. I yield back.

Chairman HANNA. Mr. Tipton.

Mr. TIPTON. Thank you, Mr. Chairman, Ranking Member. I appreciate our panel being here today.

I just have a couple of questions. Mr. Waldron, you just kind of piqued my curiosity a little bit. I come from a construction family. You deal in higher tech information, but I cannot help but recall a few years back part of the construction project was going to be in the Forest Service and they were building, for lack of a better description or a nicer description, a comfort station. And because of government-specific requirements, they had to get special equipment to be able to build effectively a comfort station. Do you think that we are making some real challenges for ourselves in terms of the government getting unique in requirements when we could certainly streamline that and be able to take advantage of products that already exists?

Mr. WALDRON. Absolutely. That is the whole genesis and reason for being on the GSA Schedules program. It is supposed to be a commercial item contracting program and it provides the government with the opportunity to leverage the commercial marketplace. You know, the companies, in doing business out there in the commercial marketplace, they know what they sell. They know what requirements are. And the problem is, to your point, is the government layers on unique requirements, whether it is statutory, regulatory compliance requirements or even unique requirements in functionality that nobody in the commercial marketplace would do. And it does drive up costs. And I do not think we can really afford it anymore.

Mr. TIPTON. I appreciate that.

That is a little bit of a paradox, and Mr. Soloway, you might want to be able to speak to this as well because I think that point is well taken. You were talking about unit cost, you know, versus value and performance. Would you say that when we are getting these unique requirements that are going to be put up, are we getting more value in performance? We might, in a very unique sense, I guess, be able to drive down the costs, but at the same time, as Mr. Waldron is indicating, we are actually driving up costs on the other side.

Mr. SOLOWAY. Well, I think that is a critical element, and I think his point about the backsliding since the mid to late '90s when we were implementing the reforms to the system, creating more access for commercial companies, is really at the heart of a lot of this. Some of the unique requirements are probably unavoidable given the agency oversight responsibilities, congressional oversight responsibilities, and so forth. So some of it is sort of an understood and accepted form of doing business, but the point of the commercial items changes was to reduce those unique requirements to accept, for instance, commercial audit reports rather than giving government unique audit access or cost accounting standards that are very different in the government than they are in the commercial world, and so forth. So that has changed, and it does drive up costs.

I would suggest that one of the biggest issues that we have today—unfortunately, there are cases of it at GSA but it is also in other agencies—is a dramatic expansion of audit requirements. Now, I want to be very clear that no company doing business with the government, particularly companies that are working on other than fixed price contracts, can be surprised that they are going to be audited. The government has a right and a need to make sure that the cost submissions are correct and so forth. But the expansion of audit authority and frankly, the quality which has come down while the expansion has gone up, has been really dramatic.

One very, very quick example. When you were working on a GSA contracted—and Roger will correct me if I get the technical details wrong—when you go to renew your contract, the government has a right to see certain information to make sure your pricing is fair and reasonable and that the government is getting the best possible price. That does not mean the government has access—in fact, the rules specifically state they do not have access to your entire book. If you are a large commercial company, they cannot come in and review all of the corporate books.

Leaving small business aside for whom that can be an issue, I know two very large companies that have come very close to walking away from their GSA schedule contracts because their corporate boards have said we do not show our internal books to anybody. I mean, it is a commercial practice. So there has been an expansion and a growing intrusion by the audit community for return on information and quality that I think is very specious. So we are past the point of the value and benefit of oversight to added cost with very little value coming back in return.

Mr. TIPTON. I appreciate that.

And Mr. Hodgkins, I am about out of time but I was very curious. In your testimony, you had talked about a lot of businesses simply because of the complexity were just simply walking away. They would not even participate. Are there some recommendations? And I think Ms. Soloway just probably spoke to it a little bit—sorry, I am losing my voice—that, you know, some of the audit requirements and that. What can we do to make sure that we have got a better playing field and are getting people excited about having that opportunity to be able to create jobs?

Mr. HODGKINS. Well, I think between us here at the table we could probably come up with dozens and dozens of examples where there are challenges or divergences from the ordinary commercial business models that most of these companies operate under. One that many of our members have experienced over the last year and a half is dealing with end-user license agreements on software. And I think there was pretty uniform agreement in the legal community that the license agreements were adequately designed so that the government rights were protected and the things the government was asserting and asking for revisions under those agreements was already taken care of. But what many companies have had to do is go through a very lengthy and bureaucratic process with GSA and actually revise the commercial license that you accept when you buy an operating system or a game for your child. Those things have all had to be revised if those products are to remain on a GSA schedule. It has been a very costly exercise, and it is an example my community recently experienced where we had a significant divergence from the normal commercial practice that costs a lot of money for the government and the companies to make the products remain available.

Mr. TIPTON. Thank you. I yield back.

Chairman HANNA. Thank you.

So what we have here is kind of an exercise in the obvious; right? Price is definable, discernible. You can see it on a page. Everything after that there is an disincentive to provide a more complex, subjective, even though we would prefer value being the end result, not dollar signs because value is the ultimate goal, we have a system that reinforces what we would expect, and that is that nobody was ever punished for buying something at the cheapest possible price, but there is associated risk with using one's subjective or imaginative or experientially-based process in coming up with something different.

Do you agree that that is kind of fundamentally maybe what is going on here?

Mr. BURTON. Mr. Chairman, very much so. But I wanted to add one point, which I do not think has been covered, and I think it is a fundamental point and maybe something that would not readily be identifiable.

I think there is a benefit to having more than one strategic sourcing vehicle in the government for any particular commodity or service. There seems to be a trend right now to be going to a single vehicle and make it mandatory. I think that this will be a mistake for the government for a number of reasons, some that I have already addressed. But the point that has not been addressed is that there is actual benefit to competition among vehicles within the government. I mean, you do not want 500 of them, and the government does have a tendency to have too many of these consolidated procurements, but you do want more than one. And we found that the competition among agencies with respect to vehicles was very productive. It resulted in innovation, efficiencies, best practices to be shared among agencies. And so I would encourage the government to make sure they do not go to a mandatory, single procurement vehicle. And I think competition——

Chairman HANNA. Mr. Burton, you were involved in the government's initial strategic sourcing effort, and I understand that you were also involved in the 2003 effort to stop bundling. Can you talk a little bit about the tensions between strategic sourcing and bundling and how you think they might be resolved? Or was that part of your explanation?

Mr. BURTON. Very much. I mean, it is a highly related topic and we did try to address what we called unjustified bundling. There is a legal distinction between bundling and consolidated procurements. Bundling basically involves a determination that a certain commodity or service is simply unsuitable to be provided or performed by a small business. And so that is a high threshold to make that determination that something is simply unsuitable, that small businesses simply cannot perform or provide the commodity or service.

So, but consolidated and bundling procurements both require an analysis and justification of why you are pulling these requirements together in one procurement. And also, both require market research. We found that bundling is a very difficult topic to try to get your hands across. Basically, agencies have done a poor job in justifying bundled contracts, and what we were trying to get to, sir, back in that period of time was to make sure those justifications were done. Make sure that if you were going to do a bundling contract, which basically is saying small businesses cannot participate, what we are dealing with here with the strategic sourcing vehicles are consolidated procurements, not bundled procurements. And so there are set-asides for small businesses recognized that these services and commodities can be provided by small businesses, which is good, so that is very important. But the problem is just ensuring enough small business participation.

And it was a very difficult initiative. One of the things we did with the bundled initiative was try to ensure that if an agency did have a justification for a bundled procurement, and if they decided that small businesses could not participate, then there were some type of mitigation actions they took. For example, ensuring that prime contractors enforce their subcontracting plans which might involve some type of small business participation. And this is an area I think the government needs to focus on, is trying to enforce subcontracting plans by the prime contractors to ensure that small businesses, in fact, have some role to play.

Chairman HANNA. So along those lines, Mr. Waldron, the JanSan draft request for proposal states that the GSA is seeking to have FSSI winners become exclusive providers to the defense commissaries. So that must concern you. Does it concern you I guess is a more appropriate way to——

Mr. WALDRON. Yes, it does concern me. Again, as I indicated in my testimony, the idea of mandatory use, it restricts the ability of small businesses to compete. It closes the market and reduces the market to a limited number of contractors. And I also think it is not in the government's best interest. It creates risk for the government from this perspective.

Back in the dark ages when I was at GSA in the '90s, GSA schedules were a mandatory source, and ultimately, various agencies decided to use other than GSA contracts for court reporting, for example. And that was a breach of those contracts, and that is a breach of the agreement. They are putting it in this little station, you are going to be an exclusive source. Ultimately, the government ended up having to pay millions of dollars to various GSA schedule contractors for that breach. So again, mandatory use restricts competition. It creates risk for the government. I would much rather see real volume commitments for real requirements.

Chairman HANNA. Well, the ultimate outcome is to reduce competition by a single source or very low number of sources in the long run, which also in the long run raises prices. So it is safe to say then generally, and does anybody disagree with this, that within the context of everything we do we need to foster competition broadly, deeply, and with the idea of creating more businesses, not reducing them?

Mr. WALDRON. Well, that is the GSA schedules is a perfect example. It was mandatory, had maybe a couple thousand contractors in the early '90s, and $3 or $4 billion was going through the program. Today the program accounts for $50 billion in purchases on an annual basis and there is literally 20,000 companies who have contracts, both through the VA and through the GSA schedules competing every day for requirements, competing at the task order level. That makes your point. It is a competitive marketplace that grew when it was made non-mandatory and the process was streamlined and we went to commercial item contracting.

Chairman HANNA. Thank you.

Ranking Member Meng?

Thank you very much for your testimony today. If there are no further questions for this panel, I want to thank all the witnesses for their testimony and excuse the panel.

The second panel may now be seated. Thank you, gentlemen.

Thank you, gentlemen, for being here today.

Our next witness is Mr. Joseph G. Jordan. Mr. Jordan is the administrator at the Office of Federal Procurement Policy, which provides overall direction for government-wide procurement policies. Previously, Mr. Jordan served as the associate administrator of government contracting and business development at the SBA.

Mr. Jordan, you may begin. Thank you.

STATEMENTS OF JOSEPH G. JORDAN, ADMINISTRATOR, OFFICE OF FEDERAL PROCUREMENT POLICY; JEFF KOSES, DIRECTOR, OFFICE OF ACQUISITION OPERATIONS, FEDERAL ACQUISITION SERVICE, GENERAL SERVICES ADMINISTRATION.

STATEMENT OF JOSEPH G. JORDAN

Mr. JORDAN. Thank you. Chairman Hanna, Ranking Member Meng, and members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss initiatives the administration is taking to both save money and maximize small business participation of federal procurement.

These efforts are central to the government's ability to get the best value for the taxpayer. With approximately one out of every \$7 the government spends going to contractors, it is imperative that our acquisition processes enable us to get the highest quality goods and services for the lowest possible cost. Equally important, our processes must allow us to regularly tap into the creativity, innovation, and technical expertise that small businesses offer. The good news is that I believe both buying smarter initiatives, like strategic sourcing, and maximizing small business opportunities, play together to maximize value for the taxpayer.

Prior to becoming administrator for Federal Procurement Policy, as you said Mr. Chairman, I served as associate administrator for government contracting and business development at the Small Business Administration. In that role, I was charged with increasing small business federal contracting opportunities. I am proud of the progress that SBA made during my tenure to help agencies increase opportunities for small businesses as we drove the largest two-year increase against small business contracting goals in more than a decade. These efforts include partnering with Congress, including this Committee, on the historic Small Business Jobs Act.

Supporting small businesses is especially important during this critical time as agencies strive to meet mission needs with increasingly tight budgets. From fiscal year 2011 to fiscal year 2012, agencies reduced contract spending by more than \$20 billion, the largest single year dollar decrease in federal contract spending on record.

Over this same period, with strong leadership attention, agencies were able to increase the percentage of eligible contract dollars awarded to small businesses. My experience at SBA reinforced my belief that small business contracting is a win-win. These businesses get the revenue they need to create jobs and grow the economy, while the government gets access to some of the most innovative companies in our supply chain.

Our efforts to identify better buying practices that save money and increase opportunities for small business led us to place greater emphasis on strategic sourcing. Strategic sourcing, which the private sector has long recognized as a successful business practice, requires agencies to bring their spend under management.

Efforts to date illustrate the substantial savings that strategic sourcing offers. Government-wide strategic sourcing of items, such as office supplies and domestic shipping services, has achieved nearly $300 million in direct and indirect savings since fiscal year 2010. And agency-level strategic sourcing of goods like IT and medical equipment have saved hundreds of millions more. Equally important, these efforts demonstrate that agencies can increase their spending with small business and simultaneously reap the benefits of strategic sourcing.

We are not seeking to strategically source everything the government buys, nor will every strategic sourcing decision mean fewer participants. The goal is to maximize value for the taxpayer and that will take different forms depending on the commodity being purchased and the government's cost drivers in that space. Our government-wide strategic sourcing of office supplies is a compelling example. Thirteen of the 15 winning vendors are small businesses, including three service-disabled veteran-owned small businesses. According to GSA, total dollars going to small business increased from 67 percent prior to implementation of the strategic sourcing solution to almost 80 percent now.

Many small businesses expressed concern that strategic sourcing could harm their participation in the federal marketplace. However, the administration is working to ensure that competitive small businesses can engage in strategic sourcing, and I am confident that these businesses of whom there are many will not only hold their own but do even better, and those small businesses that are currently less competitive will have opportunities to get in the game in the future by taking steps to strengthen themselves.

There are several additional things that the administration is doing to increase opportunities for small businesses at the same time as we work to maximize the value of strategic sourcing. First, agencies are required to seek increased participation by small businesses when pursuing strategic sourcing. Last December, OMB issued a blueprint for improving acquisition through strategic sourcing, which specifically requires that all proposed strategic sourcing agreements must baseline small business use under current strategies and set goals to meet or exceed that baseline participation under the new strategic sourcing vehicles.

Secondly, government-wide strategic sourcing decisions will be made by a council that includes the Small Business Administration, so small businesses are ensured of a seat at the table.

Third, we are actively promoting the use of tools, such as those provided by the Small Business Jobs Act, to facilitate greater small business participation on contract vehicles that have been strategically sourced.

OFPP is committed to ensuring that agencies remain vigilant in their efforts to buy smarter and achieve best value for our taxpayers. OFPP is equally committed to ensuring that agencies provide maximum opportunities for small businesses in federal contracting and subcontracting, so that they may flourish and apply their talents to the many pressing demands facing our government. We must pursue these important goals in harmony, as we have been doing and will continue to do.

I would be pleased to address any questions you may have.

Chairman HANNA. Thank you, Mr. Jordan.

Our next witness is Mr. Jeff Koses. He is the director of acquisition operations, which manages a large portion of the schedule programs at the General Services Administration, and he is the business line leader for the multiple awards schedule.

Mr. Koses, you may begin.

STATEMENT OF JEFF KOSES

Mr. KOSES. Good morning, Chairman Hanna, Ranking Member Meng, members of the Subcommittee.

Thank you for the opportunity to discuss GSA's accomplishments under the Federal Strategic Sourcing Initiative, or FSSI, and our efforts to modernize the Multiple Award Schedules program. As America's buyer, GSA contracts with the private sector to provide commercial services and products that support federal agencies. We strive to acquire the best possible deal for the taxpayer and to increase small business opportunity.

For many years, strategic sourcing has been a best practice in the private sector. The Government Accountability Office has found in a series of audits that the federal government can save billions of dollars through the application of strategic sourcing principles.

A 2012 OMB memo on strategic sourcing, amongst other things, directed GSA to establish 10 new strategic sourcing solutions, five each in 2013 and 2014. GSA is working closely with OMB and the agencies making up the Strategic Sourcing Leadership Council, including the Small Business Administration. FSSI seeks to leverage the federal government's collective buying power in order to efficiently and effectively utilize taxpayer dollars and to increase dollars spent with small business.

There are four primary benefits associated with strategic sourcing: reduced costs per unit, decreased consumption, improved operating efficiency, and improved focus on socioeconomic goals. The office supplies, our OS2 solution, has served as a test case for this generation of federal strategic sourcing. OS2 has resulted in direct savings of $88.7 million on spending of $607.9 million through April 2013. This savings is calculated as the difference between what agencies spend through strategic sourcing and what they would have spent had they received the nonstrategic sourcing prices.

OS2 provides greater pricing transparency. OS2 contractors report transactional data on all program sales. This information provides us insight into agency spending behavior. GSA has used this data to show their contractors pricing item by item. After GSA shared this data, every one of the OS2 contractors sharply reduced their prices, a potential savings of over $12 million annually beginning this month.

Key successes of the OS2 program include an increase from 67 percent to the high 70s percent of dollars spent with small business; a decrease from more than 250 percent to 10 percent price variability; a reduction in contract duplication and administrative costs.

GSA is working towards establishing strategic sourcing solutions for fiscal year 2013 in the areas of wireless rate plans and devices awarded last month; last desktop publisher software; print management phase 2; maintenance, repair, and operations supplies; janitorial and sanitation supplies.

When we research a potential solution, small business impact is foundational. Acting Administrator Tangherlini has made clear expanded opportunity for small business is a crucial strategic sourcing success metric. It is one that we monitored closely.

For both the janitorial-sanitation supplies and the maintenance, repair, and operations supplies, we are setting aside the majority of awards for small business, and we broke the categories down in ways that maximize small business opportunities.

GSA believes the Multiple Awards Schedules program represents the best opportunity for well prepared, highly competitive small businesses in government procurement. Small businesses represent about 80 percent of all schedule vendors, and about 34 percent of the dollars go to small business. More importantly, most agencies have a higher percentage of spending with small business when they use schedules.

Still, we believe there is substantial room for improvement in the schedules program. Over the last year, we have worked diligently with both small business and federal agencies, asking for input on how the schedules program can better meet their needs. We received, and are working to implement, many of the important suggestions we have heard. Similarly, we are eager to hear your input as we work to achieve taxpayer savings and grow small business success.

One area of such success is our training in the discretionary set-aside rule, a result of Section 1331 of the Small Business Jobs Act of 2010.

To date, we have trained more than 9,700 members of the acquisition workforce on properties of schedules and utilization of small business. Since last April, we have seen nearly 16,000 requests for quotes or 19 percent set-asides for small business through GSA's e-Buy system. For the month of April, this increased to 22-1/2 percent, great progress as the buying season kicks into a high.

As we look to the future, GSA will continue to focus on strategic sourcing, modernizing the schedules program, improving our pricing and tools, collecting the information and data that will help save taxpayer dollars. GSA will continue being a leader in opening dialogue with industry and our program will remain a doorway to opportunity for highly competitive small businesses.

On behalf of GSA, thank you for this opportunity to appear before the Committee, and I would be happy to answer your questions.

Chairman HANNA. Well, you gentlemen sat here through the previous panel. It sounds like something that should be more of a debate than a panel discussion because clearly there is a large difference of opinion between what you believe you are producing and the direction you are going in, the direction that the previous panel feels you are going.

I have a transcript from a recent JanSan MRO Industry Day at which you had employees representing your office. I would like to ask you whether their statements accurately reflect the position of your office to be fair.

First, staff suggested that the JanSan and MRO contracts would become mandatory sources for the winners of future service contracts. I am concerned that such an approach would decimate the subcontracting market, as well as the prime contracting market. Do you support the making of JanSan and MRO contracts mandatory for other federal agencies—and federal contractors, rather? Further, OFPP staff suggested that anyone who did not develop a JanSan or MRO contract could simply sell off something else to the government, which I find particularly strange and troubling. I am hoping that you understand the challenges these industries are involved in, and this is not making it any easier for them. Perhaps either of you would like to comment on that. Maybe Mr. Jordan first.

Mr. JORDAN. Sure, Mr. Chairman.

In terms of the comments themselves, it is difficult for me to, without context, react to them one by one. What I will say is in terms of I think what you are getting at is concerns around potential mandating of vehicles, whether it is JanSan or any of the future vehicles that are strategically sourced.

OMB guidance, which we put out last December, does clearly say the vehicles that agencies create and that the Strategic Sourcing Leadership Council approves should be mandated when appropriate. And I think that is important. I think that not speaking to JanSan specifically, because I think there are still steps to go, and Jeff can talk about where GSA is in the leadership of that particular commodity category, but overall, strategic sourcing in certain categories—it is different in every category what is going to be the cost driver, the savings driver, like I said, but in certain categories, it is about ensuring that the government buys not as 30 midsize businesses and gets pricing accordingly, but buys what we are—the largest purchaser of goods and services in the world. And so in those commodities, where you can really leverage our scale, you can drive significant taxpayer savings by getting volume-based discounts. We want to do that. And you only do that if you put in all that time and give the winners the spend that they agree to.

Now, there are a number of ways to do that. There is tiered pricing, as opposed to some of the guarantees you talked about. There is just overall good commodity management and principles, but I do think that in certain categories, in order to maximize the value of these vehicles, it is appropriate to mandate their use.

Chairman HANNA. For example?

Mr. JORDAN. I think without getting into any specific money because we have not gotten to the maturity level. I mean, this effort is in a crawl-walk-run——

Chairman HANNA. But it is a subjective process by definition, I think. Maybe not. Certainly a lot of it is. Who decides and how do you decide what is appropriate or is not appropriate? And that process?

Mr. JORDAN. Sure. I think there are two things. One, as I mentioned in my testimony, a significant piece of strategic sourcing is done at the agency level where currently you have various components or offices within the same agency with different contracts with the exact same vendor for the exact same products that wildly vary in pricing, sometimes different terms and conditions. And if that agency stands up an agency-wide and enterprise-wide agreement, they would expect that their various components use that as opposed to create duplicative and potentially less optimal agreements and put their spend through that.

Secondly, on who makes the decision on these government-wide vehicles, it is their Strategic Sourcing Leadership Council, which is comprised of the seven largest spending agencies who collectively spend about 92 percent of our——

Chairman HANNA. What is your role on that leadership council? Will OFPP have to approve any FSSI initiatives? Has your office approved OASIS or OASIS, OSB, JanSan, and MRO?

Mr. JORDAN. Okay. Let me see if I got them all.

Chairman HANNA. A few acronyms, I know.

Mr. JORDAN. Yeah. I'm with that. Let me go in order.

Chairman HANNA. Okay.

Mr. JORDAN. I tried to mentally capture all that.

What is my role? I am the chairman of the Strategic Sourcing Leadership Council.

Will OFPP approve the vehicles that are submitted? Yes. And there is a three stage process with key decision points at each stage. First is we say—somebody on the council will say, or maybe an outside member—we will identify potential opportunity. We think there is an opportunity for strategic sourcing in commodity area or service area X. And we will say, yes. You have presented enough data to show there may be an opportunity. We form a commodity team comprised of the Strategic Sourcing Leadership Council members, as well as non-SSLC agencies that have considerable spend. Again, SBA is a formal member of the SSLC and participates in all this. The commodity team then does an analysis and says we think that there is a particular solution. It may be a new contract. It may be driving more utilization through a current or set of current vehicles, or it may simply be standardizing terms and conditions. And we would say, yes, that sounds like the right agreement. The SSLC would make that decision. Then they would then, if it is a new contract, which is I think where your question was going, they would engage with the vendor and that is where it is important that the vendors are bidding based on some understanding of what volume they are actually going to get.

