



Written Testimony of

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On Behalf of
Montgomery County Chamber of Commerce (MCCC)

House Committee on Small Business
Subcommittee on Contracting and Infrastructure

“Growing the Small Business Supplier Base in Government
Contracting”

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Chair Mfume, Ranking Member Salazar and Members of the Subcommittee, thank you for the opportunity to testify before you today. My name is Sophia Tong, Founder and CEO of T and T Consulting Services Inc. located in Falls Church, Virginia. T and T Consulting is a woman-owned small business (WOSB) that specializes in providing strategic information technology solutions to the federal government. We focus on delivering critical solutions to our customers that allow them to successfully achieve their vital mission objectives on time and within budget.

I am testifying today on behalf of the Montgomery County Chamber of Commerce (MCCC) in Montgomery County, Maryland. MCCC is comprised of future-focused business leaders creating opportunities that move the needle and impact the marketplace. The Chamber would like to thank the Committee for working tirelessly to support small business contractors and pass policies that strengthen the industrial base.

The topic today is a critical one for the small business contracting community. The overall number of small business vendors receiving awards for common products and services declined from 95,000 businesses in FY2016, when category management began to be implemented, to 79,000 in FY2019.¹ This decline is also impacting midsize companies and others as well – according to Bloomberg Government, the count of active federal prime contractors fell 17.5% from 123,790 in FY2016 to 102,047 in FY2020.²

The impact of category management is increasingly evident in my industry and affecting our company. Agencies are bundling contracts that were previously performed successfully by small businesses, rolling them into larger contracts, and awarding them to large businesses. The outcome of this action is disastrous for the small supplier base. There are countless examples of this in the IT field. In August of this year, the Defense Health Agency (DHA) awarded a large business a single award 10-year, \$2 billion blanket purchase agreement (BPA) to support the Military Health System’s Enterprise Information Technology Services Integrator requirement. By taking this work and bundling it into a massive single award contract, a monopoly is created, allowing the large business to control (and raise) prices on the work performed for the government.

Further, this type of bundling shuts out any small or midsize companies from competing for the work – the requirements were structured for only a very large business to be able to bid. DHA market research is now underway to identify parties to support an initiative that consolidates military healthcare IT support services. The objective is to maximize efficiency and effectiveness by optimizing acquisition strategies, processes, staffing, and tools. Currently, the “on contract” IT support capabilities are decentralized and predominantly managed at the local level. There are approximately 103 contracts with a total value of \$146 million, with 85 of the 103 contracts

¹ <https://www.gao.gov/assets/gao-21-40.pdf>

² <https://about.bgov.com/news/staffing-spending-trends-feed-appetite-for-high-value-contracts/>

(~83%) performed by small businesses.³ Small businesses are currently successfully executing these IT support capabilities contracts and at this time, typical agency small business participation goals (~40% small business goal) are being used to guide the effort. If the contract is instead competed as full and open because of the size of the contract after consolidation, the small business utilization goal (~40%) will be significantly lower than the current percentage (~83%).

This would be devastating to the small businesses that support DHA's mission. Large businesses often claim there is no harm to the small business supplier base when this happens, because they will hire the small businesses as subcontractors. However, this is a fallacy. Since large primes often take a substantial cut, small businesses are usually given unrealistically lower rates, making it difficult to meet requirements with fewer resources. This pass-through problem makes it frequently unrealistic for a small to perform as a subcontractor – the margins are too thin. Additionally, small businesses lose the close relationship they had with the government client when they become subcontractors. This impacts their ability to get additional prime work in the future.

An additional example of the harm of category management is when one of our contracts with United States Special Command (USSCOM) was merged into a large business BPA. This also happened when Army MEDCOM was unable to award us a sole source contract to upgrade, to the enterprise level, the software we created for the Army Regional Health Command. The effort was instead pushed to a contract vehicle for large businesses, using a vehicle that was not even meant for IT buying.

A contributing factor to these struggles is policy related and one that this Committee could fix. The current low thresholds for awarding small business sole source contracts have contributed to us losing this vital business. We applaud the Committee for its recent inclusion of raising sole source thresholds to make them easier to utilize in the House-passed FY2022 National Defense Authorization Act (NDAA). However, eliminating the J&A requirement for sole-source contracts for small businesses other than 8(a) would also be of great help to small companies like mine. As a former 8(a) program participant, I can't speak highly enough of the opportunities it gave me to strengthen my business and gain access to the federal market. However, after graduating, I continue to be a WOSB company and have found that customers are less willing to award sole source contracts to us because of the J&A requirement. The contracting community has interpreted the J&A requirement very narrowly – basically requiring that only one company in world is able to perform the work. Changing this stringent requirement would help harmonize the standards and allow graduated 8(a) companies to continue to thrive and grow, despite the adverse impacts of category management.