That is where it differs from the GSA schedule that you heard a lot about. The prices on the GSA schedule are simply ceiling prices or list prices. You would never walk on the dealer's lot and say, yep, I will take that car for what it says in the window. You would negotiate. Well, we want to try to have some of that prenegotiation, based on not you buying one car but us buying a fleet. And so that is where you would do that precommitment.

Chairman HANNA. But you understand the concerns of the previous panel; if you continue to buy your fleet from that group, eventually you will run out of the opportunity to enjoy competition from other groups because you will have effectively, because you control so much of the marketplace, eliminated the opportunity to have competition some time down the line.

Mr. JORDAN. Yes. Very fair point.

Chairman HANNA. So, I mean, you generally agree with the previous panel in terms of their concerns in the long run?

Mr. JORDAN. I believe the first—one of the panelists said it best where strategic sourcing is absolutely a good thing, and as I believe your statement said, or but as your statement said, it is a tool. If it is used well, it is a good thing. If it is used not well, it will not be a good thing. And so it is important in any of these categories to understand the market dynamics and do exactly what you say. What is the right set of vendors to have on a vehicle? Then, what is the right period for that contract to cover such that anybody who was unsuccessful at the beginning, especially small businesses, have a chance to recompete and get back on, but we give enough volume to the winners that it justifies the low price.

Chairman HANNA. Do you believe that the people in purchasing and acquisition have the latitude to be comfortable to understand the dynamic differences between value and purchase price—value meaning total——

Mr. JORDAN. Sure.

Chairman HANNA.—of everything including purchase price? And how do they enjoy that latitude? How do you reinforce that, if you do?

Mr. JORDAN. Yes. I believe that the Federal Acquisition Regulation, the FAR, gives them the right latitude to choose whichever method is appropriate in a particular procurement, be it low price technically acceptable or best value. I think that, like with everything, it is important to do training around, you know, understanding how to make that decision.

Chairman HANNA. We have heard there is a lack of training or lack of understanding about what that means.

Mr. JORDAN. Well, we always want to increase both the quality and the ineffectiveness of our training, and we work very hard with the Defense Acquisition University and the Federal Acquisition Institute to do that. One of the important points of strategic sourcing is, again, having an enterprise view of a commodity category so that we do not force numerous contracting officers to engage in a one-off contract, creating potentially duplicative and different terms and conditions in their contracts.

Chairman HANNA. Thank you.

Ranking Member Meng.

Ms. MENG. Thank you to our witnesses for being here.

I have a question for Mr. Jordan.

The plan for the new OASIS contract divides the requirements into two different contracts—one for large businesses with subcontracting goals and another exclusively for small businesses. However, this vehicle appears to be another attempt to disguise contract bundling as the structure prevents small businesses from competing for half of the contract, which is valued at $10 billion. Why or how can OFPP step in to ensure that small businesses have greater access to this contract?

Mr. JORDAN. Well, I will let Jeff speak to OASIS. It is not one of the SSLC covered vehicles at this point, so I do not have perfect insight into how it is being created or those types of things. I can speak to your question about how is OFPP looking to ensure that we do not have bundling. We incorporate the right strategic sourcing principles.

Bundling, as was said in the previous panel, is pretty clearly defined as taking two or more contracts that have been or could be performed by small businesses and putting them together into a contract that is no longer suitable for small business performance. As we have seen in all of the vehicles we have done thus far, that is just not true. Office supplies, if it were bundled, would mean no small business participation. Instead, we saw small business participation go up from about two-thirds to over three-quarters.

Wireless is a good example of where all of the vendors originally before strategic sourcing were large businesses. We were able to carve out the wireless telecommunication expense management services, a piece of that business where small businesses could handle it, and we elevated them to have a prime level on that. So we would like to apply those same sources across the board.

In any vehicle, or in many vehicles I guess I should say, there is likely a whole bunch of the requirements that small businesses can do, and there are potentially some that they cannot. And so it is okay to have a mix of small and large businesses in the supplier pool in any of these categories as long as when two or more of the small businesses can do it. We are using that, and that is where the Section 1331 set-aside that Congress gave us that authority has been very helpful, and we will continue to push that. It is where the small business goals and SBA's Dashboard and Goaling Scorecard is very helpful. And obviously, given my background at SBA and now my CO of OFPP, I care personally and we care as an office passionately about ensuring that we can both save money and increase the small business utilization.

Ms. MENG. Thank you.

Mr. Koses, under GSA's proposed JanSan and MRO vehicles, 15 vendors will receive BPAs. While the majority of these have been set aside for small businesses, the number does not begin to include the thousands of businesses that currently contract with the federal government in those industries. While GSA has indicated that more businesses might be on-ramped to the JanSan, there has been no firm commitment by GSA as to when that will, and if it will occur. So can you definitely state whether or not more businesses will be added to the contract and when in the duration of that contract will it occur?

Mr. KOSES. Absolutely. And may I take the OASIS question first and then also answer the JanSan question?

In terms of OASIS, we have put tremendous effort and focus on the key point that Mr. Burton raised earlier—that of a robust market research industry engagement strategy. Key to us has been ensuring that we remove geographic barriers and have a very broad outreach. We have used an Internet-based platform, GSA Interact, featuring weekly blogs from the program manner, featuring several opportunities for one-on-one meetings between industry and government leaders, and two different rounds of white papers, trying to ensure that we have actively listened to small business. Not just GSA, but the agencies working with us to create the vehicle.

And so with well over 100 one-on-one meetings with industry, we have specifically talked the question—what is the best small business strategy? We had that conversation with SBA as well, and overwhelmingly, that message was we want to see two different vehicles—one set aside for small business, one not. We want to see a crossover feature because part of what we are after is wildly successful small businesses under OASIS, and if some of them outgrow the size standard, they now will have the ability to crossover to the OASIS prime vehicle.

We have tried to use that same type of engagement strategy through our FSSI efforts as well. Again, we have used GSA Interact to create Internet-based chatrooms to discuss, to define, to pursue the goals. We have had our program managers doing weekly checks, trying to bring industry to the table and hear and identify these small business issues and trying to ensure that the different federal agencies have been side by side with GSA listening to those industry messages.

In both of those cases, we have posted a draft request or draft solicitation. The purpose of the draft is to get comment, to get feedback, because we do not pose that we know all the answers. We are pointing out the best information that we have had and we are asking for validation, for correction, for suggested improvements. We heard definite suggestions for improvement in OASIS. We heard definite suggestions for improvement in JanSan and MRO. We did hear messages that 15 was the wrong number of vendors, and we have had that conversation with the commodity team. When we post the revised solicitation this summer, the number will be marginally higher than 15. We are still finalizing, but we have gotten the sense that we did not define the group and the breakdowns exactly correctly. We do not have the exact number of vendors, but we are in the general neighborhood.

Ms. MENG. In general, for either witness, how do you perceive the balance between the goal of saving the federal government money and the desire to contract with small businesses? I believe that it is essential that GSA work with small businesses and reach the 27 percent goal, but I also understand in the short term the cost of these contracts can seem higher. How can we ensure that we are striking the right balance?

Mr. JORDAN. From an overall perspective, I think that the goals of saving the taxpayer money and increasing our utilization of small business are absolutely mutually reinforcing. I have seen it over and over again that you can absolutely use small business and save money. It means buying smarter, standardizing terms and conditions, taking administrative costs out of the system. You mentioned earlier, Congressman, that when small businesses bid, they have those bid and proposal costs. If we can take some of that out of the system by not making them compete for all these duplicative vehicles, it can be helpful.

We have seen it in office supplies. We have seen it in wireless. We have seen it in the market research we are doing on additional categories, so that is why I am a fervent believer that we can both save the taxpayers considerable amounts of money and increase our utilization of small businesses. Like I said, there will be, when you do this type of effort, there will be winners and losers. We need to ensure that those decisions are made in a transparent way, in a fair way, based on quantitative metrics that everybody understands.

And then for the folks who are unsuccessful, not just leave them alone; engage them in additional training, create the right onramps and off-ramps for the vehicles that have been set up; use all the tools at our disposal to make those small businesses that were unsuccessful even more competitive next time. And that is how you reinvigorate the system overall.

Mr. KOSES. In addition, we talked a little bit about the market research component. One of the core questions that we keep asking industry is what is it that the governments do that is adding cost to the process? How are we buying that is more expensive for you, and how do we start changing? And that leads to some very good conversations with the commodity team as we wrestle with what can we change and try and fine tune and address some of our longstanding requirements. In our office supplies example, we recognize two big cost drivers that harmed small business were on overnight delivery time and a very low minimum order. Both of those were things we changed coming out of those conversations.

In our print management solution, much like wireless, we were looking at an industry that had been dominated by large business, and we saw where small business could start playing a really critical role and help us save money in the process. We built a solution that we called a fleet assessment. It was all about trying to go in and get a handle on what solutions actually are there? What is the agency inventory? How much are we printing today? You know, the biggest cost in printing is actually making that decision to hit the print button and run the pages through the machine.

Well, we have learned through our industry engagement that we buy way too much. We buy too many machines, too much gold plating. And by creating that role for small business to do the fleet assessment, to help us figure out what is our inventory, what is our print behavior today, we are setting the stage by using small business for savings over time.

Ms. MENG. Thank you. I yield back.

Chairman HANNA. Thank you.

This is somewhat of a declarative statement but feel free to answer it. If JanSan becomes mandatory, the 500-plus companies who did not win BPAs awards will not be able to maintain their contracts. They will not be able to make the required $25,000 minimum sales each year. So I ask, what happens to these companies if that is the case? And what do you plan to do about it? If you want to say something, fine. That would be great.

Mr. KOSES. In our office supplies example, we have had sales under the schedule program that average about $700 million a year over the last three years. Collectively, in that time period, sales through our FSSI have been about 30 percent of that total. We have not seen the entire market move over to the strategic sourcing solution. We, frankly, would like to see a lot more of it move over.

Chairman HANNA. And it is not even—office supplies, as you know, are not mandatory now.

Mr. KOSES. Correct.

Chairman HANNA. Okay. Thank you.

So you recognize there is a problem with that minimum and that you may become your own worst enemy by effectively eliminating people from the marketplace that we want to thrive.

Mr. KOSES. I fully understand the concern, Congressman. We do not believe that this will ever be a 100 percent solution. In talking to agencies, we are talking about the core areas where we are targeting, and we would like to see most of the spend able to concentrate through that vehicle. But if we start saying every situation, no exceptions, no waivers, everything goes through this beyond the payout, we are going to create a program that does not make sense.

Chairman HANNA. So what solutions are you working towards then?

Mr. KOSES. We are working to define the core items that the government buys the most frequently or that are the most critical for our operations. To start that with several thousand core items, between the market basket and extended catalogue, to define what is the appropriate delivery time and ordering level. But recognize, there are going to be exceptions. There are going to be the agencies that need something immediately that require the overnight delivery, that require a low purchase or some other exception, and they still will have the schedule to choose from.

Chairman HANNA. For the OASIS and OASIS OSB contracts, I understand that GSA is not allowing new small businesses' teams to compete. As you know, the 2010 Job Act amended the Small Business Act to require that any solicitation for multiple award contracts above $2 million solicit offers from small business concerns and teams or joint ventures.

Now, I have seen the e-mail that you sent our staff on that issue. However, I am having trouble understanding why when the law is explicit that GSA feels its contracting strategy is more important than the law. Could you please explain that rational and how you intend to address it? Mr. Koses.

Mr. KOSES. Absolutely, Mr. Chairman.

We believe that OASIS is being designed with the needs, with the interests of small business and small business opportunity in mind. We have tried to develop a very clear, a very straight forward concept and evaluation methodology. We believe central is OASIS is about integration of professional services, so the contractors who will be successful will need to demonstrate that they have been able to integrate professional services, that they know how to do it, that they have the relationships. Not that they have to have them in place today, but they know how to set them up. The know how to make them happen. We are very confident that there will be a lot of teaming under OASIS. We are just saying you do not have to have your team created today; you have to show us you know how to create a team and that you have done so successfully.

Chairman HANNA. How do they go about that if they are not already in the process? I mean, how do you encourage new businesses to engage in that? Or do you?

Mr. KOSES. When we are talking about professional, highly technical, integrated services that cross numerous disciplines, we think it is important that you be able to show us past success at having done so; that you have successfully integrated smaller projects; that you have successfully performed similar types of work. It will be very difficult for this to be a first government contract, but it will be a tremendous opportunity for small businesses to come in the door as team members or subcontractors to the prime contract holders.

Chairman HANNA. Of course, our interpretation would be that the law says otherwise. You understand that?

Mr. KOSES. Chairman, we are confident that we are reading the law appropriately, but we look forward to continuing to work with your staff as we continue the market research.

Chairman HANNA. Thank you. Thank you both very much.

Any further questions?

I guess we have sat here and we have heard—this has been, I think, a productive two and three quarter hours or one and three quarter hours. Generally, I take that we are all here in earnest and that we want to produce the best value for the government, and that is in and of its nature a difficult thing to do because it is subjective. But to the extent that the goal of this Committee is to broaden opportunity across a wide variety of disciplines, companies, et cetera, I think it is safe to say that we can agree that the elimination over time of competition through whatever means is not a goal that any of us share. So you have heard what the previous panel members said. I just ask that you commit to analyzing the long-term consequences of strategic sourcing and how it affects competition and small businesses and all that that entails. I will leave you with that.

Thank you very much for your time today. If there are no further questions for the witnesses, I want to thank our witnesses for being here today and state that this is an issue the Subcommittee will be continuing to monitor carefully. We owe it to the taxpayers to make sure we maintain a viable small business industrial base so that we can protect competition and innovation in federal contracting. I want to make sure that the strategic source contracts being proposed capitalize on all that small businesses have to offer in order to achieve long-term savings, rather than focusing on short-term gains and savings over long-term growth and savings.

I ask unanimous consent that members have five legislative days to submit statements and supporting materials for the record. Without objection, so ordered. Thank you all.

[Whereupon, at 11:46 a.m., the Subcommittee was adjourned.]

APPENDIX

PROFESSIONAL SERVICES COUNCIL
The Voice of the
Government Services Industry

STATEMENT OF
STAN SOLOWAY
PRESIDENT & CEO
PROFESSIONAL SERVICES COUNCIL

"Putting the Strategy in Sourcing: Challenges and Opportunities for Small Business Contractors"

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

June 13, 2013

4401 Wilson Boulevard, Suite 1110, Arlington, Virginia 22203 P: 703-875-8059 F: 703-875-8922 www.pscouncil.org

Chairman Hanna, Ranking Member Meng and members of the subcommittee, thank you for conducting today's hearing and for the invitation to share the Professional Services Council's (PSC) views about the potential impacts on small businesses of the federal government's strategic sourcing efforts. This is a matter of significant interest to PSC given both the unique diversity of our membership base and the equally unique diversity of the services our members provide to the federal government.

Introduction

PSC is the nation's largest association of companies providing services of all kinds to the federal government. Our membership of nearly 360 companies is comprised of firms of all sizes, including approximately 25 percent that are classified as small businesses in their fields, and an additional 25–30 percent that would be classified as smaller mid-tier firms—those companies that occupy the exceptionally challenging portion of the market in which they are no longer eligible for treatment as a small business and must now compete in the unrestricted federal procurement market.

It is this diversity of functions and sizes that provides the lens through which we view strategic sourcing initiatives. In all of our work, our goal is to provide input and insights to both the legislative and executive branches on a wide array of business policies and how they will impact all, or portions of, the federal services sector. Since services now accounts for almost 56 percent of the contract spending at the Defense Department and closer to 75 percent in the civilian agencies, it is essential that the government fully understand and assess the ways its actions and policies will affect the marketplace of firms that are so critical to the government's operations. Indeed, 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. It is with those objectives in mind that we approach federal procurement policy issues like strategic sourcing.

Proper Use of Strategic Sourcing

We strongly support the premise that the government should be using strategic sourcing, in the truest meaning of the term which encompasses a universe much larger than the Federal Strategic Sourcing Initiative (FSSI), for the vast majority of its procurements. If structured properly FSSI has the potential to deliver real benefits for federal agencies and taxpayers alike. As such, we commend the Office of Federal Procurement Policy for making strategic sourcing a priority and we support how many agencies have properly applied these techniques to specific sourcing opportunities. Yet, while we fully support the FSSI's intended objectives, we have significant concerns about its practical effects. Those concerns relate more to the way in which the term is used and understood and how the initiatives are implemented across the government than to the concept itself.

Strategic sourcing is not one "thing." It is a set of multi-layered, flexible procurement strategies that evolve and change depending on the nature and complexity of what is being bought. For pure commodities, strategic sourcing can be fairly simple and straightforward; for more complex needs, particularly higher-end services, the challenges and complexities grow substantially. For products, where place of performance or production is irrelevant, there are often plenty of options for small business utilization; for services, where place of performance is very relevant, the need to deliver services over geographic regions as one way of reducing overall costs poses a number of challenges to balancing the efficiencies of strategic sourcing with the goal of appropriate reliance on small businesses. In some cases, when basic quality may be adequate, price becomes the principal driver; in other cases, quality is of greater importance, and is as important, or more important, than price.

What Are the Objectives of Strategic Sourcing?

We must first come to a common agreement on the ultimate objectives driving strategic sourcing in the federal market. If the objective is solely and specifically to optimize government operations, that will drive one set of responses. If, however, the objective is to optimize government operations without impacting current socioeconomic or other acquisition policy goals, then additional considerations must be taken into account. These questions are more than rhetorical and both can lead to perfectly rational, yet different conclusions. They go to the heart of today's hearing and to the heart of a number of other elements of federal acquisition policy and practice.

For example, is it better to have fewer small businesses receiving a higher volume of work from the government or a larger number of small businesses with a smaller share of the volume? After all, if the government were to optimize its use of strategic sourcing, as the term is understood and applied throughout the commercial world, the former is the more likely outcome, as we have already seen with the federal strategic sourcing of commodities such as office supplies.

The same questions are raised when it comes to the government's objective of conducting full and open competitions for its procurements. Under the GSA Schedules, for example, there is a broad array of suppliers that can be easily accessed by any government customer. Almost by definition, strategic sourcing will reduce the number of those suppliers. In the commercial world, that is the norm. As the Government Accountability Office (GAO) noted in its April report on the use of strategic sourcing in the commercial sector, companies often carefully conduct market research on industry capabilities, select one or two suppliers and stick with them, and manage them aggressively for many years.[1] But in the government environment, constant competition is a central tenet of the procurement process and expanding the breadth of firms capable of competing for federal work is a continuous goal.

[1] "Strategic Sourcing: Leading Commercial Practices Can Help Federal Agencies Increase Savings When Acquiring Services;" GAO–13–417, 04/15/13. Available at: http://www.gao.gov/products/GAO-13-417

Any evaluation of strategic sourcing must also take into account the impact on the industrial base, since limiting private sector participation in federal procurements has the potential to erode portions of the federal industrial base. When only a few companies are awarded contracts under a strategic sourcing initiative and dozens, if not hundreds, of companies are excluded from regularly competing for opportunities, how will the depth and breadth of the supplier base be affected? This dynamic is generally of less concern when the sourcing is of commodities since, by definition, they tend to be more widely available and the barriers to market entry are modest. But it becomes far more pronounced when the services being procured through strategic sourcing 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.

These dynamics are important considerations. The objectives of the federal strategic sourcing initiative, and the level of support for retaining it in its current form or expanding it to additional commodities and services, will hinge on policymakers' ability to agree on the objectives of the initiative and the policy trade-offs that are willing to be made.

The Key Question

This statement provides our perspective on these concerns and seeks to establish a framework for the ongoing debate around the key question of today's hearing: will strategic sourcing harm small business?

In the end, the answer to that question comes back to the desired outcomes of the initiative and how we measure success. Today there is no consensus on the answer to this question, either in Congress or across the agencies. For some, the most important goal is to reduce government costs and increase quality only. For others, the goal is to reduce government costs and increase quality while doing no harm and engendering no changes to the current marketplace. Still others believe that, while efficiency is important, the government's first and foremost priority must be to protect its vital role in fostering small and small disadvantaged, veteran, woman-owned, or HUBZone businesses.

Each of these perspectives is valid. But the differences they reflect clearly underpin this hearing and other debate and discussion about strategic sourcing generally and the more focused FSSI specifically.

Thus, if I could define one desired outcome from this hearing, it would be to find a clear consensus on this key question so as to determine the future of strategic sourcing.

Will Strategic Harm Small Business? It Depends.

It is impossible to say for certain whether federal strategic sourcing does, or does not, present a threat to the overall small business community. Clearly where companies sit in the marketplace drives their view of that question. But as the government moves away from the low hanging fruit of strategically sourcing commodity products and toward strategic sourcing of services, the evaluation of the risk to small businesses ultimately depends on the depth and sophistication of the government's understanding of strategic sourcing itself.

In other words, strategic sourcing, in the truest sense of the word, incorporates the full spectrum of procurement techniques outlined in the Federal Acquisition Regulation (FAR)—from lowest price, technically acceptable (LPTA) to full cost-technical tradeoffs, also known as "best value," and strategic sourcing's manifestations vary across that spectrum. This fact appears to be relatively well understood at the most senior levels of government and within the Strategic Sourcing Leadership Council (SSLC). But on the front lines, where the initiatives are actually implemented, that level of awareness and understanding is not overtly evident.

To many people across government, strategic sourcing is immediately translated into bulk buying to gain economies of purchasing scale—a far too simplistic interpretation of "real" strategic sourcing. Nonetheless, this perception is consistent with the disturbing and overwhelming trend we are witnessing in virtually every agency toward lowest price, minimally technically acceptable contract awards, even for complex requirements. Unless and until that limited knowledge and understanding is substantially reversed and acquisition workforce skills are meaningfully enhanced, the effectiveness of what could otherwise be a very smart and thoughtful initiative could well be sharply limited and its impacts, including but not limited to small business, could be negative.

This point also came through clearly in the GAO report on the use of strategic sourcing in the commercial marketplace. GAO reported that strategic sourcing is increasingly being used across the commercial sector for everything from basic commodities to sophisticated and complex services. But as GAO also pointed out, the consideration that go into how strategic sourcing is implemented vary according to levels of complexity, risk and total cost. Similarly, GAO reported that, in the commercial sector, quality is often the most critical consideration, since the level of quality of a product or service can make or break a company. While that same philosophy is a fundamental underpinning of the FAR, recent surveys, including PSC's 2012 Biennial Acquisition Policy Survey,[2] have made clear that, across government, there is a growing default to lowest price awards in which quality is only a minor consideration. Likewise, grave concern exists among acquisition leaders and professionals about their workforce's current capabilities to do effective market research or conduct effective negotiations, two skills that are central to the development and implementation of an effective federal strategic sourcing effort.

GAO also identified another crucial differentiator between the way strategic sourcing is implemented in the commercial world and

[2] "The Balancing Act: Acquisition in an Unabated Crisis;" The 2012 PSC Acquisition Policy Survey, December 2012. Available at: http://www.pscouncil.org/i/p/Procurement_Survey/c/p/ProcurementPolicySurvey/Procurement_Policy_S.aspx?hkey=835b11ac-0fe7-4d23-a0e0-b98529210f7e

the way the federal government often operates—the way each defines "cost." In the commercial world, cost is generally defined as the total enterprise-wide, life-cycle impact of the act. For example, when a company like Wal-Mart makes decisions as to whether to invest in a new logistics information system, their focus is not only on how much it will cost to build and operate that system, but also includes careful analyses of how that new system will impact productivity and efficiency elsewhere in the company, from asset visibility to stocking shelves in stores. Admittedly, that type of analysis can be very complicated but it is essential to understanding the full impact on their organization before implementing a strategic sourcing approach.

Too often in the government, however, "cost" is defined solely as the cost of the product or service being acquired, and is not viewed through that broader, more relevant, prism. Moreover, the very manner in which agency budgets are built can frequently inhibit the consideration of total cost. For example, when the Defense Department was beginning its effort to insource some work being performed by contractors, initial cost analyses only looked at the cost to the DoD component's budget, not the cost to the overall defense or federal budgets. In today's fiscal environment, with sequestration in place and even short-term budget clarity elusive, we see a wide range of cases in which immediate, highly localized cost reductions are being implemented even though they are likely to result in higher long-term agency-wide costs.

Another example is the OASIS procurement at GSA. One of the concerns that it has raised is that it is overly focused on driving down the unit cost of complex professional services and less so on overall value, quality and performance improvements. Indeed, some GSA officials stated repeatedly in public forums that the principal goal of OASIS is to drive down the labor hour costs of companies that provide complex, high-end, professional services. While reductions in hourly labor rates may or may not be justified in some areas, little was said about how OASIS would both drive efficiency and improve the quality of service. In both cases, small businesses were or would be disproportionately impacted by shortsighted efforts to drive down costs, as they typically have less ability to endure decreased margins driven by artificial price pressures than do larger firms—particularly for firms operating solely in the federal space.

To GSA's credit, their extensive and continuous outreach to the private sector has been exceptional and it appears that they have taken to heart many of the comments that have been offered. Even while we await GSA's publication of the final OASIS solicitation and their explanation of how they reconciled competing policy interests, concern still exists as to how the competition and the implementation of the awards, which GSA has identified as part of FSSI, will play out.

The Road Forward

As I noted at the outset, PSC recognizes the potential benefits of the FSSI. We strongly support the initiative and applaud the creation of the Strategic Sourcing Leadership Council and the OMB memorandum that guides their work. However, we do have concerns that too rapidly expanding the FSSI can, and likely will, have deleterious impacts on both government and its supplier base, prominently including small business. Done right, strategic sourcing can be a win-win; done wrong, it is more likely to be a lose-lose.

Thus, we would make the following recommendations as the initiative moves forward:

1) Ensure the alignment of policy and programmatic objectives. There is little doubt about the effectiveness of recent strategic sourcing efforts for wireless services, laptops, and office supplies. But the question of whether the balance between the number of small business providers and the total dollars expended with small business is aligned with both the administration's and Congress's small business agendas is unclear. That alignment is essential to the effective and efficient expansion of strategic sourcing.

2) Develop and deploy the requisite training tools to the workforce without delay and require that all acquisition personnel involved in any specific strategic sourcing effort for other than the most basic commodities first complete the training.

3) Be highly judicious in the use of strategic sourcing for services, particularly for complex services. Moreover, require senior level (even up to the SSLC) review of significant strategic sourcing efforts for services to ensure the strategies being employed are clearly articulated and are not overly focused on simply forcing down labor rates at the expense of overall quality.

4) Pursue a flexible, rather than overly prescriptive, FSSI. Allow individual agencies some degree of flexibility to pursue their own, agency-unique, strategic sourcing initiatives and develop performance measures for both agency-specific and government wide initiatives that generate visibility into overall efficiencies, performance outcomes, small business impacts and other factors that will meaningfully inform the future shape, expansion and/or limitations of the FSSI.

Conclusion

Mr. Chairman, members of the committee, this hearing offers an important opportunity to discuss and explore a rapidly expanding government-wide initiative. The Office of Federal Procurement Policy, the SSLC, GSA and others are to be congratulated for their relentless efforts to ensure that federal agencies buy smart and buy well. That challenges to their work remain should come as no surprise. PSC is fully committed to working with them, and with you, to find the right balance and the best path forward for the government and the taxpayer in finding a clear consensus on the objective of the Federal Strategic Sourcing Initiative; that consensus will then, in large part, drive and govern the future of the government's appropriate use of strategic sourcing.

I look forward to answering any questions you may have.

VENABLE® LLP

STATEMENT OF ROBERT A. BURTON

PARTNER, VENABLE LLP

BEFORE THE

COMMITTEE ON SMALL BUSINESS

SMALL BUSINESS SUBCOMMITTEE ON CONTRACTING AND WORKFORCE

UNITED STATES HOUSE OF REPRESENTATIVES

JUNE 13, 2013

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Chairman Hanna, Ranking Member Meng, and members of the Subcommittee, my name is Robert Burton, and I am a partner at the Venable law firm in Washington, DC, where I have represented government contractors since 2008, including many small businesses. Previously, I served as the Deputy Administrator of the Office of Federal Procurement Policy ("OFPP"). In that capacity, I was responsible for the federal government's acquisition policy and procurement guidance to all Executive Branch agencies including preparing the Administration's policy position and testimony on proposed acquisition legislation; working with House and Senate committees on the development of acquisition reform proposals; and serving as a principal spokesperson for government-wide acquisition initiatives. Thank you for the opportunity to testify today to discuss the effects of strategic sourcing initiatives on small businesses.

My testimony will address how strategic sourcing initiatives, particularly the Office of Management and Budget's ("OMB") recent memorandum contemplating the mandatory use of strategically sourced contracts will impact small businesses. Specifically, the existing strategically sourced contracts, although well-intentioned, demonstrate that the application of strategic sourcing has, in some instances, negatively impacted small businesses. I also will discuss how the proposed strategic sourcing initiatives for FY13 and FY14 continue to negatively impact small businesses in the same manner as their existing counterparts, but in some ways, are actually more problematic. During the course of discussing the aforementioned points, I also will highlight that while the use of strategic sourcing has provided the government with short-term savings, the impact of strategic sourcing on small businesses could have long-term consequences that negate the short-term savings, and perhaps, generate significant losses for the government. But first, I would like to provide a brief history of the government's use of strategic sourcing.

STRATEGIC SOURCING, AMONG OTHER THINGS, FOCUSES ON INCREASED SOCIOECONOMIC PARTICIPATION AND MAXIMIZING THE VALUE OF EACH DOLLAR SPENT.

Strategic sourcing is a concept that the government has been exploring since at least 2002 when the Government Accountability Office ("GAO"), at Congress's behest, examined how the private sector's strategic approach to purchasing services could be used by the Department of Defense ("DoD"), the government's largest purchaser of services, to more efficiently manage spending.[1] At the time, the government did not direct federal agencies to develop and implement a strategic sourcing effort, and indeed, did not do so until OMB issued a memorandum on the subject in May 2005.[2] This memorandum defined strategic sourcing as a "collaborative and structured process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently."[3] Stated otherwise, strategic sourcing is "an effort by the government to understand how it buys what it buys, so that it may better leverage its purchasing power" to the maximum

[1] *See* U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-02-230, BEST PRACTICES: TAKING A STRATEGIC APPROACH COULD IMPROVE DOD'S ACQUISITION OF SERVICES 1, *available at* http://www.gao.gov/assets/240/233467.pdf.
[2] *See* Office of Management and Budget, *Memorandum for Chief Acquisition Officers, Chief Financial Officers, and Chief Information Officers on Implementing Strategic Sourcing* (May 20, 2005) (hereinafter "2005 OMB Memo"), *available at* http://www.whitehouse.gov/sites/default/files/omb/procurement/comp_src/implementing_strategic_sourcing.pdf.
[3] *Id.* at 1.

extent possible, thereby reducing cost and improving overall performance.[4] According to the OMB memorandum, strategic sourcing would help "agencies optimize performance, minimize price, increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunity, and otherwise increase the value of each dollar spent."[5] Accordingly, OMB directed agencies to identify commodities the government could efficiently purchase through strategic sourcing in an effort to save taxpayers' money.[6] Notably, OMB did not mandate the application of strategic sourcing to any procurement.

To supplement the individual agencies' efforts and further OMB's directive, in November 2005, the General Services Administration ("GSA"), in partnership with the Department of Treasury, established the Federal Strategic Sourcing Initiative (FSSI),[7] which aimed to (1) strategically source across federal agencies; (2) establish mechanisms to increase total cost savings, value and socioeconomic participation (i.e. maximize small/disadvantaged business participation); (3) collaborate with industry to develop optimal solutions; (4) share best practices; and (5) create a strategic sourcing community of practice.[8]

Over the years, to achieve the aforementioned goals, GSA has created teams to purchase various commodities including express and domestic delivery services, wireless telecommunications expense management services, office supplies (now in its second generation known as OS2), and print management.[9] Within each of these teams, GSA created blanket purchase agreements (BPAs) against GSA's Multiple Award Schedules ("MAS").[10] Though GSA and OMB advocated that agencies use these FSSI BPAs, they did not mandate their usage because, according to then-OFPP Administrator Dan Gordon, OFPP wanted agencies "to make the decision on what worked best for them."[11] Notwithstanding their non-mandatory use, through 2012, more than 60 federal agencies, boards and commissions have participated in the use of

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[4] Subcommittee on Contracting and the Workforce, Committee on Small Business, Hearing: "Scheduling Success? Issues and Opportunities for Small Businesses on the GSA Schedules" 5 (June 4, 2012) (hereinafter "June 2012 SBC Hearing Memo").
[5] *See* 2005 OMB Memo, *supra* note 2.
[6] *See id.*
[7] "FSSI operates through an established governance structure." Jeff Koses, *Federal Strategic Sourcing Initiative: What's the Scoop with Strategic Sourcing* at the Magic Conference (July 27, 2012), *available at* https://www.signup4.net/Upload/CONN13A/MAGI28E/MAGIC2012_FederalStrategicSourcingInitiative.pdf. While OFPP monitors the FSSI's activities, the FSSI Program Management Office (PMO) resides within GSA, and provides program management support to develop, implement and manage government-wide strategic sourcing solutions. *See* GSA FEDERAL STRATEGIC SOURCING OBJECTIVES, https://strategicsourcing.gov/current-objectives (last visited June 5, 2013).
[8] GSA FEDERAL STRATEGIC SOURCING INITIATIVE (FSSI) OVERVIEW, http://www.gsa.gov/portal/category/25623 (last visited June 5, 2013).
[9] *See* GSA FEDERAL STRATEGIC SOURCING: ABOUT STRATEGIC SOURCING, https://strategicsourcing.gov/about-strategic-sourcing (last visited June 5, 2013).
[10] GSA's Federal Acquisition Services (FAS) generally provides contracting assistance to other agencies by (1) establishing contracting vehicles that other federal agencies may use to purchase goods and services; or (2) contracting on behalf of other agencies. *See* June 2012 SBC Hearing Memo, *supra* note 4 at 1. The Multiple Award Schedules, or simply Schedules, fall within the former category, and are divided into 31 broad categories of goods and services. *See id.* at 1-2.
[11] Jason Miller, *Strategic sourcing: Pennywise but pound foolish*, FEDERALNEWSRADIO.COM, http://www.federalnewsradio.com/index.php?nid=851&sid=2898039 (last visited June 5, 2013).

strategically sourced contracts for the aforementioned commodities, which has generated approximately $100 million in savings for the government.[12]

Even with such savings though, in September 2012, GAO reported that the government "[wa]s not fully leveraging its aggregate buying power to obtain the most advantageous terms and conditions for its procurements."[13] Thus, the government has continued to pursue other ways to improve and quicken the pace of acquisition through strategically sourced contracts. To this end, OMB recently created a Strategic Sourcing Leadership Council (SSLC), whose purpose is to "lead the government's efforts to increase the use of government-wide management and sourcing of goods and services."[14] SSLC was required to provide OMB "a set of recommendations for management strategies for specific goods and services . . . to ensure the Federal government receives the most favorable offer possible."[15] At a minimum, the SSLC must, among other things, "identify at least five products and/or services for which new government-wide acquisition vehicles or management approaches should be developed and made mandatory, to the maximum extent practicable, for the SSLC agencies[.]"[16] It is worth noting that this suggested mandatory use of FSSI vehicles represents a departure from prior OMB policies.

GSA is currently working with OMB to expand strategic sourcing in FY13 to encompass five additional first-generation solutions recommended by SSLC including Janitorial and Sanitation Supplies (JanSan) and Maintenance, Repair and Operations Supplies (MRO) with another five solutions scheduled to be established in 2014.[17] GSA also has sought to expand the use of strategic sourcing beyond commodities to services with its development of One Acquisition Solution for Integrated Services, more commonly known as OASIS.[18]

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[12] *FSSI JanSan & MRO Initiatives* at the Coalition for Government Procurement Spring Conference (Apr. 17, 2013), *available at* https://interact.gsa.gov/sites/default/files/mro_jansan_conference_briefing_package_04-17-13_-_gsa.pdf.

[13] U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-12-919, STRATEGIC SOURCING: IMPROVED AND EXPANDED USE COULD SAVE BILLIONS IN ANNUAL PROCUREMENT COSTS 3, *available at* http://www.gao.gov/products/GAO-12-919.

[14] *Improving Acquisition Through Strategic Sourcing*, OMB Memorandum No. M-13-02 (Dec. 5, 2012) (hereinafter "2012 OMB Memo"), *available at* http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-02_0.pdf. The SSLC is chaired by the Administrator for Federal Procurement Policy (currently Joe Jordan) and consists of representatives from DoD (including representatives from OSD, Army, Navy, Air Force, and DLA), Energy, Health and Human Services, Homeland Security, Veterans Affairs, GSA, NASA, and SBA. *See id.* at 2. This memo notes that the SSLC replaces the Strategic Sourcing Working Group (SSWG). *See id.*

[15] *Id.* at 3.

[16] *Id.*

[17] *See* Transcript of FSSI JanSan & MRO Pre-Solicitation Meeting at 16-17 (hereinafter "FSSI Meeting Transcript").

[18] GSA touts OASIS as the "next generation contract vehicle for complex professional services." GSA ONE ACQUISITIONS SOLUTION FOR INTEGRATED SERVICES (OASIS), http://www.gsa.gov/portal/content/127027 (last visited June 5, 2013). According to GSA, OASIS will be designed to address agencies' needs for professional service requirements that: (1) span multiple professional service disciplines; (2) contain significant IT components, but are not IT requirements in and of themselves; (3) contain Ancillary Support components (ODCs); (4) require flexibility for all contract types at the task order level including cost reimbursement; and (5) any one or combination of all of the above. *Id.*

Throughout the rollout of the Administration's most recent strategic sourcing policies, both GSA and OMB have worked to honor strategic sourcing's commitment to increase the participation of small businesses by, for example, consulting small business representatives in the development of strategic sourcing contracting vehicles,[19] setting aside a designated number of awards for small businesses (e.g. GSA plans to set aside eight JanSan BPAs for small businesses),[20] and creating a separate contracting vehicle for small businesses (GSA intends to issue two contracts for OASIS – a full and open unrestricted contract, and a 100% small business set aside).[21] Despite these well-meaning efforts, however, implementation of such policies has been difficult as the private sector well knows, and the impact of OMB's and GSA's strategic sourcing policies on small businesses remains a growing concern as the existing policies have had a disproportionate and detrimental effect on small businesses. Unfortunately, the proposed strategic sourcing initiatives do not appear to address these concerns as they indicate a continuation and expansion of existing policies. As discussed in more detail below, if the government proceeds with its proposed initiatives, the number of small business opportunities will decrease, causing a reduction in the pool of available small business contractors. Consequently, not only do these initiatives fail to support a cornerstone of strategic sourcing, but they also eliminate any potential short-term savings from strategic sourcing as the total number of small business government contractors will decrease, thereby reducing competition, which will increase prices, and cost the government more money in the long run. As such, the proposed strategic sourcing initiatives and OMB's mandatory policy warrant further analysis.

EXISTING STRATEGIC SOURCING INITIATIVES HIGHLIGHT THE DETRIMENTAL EFFECTS OF STRATEGIC SOURCING ON SMALL BUSINESSES.

It is estimated that there are currently 19,000 federal government contractors holding MAS contracts, the vast majority of which are small and/or socio-economic disadvantaged businesses.[22] An increase in the use of FSSI BPAs and a policy mandating their usage could drastically reduce this number,[23] which would not only detrimentally affect the viability of small and/or disadvantaged businesses, but also jeopardize the government's pursuit of savings. Indeed, while strategic sourcing may result in short-term savings, the resulting reduction in the pool of available contractors would decrease competition, thereby increasing prices, which would eventually negate any short-term savings. Nowhere is this principle more salient than the OS2 FSSI BPA, which illustrates the effects strategic sourcing currently has on small businesses.

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[19] *See* 2012 OMB Memo, *supra* note 14 at 2.

[20] *FSSI JanSan & MRO Acquisition Strategies* at the Pre-Solicitation Meeting (May 15, 2013) (hereinafter "JanSan/MRO Pre-Solicitation Presentation").

[21] *See OASIS SB Industry Day* (May 13, 2013) (hereinafter "OASIS Presentation"), *available at* https://interact.gsa.gov/sites/default/files/OASIS%20SB%20Industry%20Day%20Presentation%20May%2013.pdf.

[22] *See* June 2012 SBC Hearing Memo, *supra* note 4 at 1.

[23] *See* Ruben Gomez, *OMB's Zients hints at making strategic sourcing mandatory*, FEDERALNEWSRADIO.COM, http://www.federalnewsradio.com/552/3029477/OMBs-Zients-hints-at-making-strategic-sourcing-mandatory (last visited June 5, 2013) ("'[Small businesses] will be closing their doors and laying people off in significant fashion.'"); *see also* Miller, *supra* note 11 ("[A] growing number" of small businesses "say they are in grave danger of losing their businesses, and thousands more could be right behind them.").

In June 2010, GSA awarded FSSI BPAs to 15 of the 527 Schedule 75[24] vendors – 13, or approximately 87%, were small businesses.[25] However, at the time of the OS2 BPA, there were 527 Schedule 75 vendors, of which over 90 percent were small businesses.[26] Consequently, more than 400 small business Schedule 75 vendors were not chosen, and therefore, were ineligible to provide office supplies through the OS2 BPA. Despite this overwhelming loss of business opportunities for small businesses, a GSA official noted that such an outcome was a victory for small businesses as a larger percentage of sales went to small businesses under the OS2 BPA (74%) than under Schedule 75 (67%).[27] Moreover, an OFPP staff member explained that since the use of such BPAs was not mandated or implemented government-wide, "many of the complaints could easily be seen as sour grapes by those unsuccessful vendors"[28] who still could contract elsewhere through Schedule 75 or open market competition.

Neither statement conveys the actual effects of such policies. As to the former statement, while small businesses may have received a larger percentage of sales under the OS2 BPA, the number of small businesses eligible to compete for office supply contracts has dramatically decreased. Such a reduction neither supports the strategic sourcing initiative's goal of increased small business participation nor does it promote long-term savings. Indeed, because the BPA has reduced the level of competition, the basic principles of economics dictate that the federal government should anticipate a rise in commodity prices in the near future. As to the latter statement, small businesses understand that strategic sourcing results in winners and losers,[29] however, in the case of strategic sourcing under OS2, the small businesses not selected for a BPA are not simply losing a contract, but rather, are losing the ability to compete for government contracts. Indeed, as a result of the OS2 FSSI BPA, small businesses have not just lost, but have done so on a devastating scale with hundreds of companies experiencing a decrease in revenue between 2010 and 2011 from as much as $19 million to $20,000, while others have had to lay off a number of people to adjust to the decrease in revenue.[30]

OMB's intended mandatory use of such strategically sourced contracts only would exacerbate these effects. As mentioned above, at the time GSA awarded the OS2 BPA, the use of government-wide strategic sourcing contract vehicles was not mandated, and thus, small businesses not selected for OS2 could potentially maintain their businesses through Schedule 75 contracts or open competition until the next round of OS2 contracts, which likely would not occur for another five years (the initial one year contract plus four one-year option periods). In fact, it appears that many small businesses have been able to do so as agencies continue to procure the majority of office supplies sales through the use of Schedule 75 contracts.[31] However, with the implementation of the mandatory use of strategic sourcing contract vehicles, this "safety net" would cease to exist. Empirical evidence supports this result. In FY12 the

[24] As mentioned previously, GSA assigns various numbers to its Schedules. Schedule75 represents the schedule for office supplies.
[25] Jeff Koses, *OS3 Draft Approach* (May 2013) at 8.
[26] June 2012 SBC Hearing Memo, *supra* note 4 at 6.
[27] *See* Miller, *supra* note 11.
[28] *Id.*
[29] Subcommittee on Contracting and the Workforce, Committee on Small Business, Hearing: "Putting the Strategy in Sourcing: Challenges and Opportunities for Small Business Contractors" 4 (June 10, 2013).
[30] *See* Miller, *supra* note11.
[31] *See* FY12 Office Supplies Market Graph at 1.

government spent nearly $270 million on office supplies using OS2.[32] Of the total number of agencies using OS2 to acquire office supplies, 19 agencies had a mandatory OS2 use policy.[33] These 19 agencies represented 79% of the total amount of money spent on purchasing office supplies through OS2.[34] Based on this data, it stands to reason that where OS2 use is mandatory, agencies strictly adhere to such a policy, and are seemingly unwilling to explore additional procurement vehicles for obtaining office supplies even if such supplies could be obtained cheaper elsewhere. As such, if the OS2 procurement occurred in the context of mandatory strategic sourcing, the majority of the 436 small businesses contractors might be forced out of business as agencies would be required only to purchase products from vendors receiving an OS2 FSSI BPA, thereby foreclosing Schedule 75 and open market competition options.

The impact of the OS2 BPA on small businesses is a small scale version of what could occur if the government expands mandatory strategic sourcing to additional commodities and services. Indeed, the proposed program theoretically could drastically reduce the MAS contractor pool of 19,000, the vast majority of which are small/disadvantaged businesses. This is not to suggest that the federal government has the responsibility to support every small business or disadvantaged contractor, but a decrease in small business contractor support from over 10,000 to several hundred seems antithetical to the government's goal and strategic sourcing's cornerstone of increased small business participation.[35]

Moreover, with such a small pool of available contractors, the surviving businesses will encounter fewer competitors during subsequent rounds of competition, and the prices correspondingly will increase. Consequently, though the government may be able to obtain more advantageous pricing in the first round of mandatory strategic sourcing contracts, the long-term consequences indicate that the government's short-term savings could be erased by the next round of contractors who are markedly fewer, and therefore, able to increase their prices.

GSA's Proposed Strategic Sourcing Initiatives are Antithetical to Strategic Sourcing's Goal of Increased Small Business Participation, More Harmful to Small Businesses than the Current Strategically Sourced Contracts, and Counterproductive to Strategic Sourcing's Emphasis on Value.