³ Defense Health Agency DAD IO/J-6 Geographic Services Providers (GSP) Scope Document

In both cases mentioned previously, large businesses use high rates they receive from the government to steal the workforce from small businesses. There are numerous instances where members of my team have been hired by the large business that was awarded my previous contract – all due to consolidation efforts. Unfortunately, my experience is that government clients are unhelpful in resolving these disputes.

Primes have also bullied small businesses, leveraging their existing network and relationships with government clients to try to steal contracts from successfully performing smalls. For example, we received a sole source contract to create a minimum viable product for an organization under DHA. The contract is still ongoing, and the customers are very satisfied with our performance. But, because the contract is very important and could potentially become a very large contract, we were contacted by many large businesses to be a part of this effort. One of them is Google. When Google found out we were not able to bring them on the team, Google wrote a “letter of concern” to DHA complaining that DHA awarded this contract to a small business. This type of behavior is common and increasingly concerning.

Although we have grown to a larger small business, newer and smaller entrants are particularly hard-hit with category management. Even for mature, well-established small businesses with a diverse portfolio, contract bundling and consolidation is hurting these businesses. Multiple Award Contract (MAC) spending grew 42% over five years to a record \$159 billion in FY2020. There are now more than 2,000 MAC vehicles, accounting for nearly one of every four federal contract dollars.⁴ The cost of getting on a Best In Class (BIC) contract is substantial and requires significant investment just to get a slot. Category management continues to shift an increasing number of dollars to these large vehicles, specifically BIC contracts. BIC spending totaled a record \$51 billion in FY2020, up 74% since FY2016.⁵ As a result, small businesses are spending an increasing amount of bid and proposal dollars to attempt to get slots on these larger vehicles.

These numbers highlight the cause for concern with this acquisition strategy. Category management has accelerated the decline in diversity of vendors, with large dollar amounts held by only a few companies. GAO⁶ found that the number of small business vendors providing common products and services decreased each year, continuing a decade-long trend affecting both small and larger businesses. Further, as the government moves away from direct contracts with businesses (Tier 0), opportunities decrease for smaller businesses. The vehicles (agency-wide, government-wide or BICs) used in category management require substantial resources to bid and win task orders. This creates a barrier to entry for innovative small businesses to enter or remain competitive in the federal marketplace.

⁴ <https://about.bgov.com/news/staffing-spending-trends-feed-appetite-for-high-value-contracts/>

⁵ *Id.*

⁶ <https://www.gao.gov/assets/gao-21-40-highlights.pdf>

The Chamber makes the following recommendations to address the impact of this governmentwide initiative:

1. Mitigate the impacts of CM by exempting contracts awarded to small businesses classified as Tier 0 from CM or successor strategies for contract consolidation.
2. Since CM goals were exceeded in FY2020, put a pause on CM to let small business participation in the federal marketplace increase.
3. Measure spend under CM with small businesses by the number of small businesses, not the percentage of small businesses.
4. As recommended by the GAO,⁴ OMB should approve tailored training for the acquisition workforce responsible for utilizing small businesses, instead of the current one-size-fits all training method for CM.
5. Require OMB to review the impact of CM on small business participation.

The Chamber applauds inclusion of provision in the FY2022 NDAA to combat the effects of category management and any future bundling strategies. MCCC also understands additional factors are contributing to the supplier base decline in addition to category management.

Outlined below are two additional recommendations.

Transparency and Accountability in Subcontracting

Although reports by federal agencies show that dollars are being awarded to small businesses at consistent levels in BIC contracting vehicles, the number of small businesses being awarded prime contracts is shrinking drastically. Category management undoubtedly plays a role. Consequently, subcontracting is now incredibly important for small businesses – many are not prime awardees of BIC vehicles, and many may not have the qualifications or resources to even bid on these contract vehicles. Transparency in the context of BICs should include whether prime contractors have aggressive small business goals in their subcontracting plans. In addition, we believe the following data should be made public: (1) Number of subcontractors on BICs broken down by small business and the socio-economic set-aside programs listed under the Small Business Act; (2) Compliance of primes in achieving goals set forward in subcontracting plans; and (3) Percentage of subcontracting work performed by small business concerns on task orders.

The criteria for BIC contract designation includes transparency. There have been multiple reports showing that while dollars are being awarded to small businesses at consistent levels, however the number of small businesses being awarded prime contracts is shrinking drastically. This simply means that more contract dollars are going to fewer businesses. Category management undoubtedly plays a role. Consequently, subcontracting is now incredibly important for small businesses. Many small businesses are not prime awardees of BIC vehicles, and many may not

have the qualifications to even bid on these contract vehicles. Transparency in the context of BICs should include whether prime contractors have aggressive small business goals in their subcontracting plans. Additionally, compliance with respect to a prime's subcontracting goals should be publicly available so that the public and policymakers can determine whether category management is, or is not, detrimentally impacting the industrial base.

We are well aware of concerns in releasing this data, as it could contain proprietary information. However, we are not asking for data identifying specific prime contractors. We are instead requesting aggregate data that will facilitate a better understanding of the role that small business subcontracting, generally, is playing in the government's category management initiative. Without such data, we are left to speculate about the utilization of small businesses subcontractors and the small business socio-economic programs such as women-owned small businesses (WOSBs), HUBZones, service-disabled veteran-owned small businesses (SDVOSBs) and 8(a)s.

As the small business community seeks to understand the role of subcontracting in large contracting vehicles such as BICs, the role of accessible data is key to making policy and business decisions. The small business community will not only benefit from this data – we believe the government will be better equipped to make acquisition decisions and informed efforts to secure the federal supply chain.

Importance of Research & Development

The Chamber recognizes the importance Research & Development (R&D) investment plays in maintaining and growing the small business supplier base. As our country emerges from the COVID-19 pandemic, we are acutely aware of the need for investment in American workers and American innovation. The current Administration has placed significant importance on R&D investment in the United States, leveraging billions of dollars in spending toward R&D in legislation such as the *American Jobs Plan* and the *U.S. Innovation and Competition Act*. Provisions in these bills call for the establishment of new R&D programs at various government agencies, such as the Department of Commerce, the Department of Defense, the Department of State, and the SBA. These programs will be dedicated to supporting and funding investments to aid the production of goods, new investments in manufacturing, research and development, small business commercialization and biosecurity.

Small businesses play an important role in the revitalization of domestic competitiveness and strengthening supply chains through R&D. According to the National Science Foundation, “small and young firms are more innovative, more productive R&D performers, and perform research that is more radical.”⁷ Data collected from 2008 – 2015 shows that smaller companies exceed the “intensity” of larger companies. R&D “intensity,” which is measured by R&D in

⁷ Indicators of R&D in Small Businesses: Data from the 2009–15 Business R&D and Innovation Survey, 1

percentage of sales, was nearly 11% for micro companies in 2015. For large companies with 25,000 employees or more, the R&D “intensity” was just over 3%.⁸

The clear evidence of the small business contribution to R&D does not discount the costs that small businesses assume when they take on innovative ventures. Investing in new technologies is expensive and often risky for businesses that lack significant expendable resources. Small business programs, such as the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) administered by the SBA, provide a pathway to success for America’s most inventive entrepreneurs by allowing them to continue to drive innovation and create jobs. However, due to the total revenue for size determination standards for small businesses, many entrepreneurs who expend significant resources toward R&D find themselves no longer qualifying as small businesses, thus limiting participation in the benefits these programs provide. For example, a business with an average revenue of \$39 million is expected to compete with large businesses with billions in revenue.

To better assist companies in the ability to compete for R&D investment, we urge the Committee to consider allowing entities to subtract Independent Research and Development (R&D) expenses and expenditures from that entity’s “receipts,” as defined by 13 CFR 121.104, for the purpose of calculating size. This supports the government’s initiative to stimulate technological and biomedical innovation and allows companies to continue to pursue and develop new products and processes, without undue penalty. The definition of R&D expenses (as defined by the IRS) encompass the allowable costs of basic research, applied research, development, plus systems and other concept formulation studies. Costs cease to be R&D when preparing for the manufacturing or service delivery phase. However, an exclusion cap should also be put into place – the revenue deduction should be limited to no greater than two times the NAICS size standard. For employee-based standards, for every \$50,000 spent in R&D dollars, a single employee may be removed for the calculation to determine size.

This proposed change to SBA’s size determination supports the government’s initiative to stimulate technological and biomedical innovation and would allow companies to continue to pursue and develop new products and processes, without penalty. Firms who invest in R&D often do so at the expense of their present competitiveness. For firms at the cusp of becoming large, every revenue dollar counts and must be brought to bear to help win the next contract award and maximize revenue streams that can support the company while it transitions to full-and-open competition. This dynamic effectively discourages R&D investment. Allowing a firm to subtract its R&D costs from size receipts will support innovation and remove a barrier to small business contractors who invest in future growth.

⁸ Indicators of R&D in Small Businesses: Data from the 2009–15 Business R&D and Innovation Survey, 3

In conclusion, small businesses like mine are asking for equity – a fair chance to compete for contracts. Exhibiting excellence is our job. But breaking down government policies, such as aggressive category management goals and enforcement of subcontracting plans, is beyond our ability to change. It requires Congressional action. We are asking for action from this Committee to change the trajectory of contract consolidation, which in our view creates opportunities for large businesses but results in fewer opportunities for small businesses. We need your help and appreciate the opportunity to bring these issues before you today.