The proposed strategic sourcing initiatives, while well-intentioned, indicate that the government has not rectified the deficiencies present in OS2, and that the concerns of small businesses discussed above likely will become a reality if the government pursues its strategic sourcing initiatives as planned. Indeed, the most recently proposed initiatives appear to be more harmful

[32] *See id.* at 2.
[33] *See id.*
[34] *See id.*
[35] *See* Miller, *supra* note 11, for a similar perspective. Notably, it is also antithetical to the government's assertion that it is "not looking for long-term relationships with a few strategic partners." FSSI Meeting Transcript, *supra* note 17 at 5. Though the majority of the contractors selected for the OS2 FSSI BPA currently are small businesses, strategic sourcing's reduction in the number of available contractors could affect their ability to maintain their small business status. After all, it stands to reason that with fewer contractors and the same amount of awards, the selected few will receive a greater proportion of award money, thereby increasing small businesses' overall revenue. Thus, with some small businesses being forced out of business because of their non-selection to an FSSI BPA and with other small businesses losing their small business status as a result of their FSSI BPA award, the government will be forced to enter into long-term relationships with a limited number of strategic partners.

than their OS2 predecessor as they focus on commodities and services and incorporate technical requirements that seemingly preclude small business participation. In many ways, this new generation of strategically sourced contracts also appears to be consolidated, despite the fact that GSA has not provided underlying data warranting consolidation. To make matters worse, the newly proposed initiatives also appear to contradict strategic sourcing's mandate to "increase the value of each dollar spent." The recently proposed RFQ for Janitorial and Sanitation supplies (generally Schedule 73), an initiative more commonly known as JanSan, manifests these concerns.[36]

Proposed Strategic Sourcing Initiatives Do Not Support Increased Participation by Small Businesses, and May Be More Harmful Than the Current Initiatives.

As previously mentioned, GSA is in the process of establishing five new strategic sourcing solutions for FY13, one of which is JanSan. Under JanSan, GSA has divided the janitorial commodities into five core areas of concentration, or pools: (1) cleaning compounds and related dispensers, (2) non-motorized cleaning equipment & waste collection supplies, (3) paper products & related dispensers, (4) motorized floor cleaning equipment, and (5) motorized laundry cleaning equipment.[37] Within each of these five pools, GSA intends to establish three BPAs, and set aside a total of eight BPAs for small businesses, of which three will be set aside for service disabled veteran owned small businesses (SDVOSB).[38] Additionally, the proposed JanSan FSSI RFQ covers two government channels – purchasing and requisition.[39] At this time, GSA has not determined the number of BPAs it will issue for the requisition channel, but if GSA awards a BPA for each pool to different vendors for the purchasing channel, GSA could issue a maximum of 15 BPAs.[40] In constructing the JanSan RFQ in this manner, GSA attempted to "increase the percent of dollars going to small businesses."[41] However, nothing in the RFQ guarantees small businesses will receive any funds even if awarded a BPA, and try as it might, GSA will not be able to translate any potential increase in dollars into an increase in socioeconomic participation, a cornerstone of strategic sourcing, for the same reasons OS2 has failed to increase small business participation. In fact, initiatives like JanSan are likely to be even more detrimental to small business interests than their OS2 counterpart for several reasons.

JanSan Will Reduce the Pool of Small Business Contractors.

First, the government currently contracts with more than 1,300 vendors for janitorial supplies and services.[42] Yet, as previously mentioned, at most, GSA will award 15 BPAs under JanSan. Consequently, as Mr. Koses, the Director of Acquisition at GSA FAS, has acknowledged, "there

[36] It is worth noting that the proposed strategic sourcing initiative for Maintenance, Repair and Operations Supplies (MRO) is virtually identical to JanSan and, as such, presents similar concerns.
[37] JanSan/MRO Pre-Solicitation Presentation, *supra* note 23 at 6.
[38] *Id.* at 7. For Pools 1, 2 and 3, two BPAs will be set aside for small businesses, one of which must be a SDOVOSB. For Pools 4 and 5, GSA will set aside one BPA each for small businesses.
[39] Requisition "covers mainly DoD orders that are fulfilled through GSA Global Supply services." *See* FSSI Meeting Transcript, *supra* note 17 at 37. Such orders require "advanced e-commerce capabilities and seamless integration with GSA IT systems." *Id.*
[40] However, if the same bidder wins all five categories and the requisition channel, GSA only would issue one BPA to that awardee. *See id.* at 21-22.
[41] *See id.* at 22.
[42] *Id.* at 45.

will definitely be fewer suppliers,"[43] meaning hundreds of current JanSan vendors will be foreclosed from contracting with the government for janitorial and sanitation supplies. Like the OS2 suppliers, these JanSan contractors only will be able to maintain their businesses by competing for schedule contracts, or participating in other forms of open competition. While such alternatives have helped sustain some small businesses in the OS2 arena, the outcome for JanSan vendors not receiving a JanSan BPA likely will not be as favorable since the agencies covered by the JanSan RFQ represent 90 percent of money spent by the federal government.[44] As such, the hundreds of vendors not receiving a JanSan BPA will face almost certain market exclusion as they are forced to compete for an increasingly small portion of federal spending. If the government continues to pursue mandatory strategic sourcing, these alternatives would be foreclosed completely. In both cases, a large number of small businesses likely will be forced out of business as the BPA will foreclose virtually all other opportunities for government contracting. As such, while the number of dollars to small businesses may increase under the proposed JanSan RFQ, the overall effect will be a decrease in the number of small business contractors available to compete – a result that contradicts one of the strategic sourcing initiative's cornerstones.

JanSan Does Not Guarantee Small Businesses Receive Any Funding, Even If Awarded a BPA.

Second, while GSA has set aside eight BPAs for small businesses, such set asides do not necessarily guarantee business success. Indeed, unlike IDIQ contracts, which at least guarantee a minimum, the BPAs do not appear to guarantee that awardees receive any funds.[45] Consequently, even small businesses that receive a JanSan BPA may fail to receive business from federal agencies. In such cases, like the small businesses who do not receive a BPA, the small business awardees could be forced to explore alternate options, which may be few or non-existent. Hence, despite the number of set asides for small businesses, small businesses may not see an increase in the percentage of small business contract dollars as GSA has promised.

The Implementation of JanSan as a Contract with Small Business Set Asides Avoids Bundling Concerns, but Not Consolidation.

The fact that small businesses are not guaranteed a minimum raises questions regarding whether RFQs such as JanSan represent bundling. The Small Business Act defines bundling as

> [C]onsolidating 2 or more procurement requirements for goods or services previously provided or performed under separate smaller contracts into a solicitation of offers for a *single contract that is likely to be unsuitable for award to a small-business concern* . . . .[46]

[43] *Id.* at 23.
[44] *See id.* at 6.
[45] To be fair, GSA maintains a required minimum of $2,500; however, a recent Small Business Committee report has revealed that GSA has failed to pay this minimum amount to thousands of vendors. *See* J.D. Harrison, *GSA owes more than $3 million to small businesses*, WASH. POST, May 15, 2013, *available at* http://articles.washingtonpost.com/2013-05-15/business/39294200_1_small-businesses-federal-agency-orders-clause. As such, these contracts arguably have no guaranteed minimum. Moreover, even if GSA pays the small business BPA awardees the $2,500 minimum, such an amount is hardly capable of supporting a business.
[46] 15 U.S.C. § 632(o)(2) (emphasis added).

As GSA has noted, the JanSan RFQ does not represent bundling because it "set aside 50 percent of the awards"[47] for small businesses, and "expect[s] small businesses to be wildly successful under this program."[48] On its face, this statement appears to be correct; however, it fails to account for the fact that, as discussed above, even though small businesses may receive JanSan BPAs, they may not receive any work, in which case, the contract would appear to be "unsuitable for award to a small business concern." However, since bundling must be determined pre-award, this after-the-fact occurrence, which arguably demonstrates bundling, means that these RFQs cannot be labeled as bundling. But GSA has stated that even if the JanSan RFQ is bundling, GSA "fully meet[s] any bundling test"[49] as GSA's projections "show that there is an 11 percent savings to be had through strategic sourcing,"[50] which is more than double "the FAR required savings to justify bundling."[51]

Though the JanSan contract is not bundling, it is a consolidated contract, which is defined as a contract that

> [S]atisf[ies] 2 or more requirements of the Federal agency for goods or services that have been provided to or performed for the Federal agency under 2 or more separate contracts lower in cost than the total cost of the contract [awarded].[52]

Similar to bundling requirements, consolidation policies mandate that before GSA carries out the JanSan RFQ, it must conduct market research; identify any alternative contracting approaches that would involve a lesser degree of consolidation of contract requirements; make a written determination that consolidation is necessary and justified; identify any negative impact by the acquisition strategy on contracting with small business concerns; and certify to the head of the Federal agency that steps will be taken to include small business concerns in the acquisition strategy.[53] To date, it does not appear that GSA has provided this required information. Accordingly, at a minimum, GSA should release the data justifying a consolidation contract.

The Nature of the Commodity and JanSan's Requirements Inherently Preclude Increased Small Business Participation.

Finally, the nature of the commodity covered by the JanSan RFQ and some of the RFQ's requirements, namely shipping/delivery and AbilityOne, frustrate increased small business participation. Regional and local small businesses traditionally have provided the commodity of janitorial and sanitation supplies to the federal government. The regional nature of these businesses impacts their ability to compete for the JanSan RFQ in two ways. First, as small businesses are accustomed to serving federal agencies within a particular region, they likely do not maintain "advanced e-commerce capability and seamless integration with GSA IT systems" that are required for requisition orders. Accordingly, small businesses would be de facto excluded from competing for that BPA. Second, because these businesses generally do not have

[47] FSSI Meeting Transcript, *supra* note 17 at 31.
[48] *Id.*
[49] *Id.* at 32.
[50] *Id.*
[51] *Id.*
[52] 15 U.S.C. § 657q(a)(2).
[53] *See id.* at § 657q(c).

an extensive and established network of offices from which they can draw upon to fulfill a nationwide contract such as the JanSan BPA, they likely will have difficulty fulfilling the delivery requirements in terms of delivery time and destination. As to delivery, the current JanSan RFQ mandates a timeframe of three to four days.[54] While most, if not all small businesses, likely would be able to fulfill this requirement where the destination is close to the business's location, many would not be able to deliver the product(s) within such a timeframe if the destination was on the other side of the country.[55] In such cases, small businesses likely would require a lead time of at least seven days, meaning they would be unable to fulfill the RFQ's delivery requirements. As to destinations, the RFQ requires small businesses to have the capacity to deliver the required goods outside the continental United States (OCONUS). While small businesses may have the capacity to meet these shipping requirements, they may be forced to pay additional shipping charges, which federal agencies likely will not be willing to pay, particularly if a large vendor can provide the same supplies without the additional cost.[56] Consequently, the number of small businesses eligible to compete for one of the purchasing channel BPAs or the acquisition channel will be reduced.

The JanSan RFQ's AbilityOne requirement will further reduce the number of small business contractors eligible to compete for a JanSan BPA. Under the current JanSan RFQ and pursuant to federal law, in order to be eligible to compete for a BPA, a bidder must be AbilityOne certified. This certification has the potential to drastically reduce the number of eligible small business competitors as only a small percentage of small business contractors are AbilityOne certified. For example, in the OS2 BPA procurement, only 40 of the more than 500 contractors were AbilityOne certified.[57] Proponents of the JanSan RFQ may argue that the solution is for small businesses to become certified,[58] but this argument assumes that the small business has the time and money to pursue AbilityOne certification.

In sum, though GSA purportedly has opened the JanSan solicitation to all small business vendors, the nature of the commodity and the RFQ requirements effectively reduce the number of eligible small business vendors by establishing technical requirements that small businesses cannot meet, or can only do so at an additional cost – a burden agencies likely are unwilling to shoulder when a large supplier can provide the same supplies without a surcharge.

Proposed Strategic Sourcing Initiatives such as JanSan Do Not Provide the Government with the Best Value.

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[54] JanSan/MRO Pre-Solicitation Presentation, *supra* note 23 at 15.

[55] *See* FSSI Meeting Transcript, *supra* note 17 at 106 (small business contractor stating that if he had to ship a hammer from Massachusetts to California, he would need a seven-day lead time because "three to four days is just not realistic.").

[56] Some agencies appear to have encountered this problem with the OS2 FSSI BPA. *See* USDA FSSI OFFICE SUPPLY BPA FREQUENTLY ASKED QUESTIONS (FAQs), http://www.dm.usda.gov/procurement/toolkit/docs/USDAFSSIOfficeSupplyBPAFrequentlyAskedQuestions_version4.pdf (last visited June 5, 2013) (Question 17 states: "Most of the vendors are in the Midwest or east coast. We are trying to be cost effective here in the Alaska region, but paying extra shipping costs, will not save the government money." USDA responds that "there can be additional fees for OCONUS/International shipping," however, "[a large office chain] has a retail store location in Alaska.") Such a suggestion essentially diverts business to large businesses at the expense of small businesses.

[57] *See* FSSI Meeting Transcript, *supra* note 17 at 121.

[58] *See id.* at 125-26.

Though not unique to small businesses, I would like to make one last point with regard to the use of strategic sourcing vehicles such as the JanSan BPA. In addition to failing to increase socioeconomic participation, the BPA, as currently constructed, also appears to disregard another cornerstone of strategic sourcing – the emphasis on value. Though strategic sourcing certainly focuses on cost savings, and therefore, perceived benefits to taxpayers, savings are not its only focus; rather, as the 2005 OMB memorandum explained, the government wanted agencies to use strategic sourcing to "maximiz[e] the value of each dollar spent."[59] Because GSA has constructed the JanSan RFQ as a lowest-priced technically acceptable procurement, the government appears to be emphasizing cost at the expense of overall value. For example, a 32-ounce bottle of multipurpose cleaner could cost anywhere from two dollars to fifteen dollars. As the JanSan RFQ currently is written, the two dollar bottle would "win" over the fifteen dollar bottle on price alone. Unfortunately, such an evaluation ignores the fact that the two dollar bottle is diluted whereas the fifteen dollar bottle is ultra-concentrated, and lasts ten times longer than its cheaper counterpart. Consequently, the JanSan RFQ, as currently constructed, essentially fails to provide the government with the best value, and in doing so, fails to meet another cornerstone of strategic sourcing.

STRATEGIC SOURCING AND PROFESSIONAL SERVICES

To this point, my discussion has focused on the use of strategically sourced contracts to procure commodities. However, as previously mentioned, GSA recently proposed a $10 billion initiative known as OASIS that seeks to meet "the needs of customers with complex, integrated professional services with a support Information Technology (IT) component."[60] Though GSA intends to award significantly more BPAs under OASIS than its commodities BPAs, the outcome with regard to the number of small businesses eligible to compete is similar.

To begin, like the JanSan RFQ, the proposed OASIS contracts (one will be full and open competition while the other will be a 100% small business set aside)[61] will severely limit small business contracting opportunities as more than 1,000 contractors will compete for a maximum of 240 contracts (though GSA does not "feel there will be that many").[62] Moreover, the concept of a nationwide services contract serving multiple federal agencies ignores the reality that small businesses providing professional services generally offer highly specialized solutions within a limited geographical area. Consequently, small businesses may have difficulty assembling a team of professionals that satisfies the RFP's requirements. Of course, this issue could be rectified by teaming agreements or joint ventures; however, GSA currently is prohibiting such arrangements unless the JV or team has "proven past experience and past performance as an entity,"[63] despite the fact that such a stance is contrary to federal law.[64] Finally, the OASIS RFP further disadvantages small businesses because, like the JanSan RFQ, the OASIS contracting model appears to focus heavily on cost, thereby converting what should be a best value analysis

[59] 2005 OMB Memo, *supra* note 2.
[60] OASIS INDUSTRY COMMUNITY, FREQUENTLY ASKED QUESTIONS (hereinafter "OASIS FAQs"), https://interact.gsa.gov/blog/frequently-asked-questions (last visited June 5, 2013).
[61] *Id.* at 4.
[62] OASIS Presentation, *supra* note 24.
[63] OASIS INDUSTRY COMMUNITY: UPDATE ON THE OASIS DRAFT RFP, https://interact.gsa.gov/blog/update-oasis-draft-rfp-february-12-2013 (last visited June 7, 2013); *see also* OASIS FAQs, *supra* note 63.
[64] *See* 15 U.S.C. § 15(q)(1).

into a lowest-price, technically acceptable ("LPTA") procurement. In the professional services industry, this type of procurement is particularly harmful for small businesses that, as mentioned above, likely specialize in certain areas. As such, they likely do not maintain large workforces from which they can draw upon to fulfill a nationwide contract, which means that they cannot take advantage of economies of scale like large businesses.

As a final note, I would like to highlight the fact that the OASIS RFP not only fails to increase small business participation, but because of its similarity to a LPTA procurement, also falls short with respect to strategic sourcing's emphasis on value.

CONCLUSION

As originally envisioned, strategic sourcing aimed to, among other things, increase small business participation and maximize the value of each dollar spent by federal agencies. In other words, the focus was not simply on cost, but creating and implementing an overall strategy that would "optimize performance, minimize price, increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunity, and otherwise increase the value of each dollar spent." As discussed above, the existing and proposed strategic sourcing initiatives as well as OMB's proposed mandatory usage of strategically sourced contracts subvert these goals. While taxpayer savings are important, the government should not pursue such savings at the expense of small businesses and value, particularly where such policies could eliminate any such savings in the long-term.

Again, thank you Chairman Hanna and Ranking Member Meng for the opportunity to testify. I will be pleased to answer any questions you or members of the Subcommittee may have.

STATEMENT OF ROGER D. WALDRON

PRESIDENT OF THE COALITION FOR GOVERNMENT PROCUREMENT

BEFORE THE

SUBCOMMITTEE ON CONTRACTING AND WORKFORCE OF THE COMMITTEE ON SMALL BUSINESS

UNITED STATES HOUSE OF REPRESENTATIVES

JUNE 13, 2013

Chairman Hanna, Ranking Member Meng, and Members of the Subcommittee, I appreciate the opportunity to appear before you to address "Putting the Strategy in Sourcing: Challenge and Opportunities for Small Business Contractors." An efficient, effective, and open procurement system plays a critical role in delivering best value solutions to meet agency missions and serve the American people. The Coalition for Government Procurement (the Coalition) is pleased that the subcommittee is focusing on the role of the GSA Multiple Award Schedules (MAS) program in promoting strategic acquisition and opportunities for small business concerns. The MAS program is a highly successful strategic source for the government to leverage the marketplace and achieve its socioeconomic goals.

The Coalition is a non-profit association of firms selling commercial services and products to the Federal government. Collectively, our members account for about half the commercial item solutions purchased annually by the Federal government.

Coalition members include small, medium, and large business concerns from across the commercial marketplace. Coalition members include office supply, furniture, professional services, information technology, maintenance and repair companies. Our members have been involved in many of the government's strategic sourcing acquisitions to date. Next year will mark our 35th anniversary as an association, and we are proud to have worked with government officials over the years toward the mutual goal of common sense acquisition that delivers best value to customer agencies and the American people.

I. GSA's MAS Program and Small Business

GSA's MAS program is the most successful shared services models in government. The MAS program provides more than 20,000 established contracts that bring millions of commercial services and products to the federal marketplace. Agencies can order items from directly existing contracts rather than go through the long and costly process of establishing their own contracts. MAS contracts account for over $50 billion in government purchases annually (including GSA and MAS contracts delegated to the Department of Veterans Affairs). Customer agencies rely on the MAS contracting framework to compete and place tens of thousands of delivery and/or task orders effectively each year. It is a shared services framework that empowers customer agencies and contractors to focus on requirements and pricing at the task order competition level rather than through lengthy, cumbersome contracting processes and procedures.

Equally as important, year in year out, the MAS program is also one of the most successful government-wide small business contracting programs available. In a typical fiscal year, over 30 percent of the dollar volume of purchases under the MAS program goes to small business concerns. The MAS program provides small businesses with an economical, efficient entry point into the federal marketplace. The keys to the success of the program are tri-fold: (1) Continuous open seasons; (2) MAS ordering procedures and electronic tools that provide the flexibility for customer agencies to consider socio-economic status when competing and placing orders; and (3) expanded marketing and business opportunities for small companies.

A. Continuous Open Seasons

All commercial firms (small, medium, and large) have an opportunity to submit an offer for a GAS MAS contract any time. This attribute is especially important for small business concerns seeking entry and opportunities in the federal marketplace. Fundamentally, continuous open seasons reflect a faith in the commercial market, providing access to the latest commercial services, products, and solutions for GSA and its customer agencies. Continuous open seasons enhance competition and innovation while meeting the program's statutory mandate that it remains open to all sources.[1]

B. MAS Ordering Procedures

Over the years, the MAS ordering procedures have provided an efficient, effective means for creating opportunities for small business concerns. Historically, under the MAS ordering process, customer agencies have conducted market research using GSA's electronic tools (GSA e-library and GSA Advantage!). These tools encourage agencies to consider socio-economic status when identifying MAS contractors for task order

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[1] Last year GSA proposed a Demand Based Model that would have eliminated continuous open seasons under the MAS program. The Coalition submitted comments opposing the closure of the MAS program to new offers. A copy of our comments is attached to this testimony. Moreover, Coalition members remain uniformly opposed to closing the MAS program to new offers, as it would limit opportunities for small businesses, restrict competition, and inhibit access to commercial innovation by the government. Closing schedules, even if it is targeted, will hurt customer agencies and the private sector alike. At a time when government is seeking greater opportunities for small business concerns through its Small Business Jobs Act of 2010 initiatives, eliminating continuous open seasons will limit small business opportunities. Moreover, there is concern that closing the MAS program in this manner would raise Competition in Contracting Act concerns.

competitions. This capability was further enhanced by the Small Business Jobs Act of 2010, which authorized customer agencies, at their discretion, to set-aside MAS delivery and/or task orders for small business concerns.

The powerful combination of a continuous, open program and ordering procedures that allow a preference for small business have, over the last two decades, consistently created opportunities for small business concerns. In fact, over the last decade, annual purchases from small business contractors under the MAS program have consistently and significantly exceeded the government-wide small business goal of 23 percent, achieving on average 30-33 percent.

C. Marketing Tool

Finally, a GSA MAS contract provides a powerful marketing tool for small business concerns when dealing with all contracting offices across federal, state, and local governments. A GSA contract validates a small business concern and reflects the presence of a buying vehicle, *i.e.*, access, to the firm. How many times has a small business entrant to the federal marketplace been asked by a contracting officer, "Do you have a GSA schedule?" GSA provides an essential service to small businesses and customer agencies through the continuous evaluation, validation, and award of schedule contracts. Moreover, many state and local governments rely on, or reference, GSA's MAS program when conducting market research and contracting with small businesses. As such, the positive, opportunity-based impact of the MAS program for small business concerns ripples throughout local economies across the United States of America.

II. The MAS Program and Strategic Sourcing

GSA, as the central procurement arm of the Federal government, has a responsibility to control costs and efficiently utilize its acquisition resources, and the Coalition has long supported GSA's efforts to do so. Although the Coalition generally supports the government's strategic sourcing efforts, we have a number of concerns about the impact of GSA's current acquisition strategies on businesses of all sizes, and particularly on small companies.

A. Mandatory Use

The Coalition is concerned that moving towards a mandatory use model for GSA Blanket Purchase Agreements (BPAs) will have the unintended, long-term consequences of reducing opportunities for small businesses. "Mandatory use" is a promise that all requirements will be purchased from a specific contract or limited set of contracts. By its very nature, mandatory use limits access to the federal buyer to a small group of contractors. Conversely, mandatory use limits agency access to the commercial marketplace. All told, mandatory use will restrict opportunities for small business. It closes the federal marketplace to small businesses.

Mandatory use requirements also put the government at greater risk. Under a mandatory use agreement, the failure of the government to purchase 100 percent of tis requirements from the mandatory source results in breach and liability on the part of the government buyer to the mandatory source. Twenty years ago, the MAS program was a mandatory source and the government paid the price. At that time, significant "diversions" or purchases outside the MAS program resulted in litigation and subsequent payments to MAS contractor(s) for breach of the mandatory terms. Learning from this experience, the MAS program was made optional and continuous open seasons were implemented. As a result, it has grown from a $3-4 billion program in the 1990s to the $50 billion program it is today.

Rather than imposing mandatory use terms that limit or otherwise close the federal marketplace, the Coalition supports use of volume commitments or guaranteed minimums that are based on improved requirements development.[2] When agencies make specific volume commitments, contractors have the economic incentive to offer lower prices for their commercial solutions. At the same time, the government maintains flexibility to access the commercial marketplace and compete opportunities for small business. It is a win-win for government and industry!

B. Government-wide BPAs

[2] Improved requirements development will increase competition while reducing overall bid and proposal costs for government and industry. Competition for well-articulated requirements with corresponding volume commitments will increase savings for customer agencies and the taxpayer. Moreover, we believe that competition for focused, known requirements at the agency level will accelerate Administration's strategic sourcing initiative and provide opportunity and jobs for commercial firms doing business under the MAS program, especially small businesses.

The Coalition also is concerned that the current approach to strategic sourcing includes the use of some generic, government-wide MAS BPAs that **do not include** specific requirements or volume commitments upon which effective competition can be based. These generic, government-wide BPAs will rely on task order technical and price competitions for agency specific requirements. In response to the growth in generic, GSA government-wide BPAs, the Coalition has developed a statement of BPA best practices that we have shared across the procurement community. A copy of the BPA best practices is attached to this testimony.

For example, the National IT Commodity Program (NITCP) awarded BPAs to 43 small business concerns for tablets, mobile products, monitors, laptops, desktops, notebooks, netbooks, and data center equipment. These BPAs, however, do not include specific requirements or volume commitments from the government. Rather, it is our understanding that the BPAs contemplate subsequent task order competitions among the NITCP BPA holders for agency-specific requirements. It is also our understanding that GSA is incorporating a reverse auction feature for the task order competitions.

The intermediate step of establishing generic, government-wide GSA BPAs, like the NITCP BPAs, results in vertical contract duplication that increases bid and proposal costs for both government and industry. In the case of the NITCP, the small business concerns expended significant bid and proposal costs in competing for the BPAs simply for the right to continue to expend funds to compete for the subsequent task orders under those BPAs. In effect, despite their investment, the awarded small businesses do not gain any sales at all by bidding and winning a place on the government-wide GSA BPA. The Coalition believes that a more efficient, effective, and open approach would be to conduct task order competitions for specific requirements among all eligible MAS small business contractors rather than establishing intermediary GSA government-wide contracts like NITCP and other Federal Strategic Sourcing Initiative (FSSI) BPAs. These intermediary GSA BPAs represent vertical contract duplication. We have even seen instances where agencies have awarded a second set of BPAs under a pre-existing set of MAS BPAs.

The establishment of government-wide GSA BPAs is a costly, intermediate step that is unnecessary in delivering best value to customer agencies and creating opportunities for small business concerns. Indeed, the costs associated with establishing and managing these government-wide GSA BPAs are significant for government. For many of the government-wide GSA BPAs, GSA has included a supplemental industry funding fee of 1.25 percent to be included in the GSA BPAs for a total fee to agencies of 2 percent. It is our understanding that the additional fee is intended to offset GSA's operational costs associated with the GSA BPAs. In turn, agencies will be incurring additional operational costs when conducting the task order level competitions under these GSA BPAs.[3]

We recommend that the Office of Management and Budget (OMB) and GSA consider using a more focused approach to strategic sourcing. Generic, government-wide GSA BPAs should be eliminated to the maximum extent practicable. Agencies should compete and establish strategic sourcing MAS BPAs based on their specific requirements, including volume commitments. Specific requirements and volume commitments will lead to rational, realistic competition, competitive pricing, and improved efficiency. A program of agency specific BPAs will also provide greater opportunities for all small business concerns. Finally, to ensure strategic sourcing accountability and transparency, agencies should be required to report performance results for their BPAs to OMB. These reports would allow OMB to monitor each agency's strategic sourcing progress.

C. Data Collection

The government has imposed new data collection and reporting requirements as part of its strategic sourcing initiatives. This requirement shifts the responsibility for collection and reporting to the contractor. Creating infrastructures to comply with the government's data requirements can be difficult for all contractors, but particularly so for small business. This practice also has a negative impact on Federal agencies because increased costs ultimately are passed on to end-user customers in the form of higher

[3] GSA is currently developing BPAs for janitorial and sanitation (JanSan) products (e.g., cleaning supplies and motorized equipment), and maintenance and repair (MRO) products (hardware, paint and cooling equipment) which represent a further closing of the marketplace. As currently structured, the JanSan and MRO BPAs will result a limited number of government-wide BPAs. The JanSan effort anticipates award of 15 BPAs with 8 set-asides. The MRO effort also anticipates a total of 15 BPAs with of them 9 small business set-asides, The draft BPAs do not include any specific requirements or volume commitments. It is also our understanding, based on comments made by GSA at the industry day meeting, that with the award of the BPAs, GSA will close the underlying MAS schedules to new offers and essentially the marketplace.

prices. The Coalition supports a data dialogue between government and industry to determine appropriate data collection parameters (e.g. what is the purpose? What data should be collected? Are there best commercial collection practices that can be followed?)

D. Measuring Total Acquisition Cost

The current strategic sourcing approach seeks to drive down prices to achieve savings. Price, however, is just one element of the government's Total Acquisition Cost (TAC). TAC includes price and all other costs incurred in the acquisition process, including the government's administrative costs for planning and conducting an acquisition. There may be instances where the TAC actually increases even though the price paid decreases. Considering TAC, rather than simply price point, provides an opportunity to streamline acquisition processes and procedures. The Coalition promotes the government using TAC as part of acquisition planning.

III. Enhancing Opportunities for Small Businesses

In order to enhance opportunities for small business in the Federal market, the Coalition suggests that GSA adopt an Opportunity-based Model. Key components of this model are:

1. **Maintain continuous open seasons:** The MAS program's continuous open season policy allows companies to enter the Federal market every day like the commercial marketplace. Under continuous open seasons, companies can submit offers to GSA any work day of the fiscal year. This model provides new commercial firms of all sizes with an ongoing opportunity to participate in the vital federal marketplace. In particular, continuous open seasons provide opportunities for small businesses seeking to enter the federal market. As a result, competition is enhanced, and the government gains access to the latest commercial services and products.

2. **Focus on Requirements Development.** Sound requirements development is the "blocking and tackling" of federal acquisition. It requires great effort, but it is fundamental to achieving best value outcomes for customer agencies and the taxpayer. Clear, effective communication of sound requirements increases competition, improves mission performance, reduces risk, and ultimately saves taxpayer dollars. Federal strategic sourcing initiatives would more effectively

reduce the total cost of acquisition with the development of well-articulated requirements that establish a realistic basis for ongoing competition.

3. **Reduce contract duplication:** Contract duplication is the ongoing government practice of creating multiple contract programs for the same or similar services and products. Last year, the Coalition conducted a survey of our members on contract duplication and its impact. Our members confirmed that contract duplication increases bid and proposal, as well as contract administration costs. Not only does contract duplication increase costs for contractors, it increases costs to government and the taxpayer. Contract duplication reduces competition and creates barriers to entry, especially for small businesses. Small businesses do not have the bid and proposal resources to repeatedly compete to be included on the next new major contracting initiative. Rather than creating new contract vehicles for services or products, the Office of Federal Procurement Policy should direct customer agencies can avoid creating duplicative contracts therefore increasing opportunities for all small business concerns by utilizing the MAS program.

4. **Align data reporting requirements with commercial practice:** Data is not a free good. Over the years GSA has asked for additional data reporting from MAS contractors. Often, businesses are being asked to report data that the government already has. In one sense, GSA is avoiding the direct cost of data collection by passing the burden on to contractors. These data collection requirements increase operational costs for contractors, which are especially burdensome for small business. This practice also has a negative impact on Federal agencies because increased costs ultimately are passed on to end customers in the form of higher prices. A "data summit" between GSA and MAS contractors would serve to inform both parties about the role **of data collection in the MAS program and how the associated** cost burdens can be reduced for government and industry.

5. **Adopt Federal Acquisition-based contract flexibilities for commercial solutions:** Since at least 2008, the Federal Acquisition Regulation (FAR) has included standard commercial item contracting clauses that include accountable, flexible mechanisms for the acquisition of materials, other direct costs and indirect costs as part of a commercial item contract. GSA has yet to implement these standard FAR terms in its MAS contracts. Adopting these

terms would increase task order competition and contract efficiency, translating into cost savings for customer agencies, GSA, and contractors. This change presents an opportunity to increase the shared services value of the MAS program and reduce contract duplication by improving the ability of contractors to meet customer needs. Implementing these 21st century commercial solutions will increase opportunities for small businesses. In addition, the ability to include materials and other direct costs on MAS orders will promote teaming and subcontracting opportunities for small businesses.

6. **Put "commercial" back into commercial item contracting**: Over the years, the number of laws, regulations, and provisions applicable to commercial item contracts has grown significantly. These additional regulatory burdens add to the cost of doing business with the Federal government and serve as a barrier to entry for many small businesses. It is time for a top down review of MAS contract provisions to identify and address terms and conditions that are inconsistent with commercial practice. Where the costs of certain terms and conditions outweigh the benefits, they should be eliminated from MAS program contracts.

IV. One Acquisition Solution for Integrated Services (OASIS) and OASIS Small Business

OMB's FSSI seeks to leverage purchasing power across the federal enterprise. To date, FSSI has focused on commodities. Federal strategic sourcing, however, continues to evolve with an apparent interest in the strategic sourcing of complex professional services. GSA's business case for OASIS and OASIS Small Business calls for a contracting vehicle that will "incorporate strategic sourcing principles to the maximum extent practicable" and achieve "strategic sourcing-like benefits at the Federal level and take critical first steps to bring professional services under spend management."

The current FSSI strategic sourcing approach (e.g. leveraging volume, collecting transactional data, and driving prices down), however, has limited application to the cost-effective, best-value acquisition of complex, professional services. Best value services acquisitions are about leveraging economies of skill. [4] Service contracts should

[4] As highlighted in Section III of this testimony, requirements development and flexible contract structures are the keys to efficient, effective best value service solutions that support customer agency missions for the American people.

not be structured to limit the private sector's ability to provide cutting edge, best in class capabilities that save money. Rather, service contracts must be structured to provide flexibility at the task order level to meet actual customer agency mission requirements across the best value continuum. There may be instances where a low cost approach makes sense. However, the successful performance of complex mission requirements often requires a best value solution and/or a performance-based statement of work. For example, it is not in our national interest to acquire cybersecurity services on a low cost technically acceptable basis. Maintaining flexibility in the contracting process for complex professional services will ensure access to best value solutions for customer agencies and the American taxpayer. It also enhances opportunities for small businesses.

The Coalition is pleased that GSA has taken industry concerns regarding the potential strategic sourcing of complex services seriously and adjusted course as reflected by the current draft OASIS and OASIS Small Business Requests for Proposals (RFPs).

V. Conclusion

In summary, the GSA MAS program provides a strong foundation for strategic acquisition which allows the government to access the commercial marketplace and provides significant opportunities for small business. Based on a policy of "continuous open seasons", the MAS program brings millions of commercial services and products to the federal market every day. This continual open door policy allows the government to access commercial solutions from businesses of all sizes at a best value to federal agencies. The adoption of an Opportunity-based Model would even further enhance opportunities for small businesses by utilizing best practices from the commercial market and reducing many of the inefficiencies and costs that are currently involved in doing government business. Members of the subcommittee, the Coalition for Government Procurement is pleased that you are focusing on the role of the MAS program in promoting strategic acquisition and opportunities for small business concerns. We stand ready to provide you with any additional input at your request. Thank you.

The Coalition
for Government
Procurement

August 22, 2012

General Services Administration
Regulatory Secretariat
(MVCB), Attn: Hada Flowers
1275 First Street NE, 7th Floor
Washington, DC 20417

Subject:
Multiple Award Schedule (MAS)
Program Continuous Open Season-
Operational Change Notice-QDA-2012-01

The Coalition for Government Procurement (Coalition) appreciates the opportunity to submit comments on the above referenced change notice which establishes procedures for temporarily closing Multiple Award Schedules (MAS) and Special Item Numbers (SINs) for the receipt of new offers.

The Coalition is a non-profit association of more than 250 firms selling commercial services and products to the Federal Government. Our members collectively account for approximately 70% of the sales generated through the GSA Multiple Award Schedules program and about half of the commercial item solutions purchased annually by the Federal Government. Coalition members include small, medium and large business concerns. The Coalition is proud to have worked with Government officials over the past 30 years towards the mutual goal of common sense acquisition.

The Coalition recognizes that GSA has a responsibility to control costs and wisely use its acquisition resources. The Coalition has long supported common sense efforts to do so. With respect to the Demand Based Model, however, our members have expressed the following:

- The Demand Based Model does not directly address the stated problem of low and no sales contracts.
- GSA already has contract requirements and procedures in place to address low and no sales contracts.
- The Demand Based Model attempts to achieve efficiency at the cost of innovation and flexibility.

The Coalition opposes closing Schedule solicitations for new offers. The Coalition believes that there are more effective ways to reduce the number of low sales contracts, reduce processing times and better utilize acquisition resources, without liming innovation.

I. The Demand Based Model Does Not Address Current Low/No Sales Schedule Contracts

In the Federal Register notice GSA states that 50% of MAS contractors have no, or low sales and that to mitigate the cost of managing these contracts it is necessary to close Schedules and SINs to the receipt of new offers. However, there does not appear to be a direct correlation between closing Schedules and reducing the number of these contracts. Essentially, this operational change does not address the problem without further action regarding the current backlog of low or no sales contracts. If GSA moves forward with its plan to close schedules without additional action, the 10,000 low or no sales contracts on its books will continue to exist until their end date. GSA's demand based approach unnecessarily limits competitive opportunities for new commercial firms seeking to enter the federal marketplace instead of effectively addressing the low sales performance of some firms currently on schedule.

Ironically, the operational change may actually increase the schedule contract count as the threat of closing a Schedule or SIN will increase the number of offers received. Indeed, a public announcement regarding a GSA decision to close a schedule will likely cause a temporary spike in the number of offers received as new competitive entrants to the market act to ensure they are not shut out of a market. The resulting additional workload will likely significantly hamper GSA's ability to take actions on the very contracts that are causing the problem. As such, implementation of the Demand Base Model will impede GSA's ability to quickly eliminate low and no sales contracts. Moreover, even if we assume that closing schedules will reduce the number of low sales contracts, it will do so at the expense of access to innovation and potentially better prices.

II. GSA already has contract requirements and procedures in place to address low/no sales contracts

GSA has longstanding proposal preparation procedures and contract terms to prevent and/or address low sales contracts. As part of the proposal preparation process, GSA provides information and guidance designed to ensure potential contractors enter the market in a realistic, competitive and sound manner. These procedures include:

- Schedule solicitations advise that the Schedule is not the best model for all contractors.

- Offerors must take the "Pathway to Success" seminar designed to assist prospective FSS contractors in making informed business decisions as to whether obtaining an FSS contract is in their best interest.
- More recently, offerors have been required to complete a "Readiness Assessment". The assessment is designed to assist in deciding whether an offeror is able to compete as a Schedule contractor.
- Contract provision I-FSS-639 advises potential offerors that a contract will not be awarded if $25,000 in sales are not anticipated during the first 24 months of the contract and $25,000 annually thereafter.

If these processes are not sufficient to reduce the number of low and no sales contracts, I-FSS-639 also provides that contracts may be cancelled if sales criteria are not met by the contractor. GSA could ***immediately reduce*** the number of low sales contracts by exercising its discretion under this provision of the contract. We believe that in exercising this authority the contracting officer should proceed on a case by case basis considering relevant factors such as the contractor's marketing efforts and potential to offer unique or innovative services and products.

III. GSA's Demand Based Model attempts to achieve efficiency while sacrificing innovation and flexibility

Schedules contracts provide an effective framework for commercial firms to compete and customer agencies to acquire commercial services and products. The depth and breadth of commercial items found on schedule reflects the dynamic, competitive nature of the commercial marketplace. The fundamental foundation of the Schedules program is continuous open seasons. Continuous open seasons facilitate rapid introduction of commercial offerings by current contractors and by continuously allowing new entrants, including small business, into the Schedules market. Continuous open seasons acknowledge the flexibility, efficiency, innovation and competitiveness inherent in the commercial marketplace. As a result, contractors can create solutions in response to agency requirements utilizing different business lines within their own company or by teaming with other companies. Our members have expressed concern that the demand based model will limit their ability to:

- Bring new companies into the federal market. Some companies are growing commercially by acquiring other companies. If a schedule is closed, current successful contractors may be limited in introducing a newly acquired company into the federal market.
- Introduce new product lines. It is not clear how the addition of new product/business lines by current contractors will be treated.

- Team with other contractors to create solutions to satisfy government requirements for solutions that cut across schedule.

Closing schedules will reduce the ability of firms of all sizes to effectively and efficiency provide new commercial products, services and solutions to meet customer agency requirements. It will also serve as a barrier to small businesses that bring new technologies to the Federal market. As the Government is looking to increase opportunities for small business through a number of Small Business Jobs Act initiatives, it is critical that the schedules remain open to these companies as a means of accessing the Government market.

The Coalition also notes that there is no mechanism for rapidly reopening a schedule if there is a need. A decision to either close or open a schedule can only be reasonably made based on information about customer demand. GSA has historical information about total sales. The information is not granular enough to adequately analyze previous demand. GSA is even more limited in forecasting what agencies will buy in the future. Consequently, by the time a customer agency concludes that a closed schedule does not have the items or contracts needed to satisfy its requirement, the Schedule program will lose that transaction and possibly lose that agency as a customer of the Schedules program. The inability to quickly respond to these government-wide requirements undermines GSA's ability to be an effective centralized procuring activity.

Finally, if GSA moves forward with the Demand Based Model, it is imperative that it quickly execute changes to facilitate the acquisition of Other Direct Costs (ODC) against the schedule. Otherwise contractors will be further limited in their ability to create solutions when their individual contract does not contain 100% of an agency's need.

The Coalition appreciates GSA's consideration of our comments on the Demand Based Model. We would be happy to meet with GSA to further discuss our suggestions on the current approach.

Sincerely,

Roger Waldron
President

The Coalition
for Government
Procurement

Best Practices for Federal Supply Schedule BPAs

June 4th, 2012

GSA Schedules - Best Practices for Establishing Blanket Purchase Agreements

The GSA Schedule program provides agencies with an excellent platform to acquire commercial services, solutions and products at reasonable prices. Agencies can forge relationships with commercial partners and further leverage their buying power by establishing Blanket Purchase Agreements (BPAs). The regulatory requirements for establishing BPA's are set forth in FAR 8.4. In addition to complying with the regulatory requirements, there are specific strategies that have proven to be successful in allowing an agency to structure BPA's in a manner that increases the ability of GSA Schedule contractors to respond in a more competitive manner. This paper sets forth best practices that have resulted in BPA's that are successful for both federal agencies and GSA Schedule contractors.

Overview

Commercial contractors overwhelmingly report that they offer their best terms and prices to customers who provide the most detailed information about their requirements and usage. Commercial customers that get the best deals share the following traits. They have:

1. Known, requirements which they share with potential suppliers
2. Commitment to acquire a specific volume
3. Centralized program management
4. Strategies for partnering with suppliers

Specific information about the factors listed above, when included in a statement of work, have great potential to enhance the Government and industry's ability to provide best value to the taxpayer.

Specific requirements, volume commitments and/or guaranteed minimums for BPAs will lead to enhanced competition and better pricing. Generic BPAs that rely on subsequent task order competitions introduce a level of complexity and cost that is counterproductive.

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Best BPA Practices

The following practices have resulted in BPA's that improve efficiency and enhance real competition while providing best value to the government.

1. **Focus on requirements.** BPAs should be structured with a focused set of requirements to enhance effective competition and pricing. Real requirements lead to real price competition in the FSS ordering process.

- BPAs reflecting single agency requirements should be preferred over multiple agency or government-wide BPA's. Single agency BPAs allow the government to state specific, realistic, authentic requirements that can be accurately priced.

- Include maximum as well as minimum requirements. This information enables bidders to provide targeted pricing and avoid the need to build in cushions to cover risks and changes that may never materialize.

- Include a sound estimate of the government's anticipated usage

2. **Include real economic incentives for competition.** Commercial pricing policies commonly extend favorable pricing to customers with terms and guarantees that offer the company an economic benefit. Economic incentives include:

- A commitment to acquire a guaranteed minimum volume.

- Absent a guaranteed minimum the BPA can include a list of required users

- If an agency cannot commit to a guaranteed minimum or list of required user, the BPA should be evaluated based on technical requirements only; price can be established based on competition among technically qualified BPA holders at task order level

3. **Pay attention to BPA management.** Major BPAs should have a program manager assigned to ensure effective execution, implementation and administration. Too often BPAs are established without a focused management plan for effective use. Program Managers can be particularly effective in:

- Establishing robust communication between the contractors and end users to continually improve the contract administration

- Eliminating unnecessary administrative requirements that add unnecessary costs to the process

- Monitoring agency ordering

- Periodically reviewing BPA's to ensure continued best value.

4. **To the extent allowable, involve industry partners in the development of acquisition strategy.** The Government should use industry meetings and statements of work to share statements of the agency objectives. In some cases, agencies are focused entirely on negotiating low price and may miss opportunities to acquire new commercial solutions that could improve the delivery of services or provide cutting edge technology. Agencies may also be focused on lowering the unit price of products or services without considering more significant opportunities to lower the total cost of operations by changing what or how they buy. Fully incorporating industry discussions early in the process can open opportunities for suggestion new, cost saving strategies from commercial partners.

5. **Eliminate "generic BPAs"** (no stated users, no minimum volume, broad statement of requirements). Generic multiple award BPAs that rely on subsequent task order competitions add an extra level to the FSS ordering process that is unnecessary and should be avoided. These BPAs represent vertical contract duplication and increase costs for both government and industry. Moreover, any price competition when establishing these BPAs is illusory. Subsequent BPA task order competitions for specific requirements establish the real price paid by the government—it is more efficient to compete these requirements directly against GSA Schedule contracts.

TechAmerica
WHERE THE FUTURE BEGINS
THE ASSOCIATION OF COMPANIES DRIVING INNOVATION WORLDWIDE

Statement of

A.R. "Trey" Hodgkins, III
Senior Vice President
Global Public Policy

Before the
Subcommittee on Contracting & the Workforce
House Committee on Small Business

"Putting the Strategy in Sourcing:
Challenges and Opportunities for Small Business Contractors"

Thursday, June 13, 2013

Chairman Hanna, Ranking Member Meng and Members of the Panel, my name is Trey Hodgkins and I am the Senior Vice President for Global Public Sector at TechAmerica. I want to thank you for the opportunity to testify this morning regarding challenges and opportunities small businesses face in the adoption of strategic sourcing by the Federal government.

TechAmerica [1] is uniquely positioned representing companies from the information technology (IT), communications and defense industrial base sectors and our members range from large companies whose names are household terms, to the most innovative and agile of small technology companies from across the Nation. While many of the companies are oriented with the government as a customer, a large number of our members are completely outside of the public sector and are commercial in nature, offering commercial items developed and manufactured in a global economy and distributed and sold around the world. The ubiquitous nature and complexity of the goods and services our members sell offer unique perspectives on strategic sourcing in Federal government contracting and I would like to share a few of those this morning.

Before I turn to that issue, however, I would like to take this opportunity to reiterate for the committee that the single biggest challenge to success for small business in the public sector market is the tidal wave of government unique requirements they face and the burdens they create. Many of the commercial companies mentioned above consider the burden too significant and not worth the costs and risks and choose to simply forego government work entirely. This condition means that the government does not have access to many of the most innovative companies offering cutting edge technologies and software products and services focused on critical issues like cybersecurity. The condition also results in diminished competition and higher prices for the goods and services the government does acquire, because the burdens created by the government unique requirements end up as part of the cost of doing business and are passed along to the buyer. To address this and other conditions that hinder achieving best value for the taxpayer, TechAmerica would solicit the Committee's support for a wholesale review of government acquisition, similar in scope and objective to the Section 800 Panel convened in the early 90s. Without such an effort, we are concerned that legislative and administrative attempts to address shortcomings in Federal acquisition will have only limited impact at the edges of the issue.

Strategic Sourcing

As taxpaying corporate citizens who employ millions of people around the country, the members of TechAmerica are supportive of

[1] TechAmerica is the leading voice for the U.S. technology industry—the driving force productivity growth and job creation in the United States and the foundation of the global innovation economy. Representing premiere technology companies of all sizes, we are the industry's only trade association dedicated to advocating for the ICT sector before decision makers at the state, federal and international levels of government. With offices in Washington, D.C., Silicon Valley, Brussels and Beijing, as well as regional offices around the U.S., we deliver our members top tier business intelligence and networking opportunities on a global scale. We are committed to expanding market opportunities and driving the competitiveness of the U.S. technology industry around the world. For more information, visit www.techamierica.org.

efforts like the Federal Strategic Sourcing Initiative (FSSI) that can derive savings by consolidating the acquisition of commoditized goods. We could caution, however, that such efforts have diminishing success when goods and services of a complex or diverse nature are shoe-horned into these vehicles. Strategic sourcing only works when the customer has uniform and relatively rigid acquisition requirements, and that is simply not the way the government buys information technology goods and services.

For small businesses, we see two direct and immediate challenges under the strategic sourcing initiative. Many of these companies—particularly the thousands of companies selling information technology goods and services are resellers on GSA schedules—will face diminished access to the Federal government market because under FSSI, there will be less award winners and more losers. The second challenge impacts those small businesses that are the most innovative providers of IT goods and services which are frequently offered in response to narrow, unique mission requirements or as a specialized component of a broader prime contractor activity. The offerings of these companies simply do not fit into the commoditized labor categories envisioned under strategic sourcing and these companies will face increased market pressures, given requirements to drive more and more acquisitions into strategic sourcing.

Many of the products and services in the ICT space do not lend themselves well to strategic sourcing. Government does not buy technology in a consistent fashion either and that further complicates any effort to fit them into such an initiative. For hardware items like laptops or servers, the government does not buy them in large quantities and when buying them, it does not ask for a consistent configuration. One customer wants more memory; another wants a CAC card reader, and a third wants a different sized screen.

The One Acquisition Solution for Integrated Services (OASIS) GWAC is a live example of the shoehorning of acquisitions into a strategic sourcing vehicle. Originally proposed as a new vehicle specifically for the acquisition of complex integrations of technology and services, it was announced earlier this year that it would become part of FSSI and the goods and services offered under the contract would be commoditized. As noted above, complex and specialized goods and services, like the ones small business can deliver, do not lend themselves well to strategic sourcing, so industry reacted with confusion and apprehension about proceeding with the offering. While the Draft RFP is out for review and a Final RFP is under development, industry remains concerned about how goods and services will be treated in the future under this contract vehicle.

Small business can and should compete for contracts in FSSI, but not all goods and services lend themselves to strategic sourcing. Congress should ensure that small business opportunities to offer innovative and unique goods and specialized services are preserved and that we strike a balance as we implement the Federal Strategic Sourcing Initiative.

Thank you again for the opportunity to speak with you this morning. I would be happy to answer your questions.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

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STATEMENT OF

THE HONORABLE JOSEPH G. JORDAN

ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY

OFFICE OF MANAGEMENT AND BUDGET

BEFORE THE

SUBCOMMITTEE ON CONTRACTING AND WORKFORCE

COMMITTEE ON SMALL BUSINESS

UNITED STATES HOUSE OF REPRESENTATIVES

June 13, 2013

Chairman Hanna, Ranking Member Meng, and members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss initiatives the Administration is taking to both save money and maximize small business participation in federal procurement. These efforts are central to the government's ability to get the best value for the taxpayer. With approximately one out of every seven dollars the government spends going to contractors, it is imperative that our acquisition processes enable us to get the highest quality goods and services for the lowest possible cost. Equally important, our processes must allow us to regularly tap into the creativity, innovation, and technical expertise that small businesses offer to help agencies accomplish their missions. The good news is that I believe buying smarter initiatives like strategic sourcing reinforce both the goal of maximizing small business opportunities and value for the taxpayer.

Buying smarter and maximizing opportunities for small businesses

Prior to becoming Administrator for Federal Procurement Policy, I served as Associate Administrator for Government Contracting and Business Development at the Small Business Administration (SBA). In that role, I was charged with increasing federal contracting opportunities for small businesses, including small disadvantaged businesses, women-owned small businesses, service-disabled veteran owned small businesses (SDVOSB), and small business contractors working in Historically Underutilized Business Zones (HUBZones). I am proud of the progress that SBA made during my tenure to help agencies increase opportunities for small businesses as we reversed the downward trend in small business goal achievement and drove the largest two-year increase against these goals in more than a decade. These efforts included partnering with Congress, including this Committee, on the historic Small Business Jobs Act (SBJA). This Act strengthened the statutory framework for small business contracting by, working with senior agency leaders to keep agencies focused on those activities that can deliver the most significant improvements in the shortest amount of time, such as by expanding the use of set-asides, and developing a more transparent, data-driven small business scorecard process that holds the government accountable to the taxpayer. These efforts also included an aggressive campaign to root out waste, fraud and abuse in small business contracting programs to ensure that benefits from these programs flow to the intended recipients.

Supporting small businesses is especially important during this critical time as agencies strive to meet mission needs within increasingly tight budgets. Over the past four years, agencies dramatically reversed the unsustainable annual growth rate in acquisition that saw contract spending grow by an average of 12 percent per year from 200 through 2008. From Fiscal Year (FY) 2011 to FY 2012, agencies reduced contract spending by more than $20 billion, the largest single year dollar decrease in Federal contract spending on record. Over this same period, with strong leadership attention, agencies were able to increase the percentage of eligible contract dollars awarded to small businesses. That said, there is much left to be done to ensure we meet our small business goals year after year and provide meaningful contract opportunities in these challenging economic times. My experience at SBA reinforced my belief that small business contracting is a win/win. These businesses get the revenue they need to create jobs and grow the economy, while the government gets access to some of the most innovative companies in our supply chain. I appreciate the continued help of this Committee, including important legislative changes that removed caps on the use of set-asides for women-owned small businesses.

To build on the progress we are achieving to date, we must take better advantage of the mutually reinforcing practices that foster both greater small business participation and help us get better results from our federal contracts. These include:

- Conducting effective market research so that small businesses are aware of potential opportunities and agencies can find capable small businesses;

- Developing clearer requirements through the collaborative efforts of program and contracting personnel so that vendors can better understand agency needs and make informed decisions as to whether and when they compete for work;

- Giving interested sources sufficient time to develop quality proposals; and

- Taking better advantage of technology to make doing business with the government easier and less costly.

The priorities of the Office of Federal Procurement Policy (OFPP) are shaped around strengthening these ties. We are working with SBA, other federal agencies, private sector experts, and others who follow and represent the interests of small business to shape policies and identify best practices that allow agencies to buy smarter through the use of proven strategies for cutting costs and increasing quality while simultaneously strengthening our relationship with contractors, especially small business suppliers.

Taking greater advantage of strategic sourcing

Our efforts to identify better buying practices that save money and increase opportunities for small business led us to place greater emphasis on strategic sourcing. Strategic sourcing refers to the structured and thoughtful process of critically analyzing spending across organizations and using this information to achieve price savings, administrative cost reductions, and improved contract performance.

Strategic sourcing, which the private sector long recognized as a successful business practice, requires agencies to look at the factors that most directly affect their ability to optimize value for the taxpayer, such as the level of customer demand, the way in which this demand is currently being met, variance in prices paid for similar goods and services with the same or different vendors, and the agency's commodity management practices. Through these efforts, agencies drive inefficiencies out of their buying processes. In some cases, agencies achieve savings by leveraging demand to attain volume-based pricing discounts and eliminate duplicative contracts, in other cases by standardizing terms and conditions across contracts, or simply through smarter commodity management.

Efforts to date illustrate the substantial savings that strategic sourcing offers. Government-wide strategic sourcing of items such as office supplies and domestic shipping services achieved nearly $300 million in direct and indirect savings since FY 2010. And agency-level strategic sourcing of goods like IT and medical equipment have saved hundreds of millions more. The Department of Homeland Security, for example, saved over $386 million in FY 2012 by pooling purchases for a wide range of products across the Federal Emergency Management Agency, the Coast Guard, Customs and Border Protection, and other components.

Equally important, these efforts demonstrate that agencies can increase their spending with small businesses and simultaneously reap the benefits of strategic sourcing. Our government-wide strategic sourcing of office supplies is a compelling example. By engaging the small business community as part of its market research, the General Services Administration (GSA), which served as the executive agent for this sourcing event, learned that the specifications in two planned requirements could hamper small business participation: overnight delivery (which can give an advantage to large firms who operate their own trucking fleets) and very small minimum order amounts (which increases administrative costs). GSA also learned after talking to its customers that neither of these requirements was critical. Based on this analysis, GSA eliminated the requirement for next day delivery and instead provided for three or four day delivery and increased the minimum order size to enable small business to reduce administrative costs. GSA also divided the office supplies strategic sourcing acquisition ("OS2") into three functional areas, one was set aside for small businesses and another (for toner) was set aside for SDVOSBs. These steps enabled small businesses to make highly competitive bids without diluting the benefits of pooling agency demand. Thirteen of the fifteen winning vendors were small businesses, including three SDVOSBs.

The results from smart acquisition planning and careful consideration of small business needs are both telling and impressive. According to GSA, total dollars going to small businesses increased from 67 percent prior to implementation of the strategic sourcing solution to 76 percent through the solution, and in recent months, the number has approached 80 percent. According to GSA's analysis, through April 2013, actual savings from OS2 totaled over $88 million, or more than 14 percent under baseline costs.

Many small businesses expressed concern that strategic sourcing could harm their participation in the federal marketplace. However, the Administration is working to ensure that competitive small businesses can engage in strategic sourcing. Based on the types of experiences I have just described and, even more importantly, the steps we are taking to move the initiative forward, I am confident that competitive small businesses—of which there are many—will not only hold their own, but do even better. And, those small businesses that are currently less competitive will have opportunities to get in the game in the future by taking steps to strengthen themselves.

Here are several key steps that the Administration is taking to increase opportunities for small businesses at the same time as we work to maximize the value of strategic sourcing:

<u>Agencies are required to seek increased participation by small businesses when pursuing strategic sourcing.</u> Last December, OMB issued a blueprint for improving acquisition through strategic sourcing. M–13–02 (December 5, 2012). This document clearly articulates that all strategic sourcing opportunities shall seek to increase participation by small businesses. It specifically requires that *all proposed strategic sourcing agreements must baseline small business use under current strategies and set goals to meet or exceed that baseline participation under the new strategic sourcing vehicles.*

These requirements are designed to ensure that small business participation is actively considered throughout acquisition planning—first by identifying how agencies currently use small businesses in meeting requirements for a particular commodity, second, by identifying vendors that could provide the commodity and the relative presence of small businesses in the market and then by receiving input from industry, particularly small businesses, to consider how requirements or business practices might be adjusted to increase small business participation. In addition to office supplies, a market where small business participation is strong, small business-friendly strategies have been used successfully in commodity categories where small business participation was traditionally not as strong, such as print management and wireless telecommunications [expense management] services.

Government-wide strategic sourcing decisions will be made by a council that includes the Small Business Administration (SBA). M–13–02 established the Strategic Sourcing Leadership Council (SSLC) to facilitate the organized expansion of strategic sourcing. Under my direction, the seven largest buying agencies (the Departments of Defense, Energy, Homeland Security, Health and Human Services, and Veterans Affairs, the General Services Administration, and the National Aeronautics and Space Administration) along with the SBA have been working together and forming teams of commodity experts to analyze current spending and potential savings opportunities across the government in areas such as desktops and laptops, information technology software, janitorial and sanitation supplies and building maintenance and operations services.

It is important to emphasize that OMB created the SSLC to ensure that our strategic sourcing efforts are measured and focused. We are not seeking to strategically source everything the government buys, nor will every strategic sourcing decision mean fewer participants. The goal is to maximize value for the taxpayer and that will take different forms depending on what the spend analysis reveals in terms of the nature of the commodity and the government's cost drivers.

In some cases, commodity teams may recommend developing new, government-wide strategic sourcing vehicles to drive spending through a smaller number of vehicles that include contract-wide tiered pricing, or other appropriate strategies, to reduce prices as cumulative sales volume increases. However, in other cases, the decision may involve standardizing terms and conditions among existing vehicles so that we are better positioned for a sourcing event in the future. In all cases, agencies will require vendors to provide sufficient pricing, usage, and performance data to enable the government to improve its commodity management practices and monitor vendor performance and pricing changes throughout the life of the contract to ensure the benefits of strategic sourcing are maintained.

For its part, SBA will continue to ensure this effort is providing maximized opportunities for small business contractors. Procurement Center Representatives continue to work with agencies and vendors to build awareness of any future sourcing events. SBA district offices and resource partners will train small businesses on how to most effectively compete. And all agencies are held accountable for meeting their small business contracting goals through SBA's annual scorecard.

The Administration is actively promoting the use of tools to facilitate greater small business participation on contract vehicles that have been strategically sourced. Many strategic sourcing vehicles are built around multiple award contracts that allow multiple vendors to offer their products and services and compete for orders as needs arise. Thanks to the SBJA, agencies can now take greater advantage of tools to increase the participation of small businesses as prime contractors. These include reserves to increase the number of small business contract holders on the underlying multiple award contracts and set-asides at the order level. Both of these tools should help increase the amount of total spending that goes to small businesses on both government-wide and agency-wide vehicles that have been strategically sourced where it is not suitable to make a total business set-aside.

In addition, we are actively exploring how agencies can take advantage of "on ramps" and "off ramps." These tools allow agencies to enter into longer deals that are often required to get better prices and terms and conditions while giving small businesses that did not receive an award initially an opportunity to get onto the vehicle as slots open up, as may be the case where a current small business contractor no longer qualifies as a small business or where a current contract holder is routinely not participating when the agency asks for quotes or offers.

Finally, we are taking advantage of opportunities for small businesses to pool their capabilities and become more competitive in responding to agency needs. In the case of office supplies, for example, one of the awardees was a consortium comprised of more than 100 individual small business participants.

Moving Forward

OFPP is committed to ensuring that agencies remain vigilant in their efforts to maintain fiscal discipline through a forward-leaning but measured application of smarter buying tools to achieve the best value for our taxpayers. OFPP is equally committed to ensuring that agencies provide maximum opportunities for small businesses in federal contracting and subcontracting, so that they may flourish and apply their talents to the many pressing demands facing our government. We must pursue these important goals in harmony, as we have been doing and will continue to do.

While there is work ahead, we are making important progress. With agency leadership and continued management attention coupled with the steps I have outlined above, there is every reason to believe that strategic sourcing can generate positive results from our contracts and also foster greater small business participation. We look forward to working with you and other members of Congress on these important endeavors.

I would be pleased to address any questions you may have.

STATEMENT OF

JEFFREY A. KOSES
DIRECTOR, OFFICE OF ACQUISITION OPERATIONS,
GENERAL SUPPLIES AND SERVICES
FEDERAL ACQUISITION SERVICE
U.S. GENERAL SERVICES ADMINISTRATION

BEFORE THE

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

"Effects of Strategic Sourcing Initiatives on Small Business"

June 13, 2013

GSA

Good morning Chairman Hanna, Ranking Member Meng, and Members of the Subcommittee. My name is Jeffrey Koses and I am the Director of Acquisition Operations of the U.S. General Services Administration's (GSA) Federal Acquisition Service (FAS), General Supplies and Services portfolio.

I want to thank you for the opportunity to discuss GSA's accomplishments under the Federal Strategic Sourcing Initiative (or FSSI), our efforts to modernize the Multiple Award Schedules (MAS) program to keep pace with federal agency needs and industry changes, and small business success with GSA's governmentwide contracts (GWACs). As America's buyer, GSA contracts with the private sector to provide commercial services and products that support Federal agencies. We strive to acquire the best possible deal for the taxpayer and to increase small business opportunity as part of helping federal agencies operate more efficiently.

Several highlights of GSA's success in ensuring significant small business participation while delivering high value contracts include:

- 76 percent of dollars went to small business in GSA's strategically sourced solution for office supplies
- 34 percent of dollars awarded through the GSA Multiple Award Schedule (MAS) going to small business;
- More than 19 percent of Request for Quotes (RFQs) set-aside through GSA's E-Buy System for small businesses on MAS as a result of the Small Business Jobs Act of 2010;
- An A+ small business rating for GSA by the Small Business Administration for two consecutive years; and
- 25 percent of all dollars awarded between GSA's Alliant and Alliant Small Business contracts are going to small businesses.

Strategic Sourcing

For many years, strategic sourcing has been a best practice in the private sector, and has resulted in significant savings. The Government Accountability Office (GAO) has found in a series of audits that the federal government can save billions of dollars through the application of strategic sourcing principles. In 2005, under former President Bush, the Office of Management Budget (OMB) launched a formal effort to promote strategic sourcing across government through a memorandum to Chief Acquisition Officers.

Strategic sourcing received a renewed emphasis across government through a December 2012 memo from former Acting Director of OMB Jeffrey Zients creating a Strategic Sourcing Leadership Council (SSLC) comprised of the seven largest spending agencies, as well the Small Business Administration (SBA). This memorandum, among other things, directed GSA to establish 10 new strategic sourcing solutions: five each in 2013 and 2014. To achieve this ambitious goal, GSA is working closely with OMB and the agencies making up the SSLC. The agencies participating in these efforts have strongly emphasized the importance of meeting their small business utilization objectives; GSA couldn't agree more. FSSI seeks to leverage the federal government's collective buying power in order to efficiently and effectively utilize taxpayer dollars and to increase dollars spent with small business.

The Office Supplies (OS2) solution has served as the test case for this generation of federal strategic sourcing. GSA has used OS2 to realize substantial benefits for taxpayers. In audit GAO–12–178, GAO confirmed that agencies were saving money through the FSSI OS2 program.

On June 1, 2010, GSA awarded BPAs to 15 contractors, 13 of whom were small businesses. Of these, 11 qualified under a socio-economic subcategory. There are 5 women owned small businesses, 2 service disabled veteran owned small businesses, 3 small disadvantaged, and 1 disadvantaged woman-owned small business. In the office supplies industry, there are some consortia made up as coops of individual small businesses. One of the winners was a consortia, with over 100 individual small businesses participating in OS2.

OS2 has resulted in direct savings of $88.7 million on spending of $607.9 million through April 2013. This savings is calculated as the difference between what agencies spend through strategic sourcing and what they would have spent had they received non-strategic sourcing pricing.

GSA found that the FSSI had the added benefit of lowering prices charged by non-OS2 vendors. Prices for non-OS2 vendors are 10 percent lower, against a standard industry benchmark, than they were in 2010. This improved pricing has resulted in further savings of over $98 million beyond what's been directly saved through OS2.

One of, if not the most significant, new element of OS2 is the ability to have greater transparency into pricing and how taxpayer dollars are being spent to drive even greater savings. OS2 contractors are required to report transactional data on all program sales. This level of financial information collection provides us for the first time with a deep vision into agency spending behavior. Over the last several months, GSA used this data to show contractors their pricing item by item, compared with their competitors. This empowered FSSI Office Supply contractors to understand their competitive position, and in many cases go back to their suppliers and strike better deals. After GSA shared this data, every one of the OS2 contractors sharply reduced prices. If the same ordering pattern holds for the period June 2013 through May 2014 (same contractor, same item and same quantity) there would be a savings of $12 million as a result of these price reductions.

Key successes of OS2 program include:

- An increase from 67 percent to over 76 percent of dollars spent with small business.
- A decrease from more than 250 percent to 10 percent in price variability (the difference between high and low price for the same item).
- A reduction in contract duplication and administrative costs, a reduction in bid and proposal costs for industry, and an increase in time for acquisition professionals to work on mission priorities.

• Greater accountability of vendors for meeting performance goals.

• Knowledge and experience to help agencies implement future strategic sourcing solutions.

Based on OMB's direction, GSA is working towards establishing strategic sourcing solutions for Fiscal Year 2013 in the areas of:

- Wireless rate plans and devices (awarded May 20, 2013)
- Large Desktop Publisher Software
- Print Management Phase 2
- Maintenance, Repair, and Operations Supplies, and
- Janitorial and Sanitation Supplies,

GSA is exploring many other potential solutions for Fiscal Year 2014, and will announce these areas as the Strategic Sourcing Leadership Council approves standup of a Government-wide commodity team.

In conducting the commodity or service overview for strategic sourcing, one of our foundational questions addresses the impact of the solution on small business. Acting Administrator Tangherlini has made clear that expanded opportunity for small business is a crucial strategic sourcing success metric that will be monitored closely.

We include the opportunity to expand percent of dollars going to small business, directly or as subcontractors, as a foundational element of strategic sourcing, and we are committed to ensuring small business opportunity all along the path of strategic sourcing. GSA believes strategic sourcing and small business success not only are not mutually exclusive, but can actively be harmonized.

GSA has taken several specific steps to ensure small business opportunity, standardize process, simplify rules, show an open and transparent process, and demonstrate that the competition is fair.

In the case of both Janitorial and Sanitation Supplies and our Maintenance and Repair Operations Supplies strategic sourcing initiatives, we are setting aside the majority of the awards for small business and we have broken down these categories in ways that maximize the opportunities for small business success.

GSA's commitment to small business goes well beyond FSSI. We have received an A+ rating from the Small Business Administration for 2010 and 2011, and we look forward to building further on these successes.

Multiple Award Schedules

GSA believes that the Multiple Award Schedules (MAS) program represents the best opportunity for well-prepared, highly competitive small businesses anywhere in the government procurement world. Small businesses represent an estimated 80 percent of all MAS vendors, and approximately 34 percent of the $38 billion dollars in sales go to small businesses. More importantly, when agencies use the MAS program the majority of users have a higher percentage of spending that goes to small business than when they use other acquisition vehicles.

Federal agencies tell GSA that they use schedules because it saves them time and money. Agencies can experience up to a 50 percent time savings using schedules over more traditional procurement practices. Still, we believe that there is substantial room for improvement in the MAS program.

Over the last year, we have worked diligently with both small businesses and federal agencies, asking for input on how the MAS program can better meet their needs and how GSA can improve its support. We received and are working to implement many of the important suggestions yielded in these industry and agency conversations. Similarly, we are eager to hear your input as we work towards the common goals of achieving taxpayer savings and ensuring small business opportunity.

When small businesses are informed, properly trained and ready to compete they succeed. For example, on GSA's National Information Technology Commodity Program, GSA awarded 44 BPAs to small businesses under schedule 70 for IT Commodities and ancillary services. The goals of this program are to drive down the cost of acquisition, and establish a more efficient and cost-effective buying process. We are only six months into the program, but the preliminary results are positive: federal agencies are reporting significant savings, an improved, easier to use process, and excellent customer service.

To achieve greater savings, GSA must have greater visibility into key data across the MAS program. We know data is not a free good. However, if we extrapolate from the Office Supplies example and can achieve the same results on our other product based schedules, it could result in significant savings.

In addition, by making the right transactional data available to small business, we can help them be more competitive and make good decisions about when and how to pursue federal business.

Small Business Set-Asides

One area of success for small business under the Multiple Award Schedules program is through our training focused on the discretionary set-aside rule, which came about as a result of section 1331 of the Small Business Jobs Act of 2010. Since April 1, 2012, through GSA's e-Buy system, we have set aside 15,942 Requests for Quotation (RFQ) (more than 19 percent) for small business. For the month of April 2013, we set aside 22.5 percent of all RFQs—great progress as the buying season kicks into high gear.

GSA employs several methods to deliver our training, including classroom training, webinars, blogs, Continuous Learning Modules in the Federal Acquisition Institute (FAI) and Defense Acquisition University (DAU) portals, and GSA's YouTube channel.

To date, we have trained more than 9,700 members of the acquisition workforce on proper use of Multiple Award Schedules and the utilization of Small Business, resulting in 32,071 Continuous Learning Points being issued to acquisition workforce members.

The government-wide and industry interest in this training is growing; more than 1,000 people participated in a recent GSA web training on “GSA Schedules and Small Business Utilization.”

We are very proud of our work to ensure the successful implementation of Section 1331. However, the true measure of success lies in the results, we are looking to see an increase in the percent of dollars going to Small Business.

Government-Wide Contracts (GWACS)

In early 2009, GSA awarded two sets of contracts to create a GWAC. These contracts, known as Alliant and Alliant Small Business, were designed for long term planning of large scale customized IT solution while strengthening opportunities for small businesses.

To date, small businesses have won $1.3 billion under Alliant Small Business—25.9 percent of all dollars awarded between the two programs.

In addition, under the prime Alliant contract, small businesses have been awarded $534 million in subcontracts.

We are looking to replicate these successes with a new government-wide contract vehicle that would provide for integrated professional services. We see our proposed One Acquisition Solution for Integrated Services (OASIS) contract as a key to simplifying the acquisition of integrated professional services, and moving us to common labor category definitions, thus furthering a better dialogue within government and between government and industry.

Conclusion

At GSA, it is our goal to be good stewards of taxpayer dollars. This includes a focus on increasing small business opportunities for vendors committed to delivering the best value to the taxpayer.

As we look to the future, GSA will continue to focus on strategic sourcing, modernizing the schedules program, improving our pricing and tools, raising our standards, offering the best training and customer service we can, and collecting the information and data that will help save taxpayer dollars. GSA will continue being a leader in opening dialogue with industry and our program will remain a doorway to opportunity for highly competitive small business.

On behalf of GSA, thank you for this opportunity to appear before the committee and I would be happy to answer your questions.

Written Testimony of William Balek
Director of Legislative Affairs
ISSA – The Worldwide Cleaning Products Association
Before the House Small Business Subcommittee on Contracting and the Workforce

June 13, 2013

Thank you very much for the opportunity to provide written testimony on the General Services Administration's draft request for quotation (RFQ) for the *Establishment of Government-Wide Multiple Blanket Purchase Agreements (BPAs) for Janitorial/Sanitation Commodities.* ISSA appreciates the leadership of Subcommittee Chairman Hanna, Subcommittee Ranking Member Meng, Committee Chairman Graves and Ranking Member Velázquez.

ISSA is a non-profit trade association that represents the commercial and institutional cleaning industry. Our membership is comprised of over 6,000 companies representing manufacturers and distributors of cleaning chemicals, equipment, and supplies, as well as those who provide professional cleaning services. The vast majority of ISSA members are small businesses who will be impacted by the proposed initiative.

ISSA is concerned about the adverse economic impact to the private sector as a direct result of the GSA implementation of the Federal Strategic Sourcing Initiative (FSSI) in the janitorial and sanitation (jan/san) sector. ISSA therefore urges GSA to conduct a cost benefit analysis to evaluate the economic impact on the U.S. economy, especially the small businesses and their employees, before moving forward with implementation of the FSSI in the jan/san sector.

Economic Impact

While the FSSI may result in savings to the federal government, it will have a negative financial impact on hundreds of jan/san vendors who are currently on the GSA schedule. Specifically, FSSI will cause a substantial loss of business and jobs as a result of the drastic reduction in jan/san vendors on the schedule. More importantly, the economic impact is expected to go far beyond GSA vendors. OMB intends to make the FSSI mandatory for the seven government agencies that collectively spend 90% of the annual $539 billion in overall federal government spending.

These concerns are reinforced by the recent issuance of the draft RFQ for the Establishment of Government-Wide Multiple Blanket Purchase Agreements for Janitorial/Sanitation Commodities which was released at a May 15 meeting conducted by GSA. The draft RFQ will have a negative economic impact on the private sector because it would:

- Decrease the number of GSA schedule awards to 15 vendors—a drastic reduction from the estimated 1,000 plus vendors that currently supply the federal government with jan/san products and supplies;
- The economic impacts of the RFQ in the jan/san private sector will be magnified because GSA's goal is to direct ALL Federal spending through such strategically sourced solutions even if such purchasing is not done through the GSA schedule. Note:

GSA only accounts for approximately 7% of all federal spending, meaning over 90% of federal purchasing is done outside of the GSA schedule; and
- Limit the GSA schedule awards to AbilityOne certified vendors only.

By limiting contractor participation to only the 15 awarded contractors, those companies who are not selected will suffer financial distress that will require them to layoff a significant number of their employees due to the lost federal sales. This scenario is reinforced by an informal economic survey conducted by ISSA of jan/san vendors to the federal government who indicated that they would lose substantial sales and revenue which would result in a reduction in their workforce. The results of the survey are attached as an appendix to this written testimony. The responses received to date are indicative of the economic impact we can expect across the jan/san community if the RFQ is implemented as proposed.

Moreover, recent history indicates that the jan/san sector can reasonably anticipate a substantial adverse economic impact if the RFQ is implemented in its present form. The FSSI process was first initiated in 2010 for Schedule 75 Office Supplies vendors where FSSI BPAs were awarded to only 15 vendors out of 560+ who were previously doing business with the federal government. According to research conducted by Bornstein and Song, an economic consulting firm, the outcome was the displacement of a significant number of small and large businesses with resulting job losses and overall financial distress. There were a few winners but significantly more non-winners. ***We expect similar results in the commercial cleaning supply industry.***

Because of the devastating economic impacts that will be suffered by many jan/san companies in the private sector, ISSA urges GSA to perform a cost benefit analysis to evaluate the economic impact on the U.S. economy and especially the small businesses and their employees, before moving forward with implementation in the jan/san sector.

In fact in a Report prepared by the Office of Management and Budget (OMB), entitled the 2012 Draft Report to Congress on the Benefits and Costs of Federal Regulations, OMB urges that "agencies should attempt to quantify the adverse employment effects (if any) of regulations and turn those effects into monetary equivalents for purposes of Cost Benefit Analysis.

The OMB report continues: "OMB does agree that in a challenging economic period with significant unemployment, it is important for regulatory agencies to attempt, to the extent feasible, to include with their analysis of the costs and benefits of economically significant regulations an assessment of the employment effects (whether negative or positive) of those regulations, particularly in view of the potential long-term adverse consequences of reduced employment for affected workers and their families."

The OMB report underscores the need for an economic impact analysis before GSA moves forward with implementing FSSI in the jan/san sector.

Technical Issues with the RFQ

In addition to our overarching concerns about the economic impact of the draft RFQ and the need, we also believe the proposal should address some concerns.

First, ISSA supports GSA's stated intent to consider the environmental benefits of the products it purchases under the BPAs. Further, we appreciate that the RFQ recognizes government purchasing mandates related to the BioPreferred Program, Environmentally Preferable Products (EPP); Design for the Environment (DfE) Safer Product Labeling Program, ENERGY STAR, WaterSense and other similar programs. In addition, ensuring that procurement adheres to any mandates around these programs, quotations that include these types of environmentally preferred products should be given preferential treatment during the procurement process.

ISSA also encourages GSA to incorporate into its preference for environmentally preferable products the framework that is used to identify such products in an approach that has garnered marketplace acceptance: the U.S. Green Building Council's LEED Standard for Existing Buildings: Operations & Maintenance (LEED-EBOM). Specifically we recommend that GSA should give preference to products that meet the requirements set forth in LEED-EBOM v4 which is the latest draft of the revised standard that is due for balloting and finalization this summer. The system set forth in LEED-EBOM v4 for qualifying green products has been vetted thoroughly by the USGBC committee structure and balloting process and already enjoys acceptance in the marketplace. In fact, the GSA Green Building Advisory Committee recently officially recommended to GSA that the LEED green building certification system be used for all GSA buildings. Following the LEED-EBOM process ensures that GSA has available a robust supply of environmentally preferable jan/san products at competitive prices.

The draft RFQ goes on state that "GSA will begin to require an automatic substitution policy to ensure the Government is buying products that foster markets for environmentally preferable content and sustainable technologies. BPA holders shall assess the environmentally preferable content of BPA products at least annually and refresh their product list with the highest-content products. Contractors will be notified of any change in AbilityOne representation during the course of the BPA."

ISSA has a number of concerns related to this provision. What does GSA mean by an "automatic substitution policy"? How will the products be assessed for their "environmentally preferable content"? What mechanism will GSA use to distinguish or otherwise differentiate these products? GSA should address these questions before moving forward with the RFQ.

Further, many cleaning chemicals are most appropriately used as part of an overall cleaning "system." For example, some products are designed to work most effectively with certain cleaning equipment , dispensers or other delivery systems. Other products work best when used in a suite of products. By dividing jan/san solicitations into 5 pool categories (cleaning compounds and related dispensers, non-motorized cleaning equipment and waste collection supplies, paper products and relate dispensers, motorized floor cleaning equipment, and motorized laundry cleaning equipment) some of the efficacy, benefits and cost savings associated with these cleaning systems may not be fully realized to the potential detriment of cleanliness and occupant health.

ISSA also is concerned about the proposed requirement that all GSA schedule awardees be AbilityOne certified vendors. Many in the jan/san community, including ISSA, are not familiar with the intricacies of this program and need more information to properly evaluate this proposal. For example, for those who are not currently AbilityOne vendors, what are the requirements for being so recognized? Is there adequate time for those companies to be so recognized in time to participate in the bid process? Or will they be locked out of the bidding process all together?

Finally, the draft RFQ requirement that all orders shall be delivered via ground within the contiguous United States within 3 to 4 business days after the order receipt could unfairly disadvantage small businesses, especially those with limited distribution sites. In addition, some chemicals may require special shipping protocols due to Department of Transportation Hazard Material shipping requirements. For these reasons, we believe that three to four days is not a reasonable delivery timeframe. GSA should modify this requirement to require product delivery within 7-14 business days.

ISSA is grateful to the Subcommittee on Contracting and the Workforce for holding this hearing today and for seeking answers to some of the questions raised by ISSA and others during the hearing. ISSA believes that further analysis on the impacts of the RFQ on businesses and their workers is needed prior to issuing a final RFQ. ISSA members anticipate significant industry layoffs if the RFQ is finalized in its current form.

Appendix

ISSA Informal Economic Survey on the Impact of the FSSI in the Jan/San Sector

Co. No. 1 / Distributor

Our company estimates that it would **lose $3M in annual sales** if we lost our GSA schedule award. This loss of sales would result in **laying off 20 employees.**

Co. No. 2 / Distributor

As a small business, this initiative will impact our business dramatically. We have been a loyal GSA vendor for several years currently holding two GSA contracts, both, JanSan and MRO. We face many potential layoffs of employees and representatives across the country and a detrimental loss to our annual sales.

We are in critical times trying to do anything possible for our small business to survive this tough economic times as is. With this initiative it will be even more difficult for business such as ours to compete with large businesses supplying to the federal government. We are eager to learn more about these plans so we can best prepare our company to face the upcoming challenges.

We could anticipate **layoffs of potentially 14 employees** and the **loss of annual government sales between $2-3 million.**

Co. No. 3 / Distributor

I am very concerned about the GSA's strategic sourcing solution for Janitorial & Sanitation (JanSan) supplies and equipment. As a small business, we fear that we will be locked out of selling to the federal government. It seems to me that this program defeats the purpose of having products on GSA Advantage.

We have just had a similar experience with the U.S. Navy and DoD EMALL. Although we have an EMALL Contract, Navy Strategic sourcing has awarded contracts to approx. a dozen vendors that are now listed on EMALL in the Navy Contract Corridor section of their website. My current customers are precluded from purchasing from us now. We have been virtually locked out of this business. Because of this "Strategic Sourcing", we have lost customers and the potential to service future customers. I am afraid that this situation will turn out to be very similar.

Our economic losses would depend on whether or not this Initiative was mandatory for all Federal agencies. If it was mandatory, **we could lose between $800,000-$900,000 in annual**

sales. If this were to occur, it would not be a matter of laying off employees but actually closing our doors. Even if this initiative is not mandatory, it will affect current business as well as potential, future new business.

Co. No. 4 / Equipment Manufacturer

We estimate that we would **lose approximately $5 million in annual sales** if we did not receive the GSA schedule award pursuant to the proposed RFQ. We anticipate that this would result in **laying off at least 3 of our employees**.

Co. No. 5 / Equipment Manufacturer

We currently sell to the cleaning equipment to the federal government and estimate we would **lose approximately $7 million in annual sales** if we did not receive a GSA schedule award under the proposed RFQ.

Quite a lot of profit would be lost. I would say that we would have to **let go of 4 sales people and our inside administrator.**

Co. No. 6 / Equipment Manufacturer

We do not sell directly to the federal government, however many of our distributors do.

We do not have visibility of what these sales are through distribution; however we estimate that if the RFQ is implemented as drafted we would **lose an estimated $2-3M in annual sales.**

Since we do not sell directly, it would not immediately impact us. In many instances, we may retain the business, only with a different distributor. However, the margins would probably shrink for both the distributor and for us. Ultimately, depending upon the hit to sales and profitability, this could force a reduction in staffing, or if the margins were too thin, to shy away from this business. The distributors who do get the business probably will skinny down their support, or offer sub-optimal equipment, and the end result for the government would be getting less for what they are paying for. Regardless of how you slice it, the economic impact will roll through the sales channel.

Co. No. 7 / Manufacturer of Chemical Cleaners

XYZ Co. is a small woman-owned company that manufactures and distributes a full line of EPA-registered hard surface disinfectants as well as cleaning chemicals, hand soaps and hand sanitizers. We are a national company located in Missouri.

We had a GSA contract that just completed after 20 years at the end of February. We were awarded a new one that goes for the next 5 years. We also have our products on another GSA contract and BPA.

The impact on us would be devastating. **Over 35% of all our entire business comes through federal government sales.** If you need additional details please let me know.

Co. No. 8 / Chemical Cleaner Manufacturer

I wanted to take a moment to comment back on the question of how the introduction of FSSI to our schedule could impact our company. The purpose of FSSI for Schedule 73 as we understand it is to consolidate the number of schedules that GSA would have to handle in an attempt to reduce procurement costs. While this may help on the GSA schedule management side, it can lead to several negative unintended consequences for both the small businesses with schedules as well as the Government. For us the impacts would be both direct and indirect as we have a schedule and sell a significant amount of covered products to the Federal Government. A few of the potential consequences include:

1. The reduction of sales may lead to increased costs of raw materials we buy and thus the finished goods that we currently produce.

2. Many agencies require that you have a GSA schedule before they will talk to you about working with them, whether they are using the GSA Schedule directly or planning to contract with a BPA or BOA. Impacting our other Government contracts and future sales to the Government.

3. All card holders making micro-purchases ask if you have a GSA Schedule before buying. If not they move to a GSA Schedule holder.

4. Most Base Command Groups are requiring that their former open market purchases be made through either a GSA Schedule or DoD Emall.

5. Reduction of information and value added support that is currently provided by many contractors that will be effectively eliminated.

6. For the suppliers that are not currently working with the chosen FSSI schedule holders there is then an additional cost that the supplier has to absorb or pass on to the Government.

7. Under the current disaster recovery program in emergency situations state and local agencies currently can use the schedule to make needed purchases. As a small business we facilitate those deliveries through our local distributor partners who would be impacted as well by not being able to provide those goods in a timely manner to customers in need.

8. Many State Agencies have been Using GSA Schedules to benchmark their State procurement programs including three I had questions from in the past two weeks (California, Texas, Louisiana).

Co. No. 9 / Distributor

I am responding to an email sent by ISSA regarding the new FSSI (Federal Strategic Sourcing Initiative) that is being implemented by GSA.

Yes, we currently sell cleaning and maintenance products to the Federal government.

We would lose over $1,000,000.00 in sales if this plan goes into effect.

We probably would not have layoffs, but we would have to make cut-backs in other areas of spending including incentive trips, etc.

Co. No. 10 / Chemical Cleaner Manufacturer

Our on-contract federal government sales have declined in recent years, but having a GSA contract number provides us access to government customers to market our off-contract product line. One of the roadblocks to our selling to the government has been the inability to procure an NSN for our products. Not only should the market remain open (both to innovation and competition), but this concept should be turned on its head: how can the federal government assist small businesses in reaching government customers.

Co. No. 11 / Distributor Buying Group

Our distributor members report about $185,000 per year of sales made under the Buying Group's contracts. They also probably sell significantly more than that off contract.

It would be unfortunate to lose the contracts that give our distributors a chance to sell to federal facilities.

Co. No. 12 / Distributor

We currently have a Schedule 73 contract with the GSA. We sold approx. $36,750.00 to the Federal government last year out of a total of $3,464,750.00. Losing our GSA contract would certainly not put us out of business but it would hurt.

We are a WBE & WOSB so we do receive some business just so they can fulfill their minority participation needs but we keep the business with quality products & excellent service.

I do not believe the Federal Government should be able to limit their vendors to only 10 or 15 in the whole country. It sounds like a monopoly to me and I do not believe they will end up getting the best prices on all products. They certainly will have a limited range of products to choose from and some may not be very good quality.

It seems that the larger companies just keep getting larger and the small business just keep going out of business.

Co. No. 13 / Distributor

Our company has a GSA contract and we have been doing business with the federal government for most of our 15 year history. I cannot say that we will have to lay off any employees as profit from our sales to the federal government is well below 5 percent of our gross profit. The point that these people need to understand is that this type of "money saving" idea is not a new one. Large businesses and organizations have for years tried to "bypass the middleman" in search of big savings. The margin that a good quality distributor puts on cleaning supplies and equipment represents salaries for people who are adding value to the products purchased. The efficiency of the private sector is typically more efficient than what occurs in a government bureaucracy.

In our company, we typically focus on the federal prison system as far as government sales are concerned. Our customers in these facilities call us to solve problems for them as we are experts in our industry and we are capable providing them with the correct supplies unlike some larger sellers who have no expertise. We do this for the Federal Government at very low margins. Where does the Federal Strategic Sourcing Initiative take into consideration the value produced by a good quality distributor? Our government employees should strive not to pay outrageously high prices for common items while at the same time avoiding the costly pitfalls of buying the wrong things in their efforts to secure the cheapest price. Buying things that don't do the job is the costliest purchasing error of all.

John Ruskin said it the best way:

"It's unwise to pay too much, but it's worse to pay too little. When you pay too much, you lose a little money - that's all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do. The common law of business balance prohibits paying a little and getting a lot - it can't be done. If you deal with the lowest bidder, it is well to add something for the risk you run, and if you do that you will have enough to pay for something better."
— John Ruskin

I have also copied Congresswoman Lois Capps on this email.

Co. No. 14 / Distributor

It is late and I have spent all weekend trying to make sense of the RFI with an unofficial draft of the RFQ coming out of the FSSI.

This solicitation is too restrictive to AbilityOne distributors only. We do not have an official framework of specifics to ask solid questions and the scope is big... more time is required for a proper response. The XYZ's observations are stated below. This is not a pro-small business move and jobs will certainly be lost in an award.

As a GSA Holder, we are aware of the May 15 Jan-San Pre-Industry Solicitation Meeting and the timing of this meeting seems to indicate that the RFQ is not in a draft status but is OFFICIAL status when reading Page 5 of the 90+ page "DRAFT RFQ" found on eBuy and not Fed BidOpps where Source Sought are normally found. The timing found in the 90+ page "DRAFT RFQ

JanSan" would leave approximately two weeks for questions if the RFQ was released on May 15th. However, looking at what is in eBuy at this time, the buyer/GSA-FSSI objective is to seek sources or information (RFI only)... and stipulates a deadline of May 17, 5:00PM EST. Ironically, the solicitation references the 90+ page "DRAFT RFQ" is not the actual RFQ JanSan that will be proposed by GSA- FSSI. Yet the request RFQ779987 appears to be the OFFICAL RFQ with a number but the 90+ page "DRAFT RFQ" attached has no RFQ number which is interesting and warrants clarification.

IMPORTANT

The XYZ, LLC would like to submit to your office some clarifying observations to best prepare its list of questions considering the magnitude of the 90+ page "DRAFT RFQ." Having read the document in brief... we would like to make an inquiry about the critical matters that would impact an OFFICAL RESPONSE to the actual RFQ. Having more insight on the observations below are critical to any small business as it seeks to engage their business partners to prepare a proper response on ebuy by May 15th.

OBSERVATIONS

1. The attached 90+ page "DRAFT RFQ" is not the "OFFCIAL RFQ." To properly respond, we think we need to know if the specifics of the "OFFICIAL RFQ" which will differ in content and should provide more specifics regarding products within a category.

2. It would be important to know if the multiple manufactures were consulted on the 90+ page "DRAFT RFQ." Surely more time will be required to communicate with a small business partner to discuss the requirements for shipping, pricing over five years, etc. Certainly knowing specifics on volume commitments will help these discussions. The solicitation does not appear to take into consideration current agreements supported by manufacturer partners.

3. There has to be a person responsible for this solicitation... a Contract Officer, OSDBU official or Procurement Center Representative (PCR) ... someone we can meet with to fully understand what is in the 90+ page "DRAFT RFQ." The NDAA Act 2013 passed in January, 2013 addressed the role of the PCR to support small business and to deal with bundling and combining contracts... and it would be good to know that this process has been vetted for maximum small business participation and is deem to not be bundling. By combining Schedules 75, 73 and 51... this consolidation appears to bundle these schedules.

4. The 90+ page "DRAFT RFQ" does not appear to be a Pro-Small Business procurement when an award can potential go to 4-20 companies from the hundreds servicing the Jan-San business. Many jobs will be lost, especially jobs going to Veterans. The distributor trade group ISSA stated it "anticipates this initiative will result in a drastic reduction in jansan vendors on the GSA schedule, with resulting economic losses. More importantly, the economic impact is expected to go far beyond GSA vendors. OMB intends to make the FSSI mandatory for the seven government agencies that collectively spend 90 percent of the annual US$539 billion in overall federal government spending. Bottom line: Under the FSSI, we can expect the number of GSA jansan vendors to be drastically reduced. Further, if you are not a GSA scheduled vendor, you will be locked out of doing business with the federal government completely."

5. I do not see where the FAR addresses the potential contractor/vendor's responsibilities for responding to draft RFQ's? Key here, we do not want to provide information that would hinder our OFFICAL RFQ response... nor do we want to fail to comply by omitting information that should have been provided in this stage of the eBuy procurement process which is very general in nature. We certainly appreciate the notification but what is required is the actual RFQ to warrant this degree of work and focus. There are legitimate challenges.

6. For example, one challenge would be where The XYZ has its GSA Schedule Pricing for 73 and 75... both have been discounted to establish BPA's. We wonder do we violate our current BPA's by responding to the FSSI procurement with a different price or are we obligated to offer the current BPA pricing? In the pass... our BPA pricing was our lowest price and therefore if we had a different price to quote... all BPA would need to be adjusted to the quoted price if it were lower.

7. More so, The XYZ has thousands of dispensers up on the walls in over 100 VAMC's and clinics. Has the VA decided not to use our manufacturer Georgia Pacific and will direct the VA to use AbilityOne products and services. Is there consideration for past performance and are there manufacturers that have been deemed acceptable... will they be mention in the OFFICAL RFQ. Or does AbilityOne provision restrict manufactures and distributors. Knowing this will certainly impact The XYZ's response.

8. IMPORTANT... P. 32 is a very restrictive requirement... stipulating that the CONTRACTOR shall be AbilityOne certified or it is NOGO... meaning that the only small businesses in the United States for JanSan are AbilityOne certified distributors- regardless of their excellent past performance, regardless of their Certified SDVOSB status, regardless if the provide products that are not on AbilityOne's listing that have had 99% satisfaction and saved the government significant $$$.

9. Fact: The XYZ (SDVOSB) is not AbilityOne but we have provided excellent value to the government, particularly the VA and over 100 VAMC's and Clinics. We like to meet with our PCR on this point. AbilityOne under Executive Order and the FAR seeks to support the blind and impaired and as a SDVOSB under an Executive Order also... seeks to and has serviced our Veterans with honor. Who in the Department of Veteran Affairs supports this requirement? Who is SBA supports this requirement?

10. It would be interesting to know how the Veteran Administration or SBA endorses this FSSI which favors AbilityOne. Consistent with Public Law 109-461, awarding contracts to Service-Disabled Veteran-Owned Small Business (SDVOSB) firms is the highest priority within the Small Business programs for VA. Consistent with the mandate and the mission of VA, participation of SDVOSBs in VA Acquisition programs is strongly encouraged. OSDBU is the advocate that monitors the Veteran-Owned Small Business (VOSB) Program, with a special emphasis on SDVOSBs. Under the authority granted in Public Law 109-461, VA is authorized to set aside contracts and/or award sole source contracts, to SDVOSB and VOSB firms. Note: this statement came from the VA website

11. If the only small business is an AbilityOne small business according to this solicitation or 90+ page "DRAFT RFQ"... does the solicitation allow for a current Schedule and BPA holder to file with the government sanction AbilityOne for certification. One has to question why we have had to incur the cost of becoming CVE SDVOSB certified if the government will only accept AbilityOne certifications... this is not fair if we are forced to change our business model for this requirement... when we can demonstrate we have and can continue to bring value to the government with our current business model. Is there a discussion with the CVE at this time? An appeal process might be a good option and we like to see that in the OFFICIAL RFQ for obvious reasons.

One Page Maximum... not following this requirement.

12. Products may need to be evaluated to demonstrate the value and effectiveness. The 90+ page "DRAFT RFQ" generally outlines its product requirements and from experience the facility might require a variety of products based upon the age of the building, staff levels, location, space availability, interior design objectives and storage space. Categories being general may not best serve the government when it comes to meeting its comprehensive goals inside a VAMC.
13. Seems like the aim is to have a mandatory BPA for all agencies and is there a way to calculate an agencies commitment in dollars to a projection can be made on incremental volume vs price concessions.

14. The XYZ has been in JAN SAN for many years and Infection Prevention has had a say in what is acceptable... many favor hands free dispensers and a contractor should be able to provide hands free.

15. 90+ page "DRAFT RFQ" does not require the government to buy samples and dispensers and the cost of installation. This could be a major cost for the government to replace dispensers that have A 99% satisfaction rating. Labor time to do this is worth considering if the government is paying for dispensers too. There has to be a forecast of new dispensers for which the contractor must be prepared for.

16. "This vehicle will be open for purchase with service contractors..." found on Page 2 of 90+ page "DRAFT RFQ" – I think we are addressing the issue of Contract Cleaners who buy Jan-San... there appears to be a requirement for AbilityOne here too.

17. GSA Schedules will have to be honored if IFF FEE are paid... that and credit card processing fees will need to be considered.

18. The XYZ currently ships 1-2 days vs. the 3-4 day requirement found in the 90+ page "DRAFT RFQ." There are some economies with 1-2 shipping.

19. In the 90+ page "DRAFT RFQ" it appears that the contractor must have all three schedules 51V, 73, and 75. Some evaluation center around the GSA price. The solicitation requires an adjustment to price by way of discounting your GSA pricing. The solicitation asks for pricing with four option years. The GSA Schedule accommodates price increase. I think this 90+ page "DRAFT RFQ" should do the same.

20. The XYZ, LLC services the Puerto Rico VAMC. The reach of this solicitation covers Puerto Rico too and all its logistical challenges.

THE XYZ PROFILE
The XYZ, LLC for close to seven years has entertained procurements and we look forward to engaging the government on any "OFFICIAL RFQ." We current provide major branded JAN-SAN products to over 100 VAMC and clinics… having first responded to the challenge of improving the VA's restrooms when Walter Reed was in the news for the disgraceful treatment of Veterans in February, 2007. We are pleased to say, there has been a great improvement in the VA restrooms where we have placed Georgia Pacific dispensers and paper while meeting goals to reduce usage, reduce duce the use of cardboard boxes and to improve the washing of hands using hands free dispensers.

Co. No. 15 / Distributor

This email is in reference to the Jan San RFQ 781841. I'm certain that my business is not the only one with this same story.

Just over 1 ½ years ago, after countless hours of deliberation with manufacturers new to the GSA concept, hours of putting together the information required for applying for a GSA contract, saving profits to use towards our GSA endeavor, and investing thousands of dollars, we acquired our Schedule 73 GSA contract. Now, in the last two months we have invested in personnel and another $10,000 to $15,000 in marketing to the government buyers. Last week, I see that there is a high probability that we will lose our contract because we will not qualify to be a supplier for the Blanket Purchase Agreement this RFQ will establish, and with a deadline of May 24th! I know there are thousands of vendors that have the schedule 51, 73, and 75 awards that have a significantly higher amount of money tied into working their GSA contract. A reduction in suppliers to only 15 as this RFQ states will not only degrade the competition that the government buyers enjoy but will not allow the new technology that various manufacturers are producing that many are bringing into the GSA arena.

As taken from the GSA.GOV website "To be successful under the GSA Schedules program, vendors should be prepared to take necessary steps to be productive in a highly competitive marketplace. Having a GSA Schedule contract is a significant investment on the part of the vendor and GSA. Careful analysis, planning, and proactive steps are required to ensure vendors are successful under the GSA Schedules program." This is exactly what we and all other Jan San schedule holders have done.

As a veteran, small businessman, and taxpayer, I would like to see what the cost to all of the businesses that hold Jan San schedules will be as well as a cost benefit analysis for the GSA to determine costs now versus what is expected if this is approved. I was under the assumption that the GSAAdvantage program was to allow multiple businesses to compete for business, and the more qualified companies that had contracts, the better for the government. I don't like to waste money, no matter who's it is – and this is an ultimate waste to those that have spent immeasurable hours and dollars for their contracts.

June 19, 2013

To: Chairman of the House Contracting and Workforce Subcommittee

From: Bob Griffin, GSA Schedule Consultant, Contractor and Former DOD Schedules Customer

Subject: Additional Input Re: Strategic Sourcing utilizing the GSA FSSI BPA and the GSA Multiple Award Schedule (MAS) Program

Dear Congressman Hanna,

I attended the June 13, 2013 hearing on Strategic Sourcing which you conducted and found it to be very beneficial and constructive. I thank you for that.

I did want to bring to your attention a few more pertinent details concerning GSA FASs past performance in this area as well as their current policies which quite frankly effect businesses of all sizes but particularly Small Business. Lets look at two areas:

1. GSAs internal numbers on FSSI Generated Savings in the Office Supplies area

2. The concept and reality of maintaining "continuously open" GSA Schedule Solicitations

FSSI Generated Savings Numbers:

On June 13, 2013, Mr. Koses of GSA, FAS stated in his testimony to your subcommittee that the GSA Office Supplies FSSI initiatives had generated $88 million dollars in savings. That number was based on a spend of approximately $600 million and an average discount (as compared to GSA Schedule Pricing) of 12.7%.

On June 18, 2013 at his Senate Confirmation hearing, Mr. Tangherlini, GSAs Acting Administrator, stated in his testimony that the GSA Office Supplies FSSI initiatives had generated $127 million dollars in savings.

This morning, June 9, 2013, I went into GSAs own Strategic Sourcing Metrics website at https://strategicsourcing.gov and found Office Supplies Savings through FSSI of $2.7 million based on Spend through FSSI of $17.4 million based on October 2012 data.

Which number is correct?? I think we also need to remember that those providing these numbers are the same individuals that provided a Demand Based Model (DMB) savings of $26 million to Congressman Graves in an early 2013 hearing. This number then was reduced to the range of $3.6–$6 million dollars due to your staff's estimates and GSAs recalculations. GSA has also been cited by GAO on past instances where GSAs numbers were far off the mark on estimating potential savings. I have been involved with GSA, FAS as a Schedules Customer, Contractor and Consultant for more than 25 years and their numbers are rarely correct. I have generated FOIA requests in this and other areas as of May 22nd and have not yet received those results to further amplify this point.

You also need to understand that GSA, FAS is basing their prediction/forecast of a 12.7% average discount on Office Supplies FSSI OS1 and OS2 as compared with typical GSA Schedule 75 Contractor pricing. This in my judgement is based on incomplete pricing data as far as actual Schedule Purchase Prices may have been. GSA Schedule Pricing as awarded is a Maximum Not To Exceed Price. Schedule Contractors are authorized to provide Spot Discounts off awarded pricing and Quantity and Volume Discounts. If you look at the wording of almost all product and services RFQs that appear on GSA Ebuy or come agency direct, you will see wording that Contractors are "highly encouraged" to give additional pricing discounts in this RFQ. This was a norm in prior years on orders that exceeded the Maximum Order Threshold or MOT but has in recent times been a standard request regardless of the size of the order. This means that GSA does not have the pricing information necessary to make the claim of a 12.7% savings. If they had the information they would already be using it in their new Price Right Pricing Tool. They are not. They are developing the concept using Delivery Services Pricing.

Maintaining "Continuously Open" GSA Schedule Solicitations:

Lets look at GSA, FASs record on GSA Schedule 75 Office Supplies. On October 1, 2010, GSA Schedule 75 was closed with a notice that it would be reopened on October 1, 2012 to receive new offers. In September 2012, after industry had repeatedly inquired, they were told that Schedule 75 would remain closed and that its status would be reviewed again in 2013 for reopening on October 1, 2013. That is not the whole story though. In early 2010, Schedule 75 was refreshed or revised and contract wording was placed in the solicitation that stated that in order to meet the new pricing metric the offeror would have to provide 3 high volume invoices in the past 3 months from the Most Favored Customer for each and every product that was to be offered on the Schedule. This in effect closed the Schedule 75 to many offerors who formerly would have qualified. So in reality this schedule was barely open months before closing on October 2010. I remember attending a GSA schedule presentation at 26 Federal Plaza in New York City that Spring and asking the reason for the change which no other schedule had put in place. The presenter who was a Schedule 75 Contracting Officer stated that "that's just the way it is." I might add that the GSA National Admin Services and Office Supplies Center in New York City is currently using that pricing language in all its product schedules.

Had that pricing language been in place for the past 10 years Schedule 75 Office Supplies would have bee a very small schedule dominated by large business and most if not all of the current FSSI BPA Small Business Contractors would not have even gained a Schedule 75 contract let alone won an FSSI BPA.

On June 12, 2013 I provided Ms. Emily Murphy, your stellar Senior Contracting Council, with two new examples that are anti small business and very restrictive that will in fact allow GSA to tell you that the GSA Schedules Program remains "continuously open" with the exception of Schedule 75. However, they will be "continuously open" in name only for Small Business and Large Business alike. These two items of contract language changes to GSA schedule offer qualifications are probably the most significant in the past 20 years and definitely have an effect on the "continuously open" status of Schedules. This is analogous to a store owner changing his admission policy from store capacity of 50 with an entry fee of $25 to a store capacity of 5 with an entry fee of $2500. The store remains "continuously open" but realistically open to only a few. It's a game of semantics with the American people being the loser.

The first of these two items is called "Full Products and Broad Services Offerings". It states that a GSA Schedule offeror or prospective new contractor must provide a full and broad offering on services and/or products. Offerors will not be accepted with only limited item/offering (product, labor category, training course, or fixed-price services) unless it represents a total solution for the Special Item Number (SINs). This will have a direct effect on existing Schedule Contractors who may very well have to cross this new requirements bridge on contract extension as well as brand new offerors that cannot meet this standard. This is particularly true of Small Business. Going back to the Office Supplies Schedule 75, we had the ability to offer a FULL CATALOG OFFER OR a PARTIAL CATALOG OFFER (although the same can be said for other Product Schedules). In the area of services Schedules, some schedule SINS may have 9–12 tasks or subtasks included within the SIN description. Does this new standard mean that a business must be able to provide and have provided all 9–12 subtask skills? This falls squarely on the back of Small Business.

The second of these two items is called "Fair and Reasonable Pricing". It states that in order to determine fair and reasonable pricing, the Contracting Officer may consider many factors, including pricing on competitor contracts, historical pricing and currently available pricing in other venues. Offers which provide Most Favored Customer pricing, but which are not highly competitive will not be found fair and reasonable and will not be accepted. This is huge for existing contractors who will in fact have to start over on pricing and of course the new contract offerors or applicants. This also falls squarely on the back of Small Business. Just what is highly competitive pricing? What type of pricing was being negotiated and awarded by GSA Contracting Officers in the past? Ms. Murphy should be able to provide valuable insight on that point from an historical perspective.

Both items are major paradigm changes in the GSA MAS Schedule Program and have appeared in the semi-annual January/June Schedule Refresh/Revision Process. They are very broad, undefined and frankly hard to get your arms around. This is exactly what GSA, FAS desires as it will give Contracting Officers more discretion in making the decision as to which company makes it and which doesn't once again setting the new tempo of the "continuously open" GSA MAS Schedules program.

Just how do those that are not able to attain a GSA Schedule have the opportunity to participate in level II which would be "bidding on and winning" an FSSI BPA.? They don't. You not only need to look at what happens to your base of already awarded GSA Schedule Contractors who drop out of the program or do not at least bid on FSSI BPAs like OS2 but also these new offerors or applicants who can't even begin in the process. The process as is currently optimizes only a very few companies, while many other qualified and eager companies are denied entry.

I appreciate the opportunity to provide you with this additional detailed information. Thank you again for holding these subcommittee hearings. GSA, FAS has always seemed to believe that they are less accountable and subject to oversight since they generate much of their own funding due to their collection of the Industrial Funding Fee. They clearly need the level of oversight and supervision that your Subcommittee provides.

Bob Griffin

CONNECTING THE INDEPENDENT DEALER CHANNEL

NOPA Suggestions to GSA and OFPP to Enhance Small Business Participation in the Next-Generation Federal Strategic Sourcing Initiative on Office Supplies

Background

GSA's second-generation Federal Strategic Sourcing Initiative for Office Supplies (FSSI-OS2 BPA) includes participation from 13 small businesses, one of which is a dealer-owned cooperative. This procurement has expanded rapidly since 2010 in line with OMB/OFPP and GSA expectations. FSSI-OS2 BPA sales reached $270 million in FY 2012, representing over 38% of total Schedule 75 sales. FSSI sales represented 91% of total Schedule 75 sales of awarded small businesses, but much less for the two awarded large businesses. NOPA believes this high utilization rate demonstrates that small businesses are committed to working effectively as partners in the FSSI office supplies program.

Awarded small businesses and Independent Stationers' member dealers have seen their federal sales grow as FSSI-OS2 BPA participants. However, hundreds of small business Schedule 75 holders and at least 2 established, high-performing dealer consortia that were not awarded FSSI-OS2 BPAs have experienced sharp reductions in federal market access and sales since mid-2010. There also is at least one additional dealer consortia that is not a current Schedule 75 Schedule holder. This "white paper" outlines NOPA's suggestions on ways that GSA and OFPP might structure the FSSI-OS3 acquisition program to further expand the number of qualified small business dealers that can compete for and participate in the next-generation strategic sourcing program.

NOPA Suggestions on Enhancing Small Business Participation in FSSI-OS3

It has been 33 months since FSSI-OS2 BPA was awarded. NOPA acknowledges that the program has generated measurable savings for federal agencies and helped narrow price variations among competing vendors with BPA awards. Strategic sourcing has thus demonstrated its long-term potential as a core federal acquisition platform.

Not surprisingly, during the first 3 years of FSSI-OS2 BPA, there have been substantial changes within the office products industry, including mergers and acquisitions within the small business dealer, manufacturer and large national office supplies chains. In the process, the independent dealer community in particular has become leaner, more technologically sophisticated and higher-performing. OFPP and GSA can further leverage these expanded small business and "dealer consortia" capabilities in the next-generation FSSI program.

NOPA believes there are ways to enhance the participation of small businesses in the next-generation FSSI program for mutual government and industry benefit. There are two key opportunities we wish to present.

First, OFPP and GSA can increase government-wide hard- and soft-cost savings in a future FSSI-OS3 program by ensuring competition for BPAs includes all qualified small businesses and dealer consortia that wish to bid. Second, future savings and improvements in delivery, reporting and overall service performance by the small business community in the federal market can be achieved by maximizing the participation of qualified dealer consortia in the bid process and competitive BPA awards. **NOPA believes these two goals might best be accomplished by establishing a separate bid pool for dealer consortia within FSSI-OS3.**

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Expanding Qualified Small Business Competition in FSSI-OS3

Early GSA communication and guidance to GSA Schedule 75 contractors and others in the industry with respect to the FSSI-OS3 bid process and required technical qualifications is an essential part of expanding qualified small business competition in the next-generation acquisition. GSA has maintained a moratorium on acceptance of new Schedule 75 offers since October 2010 and there are at least a few individual dealers and at least one major dealer consortia that NOPA believes are likely to apply for a Schedule 75 contract if the opportunity is provided.

Based on our industry's experience, the Schedule 75 application process has required several months to complete. For this reason, NOPA suggests that GSA provide advance notice as soon as possible of the expected timing and requirements of any planned lifting of the moratorium on acceptance of Schedule 75 applications. Advance notice of GSA's plans will allow non-schedule holders (whether individual companies or dealer consortia) to determine whether they are qualified to become Schedule 75 contractors and, if so, to begin the process of preparing and filing Schedule 75 contract applications.

To continue to grow the FSSI program's cost savings and federal agency participation, NOPA believes the most qualified small business participants should be in a position to bid. To ensure GSA and federal agencies have access to the most qualified, competitive and committed small businesses – many of which are now members of three established dealer consortia in the office products industry – it is appropriate to maintain a high standard of technical and performance requirements that broadly meet federal government agencies' needs. Those outlined for the FSSI-OS2 bid process offer a logical starting point, but we anticipate that GSA and OFPP also will review more recent experiences agencies have had during the first three years of the FSSI-OS2 BPA program and incorporate new ideas into the requirements.

Based on our members' experience under FSSI-OS2 BPA, NOPA believes that "qualified" contractors, whether individual small businesses or dealer consortia, should be able to provide evidence that they:

- If not a current FSSI-OS2 BPA vendor, have a reasonable amount of ongoing experience and a strong performance record as a full-line office supplies/products dealer in government, commercial and/or institutional markets;

- Meet similar requirements if they are a current FSSI-OS2 BPA prime contractor or "authorized participating dealer" (APD), or a member of Independent Stationers that has participated under that cooperative's group GSA Schedule and FSSI BPA program;

- Have achieved a minimum federal sales volume equal to or higher than GSA's minimum MAS program expectations ($25,000/year) – or some realistic higher threshold; and

- Can meet the FSSI OS2 BPA technical requirements for bidders with respect to e-commerce capability, level-3 data collection and reporting, credit-card processing and other technical performance criteria that GSA believes to be important for future FSSI success.

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Encouraging Participation of Qualified Dealer Consortia in FSSI-OS3
With more competition, GSA and all Federal agencies can enjoy better pricing and faster, more customized service in local areas throughout the country where they operate. If additional qualified dealer consortia with experienced vendor members are able to participate in the next FSSI program, our industry will be able to provide more reasons for agencies to utilize the FSSI program on a broader scale, as well as improvements in overall program efficiencies. In short, there will be more qualified small businesses with a vested interest in the FSSI program's long-term success.

In today's budget-constrained and fast-paced environment, GSA and other federal agencies seek to minimize the number of separate prime contractors with which they work, while maximizing the quality and local responsiveness of delivery and other services received. NOPA believes that **dealer consortia** – consisting of small business dealers, many who meet defined socio-economic criteria – offer an ideal solution for many federal agencies, particularly those with facilities and employees operating in different parts of the country.

To make this type of solution widely available and as competitive as possible, NOPA encourages GSA and OFPP to consider establishment of a separate "bid pool" in which qualified dealer consortia could compete for multiple BPA awards in the FSSI-OS3 acquisition process.

By NOPA's definition, a qualified "dealer consortia" has the following characteristics:

- The consortia is self-formed among small business members for the explicit purpose of providing national account services effectively to large and geographically dispersed customers, whether governmental, institutional and/or commercial;

- Provides a strong administrative and technical infrastructure, including a centralized, integrated customer-facing website and a comprehensive ordering, fulfillment, billing and customer service interface with national/regional customers; and

- Has a systematic training and compliance program in place to ensure its small business members consistently understand and meet all customer technical and service performance requirements.

This three-part profile and strong infrastructure distinguish a qualified "dealer consortia" from other small dealer groups that may not have all of those elements fully in place, and/or which may have been formed to pursue a single federal or other bidding opportunity. While such dealer groups may be competitive, they may lack the performance discipline and administrative/technical infrastructure of dealer consortia whose national account purpose is more broadly developed and/or whose members have long-standing relationships that foster positive operating synergies benefitting their customers.

At least 3 established industry dealer consortia meet the above profile, have the ability to deliver nation-wide and have a track record of meeting multiple federal agencies' office products needs. We anticipate that one or more other dealer-formed groups that also meet the profile for "dealer consortia" are likely to have an interest in the next-generation FSSI office supplies program. The largest of these serves national commercial, institutional and local/state government collaborative buying program customers, but does not hold a Schedule 75 GSA contract.

NOPA appreciates the opportunity to share these ideas with GSA and OFPP and would welcome the opportunity to discuss them further in the near future.