SUBCOMMITTEE HEARING ON ENSURING SMALL BUSINESSES HAVE FAIR ACCESS TO FEDERAL CONTRACTS

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SUBCOMMITTEE HEARING ON ENSURING SMALL BUSINESSES HAVE FAIR ACCESS TO FEDERAL CONTRACTS

Wednesday, April 16, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 2:00 p.m., in Room 1539, Longworth House Office Building, Hon. Bruce Braley [chairman of the Subcommittee] presiding.

Present: Representatives Braley, Davis, and Akin.

OPENING STATEMENT OF CHAIRMAN BRALEY

Chairman BRALEY. I call this Subcommittee hearing on small business contracting to order.

Today we will examine whether small businesses are given a real opportunity to access the Federal marketplace. The topic comes before us as a time when the U.S. economy is in a sharp downturn. The subprime mortgage crisis that began in 2006 was one of the worse we have seen since the 1930s, and the GDP data for the last quarter of 2007 shows less than 1 percent growth in our economy.

Two weeks ago the U.S. Department of Labor reported that unemployment had risen from 4.8 to 5.1 percent, with an 80,000 job loss shown during the month of March alone. Oil prices continue to climb, and the average price of a gallon of gas is now $3.33, a record. Meanwhile, credit is drying up, liquidity is limited, and businesses are finding it difficult to secure affordable capital.

This picture may sound grim, but there is hope in small businesses. Entrepreneurs have always led the way to economic recovery and growth. However, the question of whether this administration is giving them a fair chance to do it again remains.

While most sectors of our economy are struggling, the Federal marketplace, in contrast, continues to grow. Last year alone, Federal procurement spending rose by over 9 percent. In fact, the Federal Government now spends upwards of $400 billion in goods and services, which amounts to more than the GDP of many nations.

Our Government buys everything from thumbtacks and staples to navigation components for satellites and turbines for submarines. The likelihood of a small business making one of these products or providing a needed service to the Federal agency that uses them is very high.

Just as important, small businesses increase the diversity and quality of the supply base and stimulate the economy. Congress

recognized this fact 55 years ago when it passed the Small Business Act. That law commit our Federal agencies to ensure a fair portion of Government contracts are awarded to entrepreneurs.

But this administration has moved away from those goals. Over the past 7 years, it has not met the Government-wide 23 percent targets for contracting with small businesses at a single time. Moreover, contract bundling, which robs small firms of the opportunity to compete for Federal projects, is on the rise. Within the agency, the situation is worse. Contracting systems are being mismanaged, and we are seeing many large businesses chosen to tackle projects that entrepreneurs could do far more efficiently.

Last May, the Committee approved H.R. 1873, the Small Business Fairness and Contracting Act. I introduced this legislation to bring greater transparency to the contracting process, because it is obvious a high level of miscoding and contract bundling is shutting out small firms.

In March of last year, the Subcommittee held a hearing on the delayed implementation of the Women's Procurement Program. At the time, I was less than 3 months into my tenure in my Congress, and I was shocked by the utter disregard of the administration for the important role women entrepreneurs play in our economy. Incredibly, the SBA continues to drag its feet on the implementation of this important initiative.

In January the agency even issued a regulation that was completely unworkable. That was just the latest in a series of contracting decisions that run clearly counter to the intent of the current law.

America's small businesses are the drivers of innovation and growth. That is a fact. They increase quality and help give us taxpayers the biggest bang for their buck. Offering these businesses a fair chance to compete for Federal contracts is the least we can do. I remain committed to ensuring the administration lives up to that commitment.

I want to thank each of the witnesses for sharing their time with us today, and I look forward to their testimony.

And I now yield to my colleague and friend from the State of Tennessee, Ranking Member Davis, for his opening statement.

OPENING STATEMENT OF MR. DAVIS

Mr. DAVIS. Good afternoon. Thank you, Mr. Chairman, for holding this hearing on ensuring that small businesses have a fair chance at Federal contracts.

The House Small Businesses Committee, this Subcommittee, and our Nation recognize that small business is critical to the country's overall economic well-being. The drive, creativity and innovation of small businesses are the hallmarks of entrepreneurship and the keys to job creation and economic growth.

I would like to extend a special thanks to each of our witnesses who have taken time to provide the Subcommittee with their testimony. I would especially like to welcome my fellow Tennesseean, Ms. Aundrea Wilcox, executive director of the Kingsport Office of Small Business Development and Entrepreneurship of the Kingsport Area Chamber of Commerce, also known as KOSBE. She is responsible for advising startups and existing small businesses.

Welcome to the Small Business Subcommittee on Investigations and Oversight, Ms. Wilcox, and I am sure that we will find your testimony extremely helpful.

The SBA Act was signed into law in 1953, creating the Small Business Administration. The Act recognizes that competition is the essence of the American economic system of private enterprise. The preservation and expansion of such competition is vital, not only to the economic well-being but the security of our Nation. Such security well-being cannot be realized unless the actual and potential capacity of small businesses is encouraged and developed.

Congress has amended the Act or authorized a number of programs such to ensure small business concerns receive their fair proportion of contracts for property and services. These programs are controlled and managed by the Small Business Administration. As a result of these initiatives, small businesses produce 13 to 14 times more patents per year per employer than large firms. Small businesses participate in all major industries and represent 99.7 percent of all employers and 50 percent of all private-sector workers. In addition, small businesses employ 39 percent of high-tech workers such as scientists, engineers and computer workers.

For President Bush and many Americans, small business embodies so much of what America is about: self-reliance, hard work, innovation, the courage to take risks for future growth. The President states that these values have served the Nation well since its very beginning. They are values that are passed on from generation to generation. We must ensure that all small businesses continue to thrive and prosper, not for their own sakes for but for all of our benefit as well.

The SBA has overall done a good job implementing the congressional direction of the Small Business Act and specifically the contracting programs. The SBA, as this Committee does, should continue to assess the effectiveness of existing Federal contracting programs, recommending changes for improvement. They should also review the synergies that would benefit all small businesses. This course of action would reduce or eliminate infighting among the small businesses in the community involved by competing Federal contracting programs.

We have excellent witnesses here today to provide us with the insight into how well the congressional directions to assist small businesses in the procurement process and increasing opportunities to do business with the Federal Government are working. I look forward to their testimony.

Thank you again, Mr. Chairman. And I yield back the balance of my time.

Chairman BRALEY. That obnoxious noise you heard is a call to the floor for votes. And, unfortunately, neither Mr. Davis nor I can control the floor schedule. So I have to apologize to the witnesses. We are going to ask to indulge your patience a little bit longer. And I will give you my commitment—I am sure Mr. Davis will as well—to get back here as soon as we can after the votes are concluded. It is a series of four votes. And then we will look forward to your testimony at that time. In the meantime, staff will be available to answer any questions you might have.

And, with that, we stand in recess.

[Recess.]

Chairman BRALEY. The hearing is called back to order. I would like to welcome everyone back.

The first witness is Ms. Fay E. Ott. She is the Associate Administrator of the Office of Government Contracting and Business Development at the Small Business Administration. And in that capacity, she is responsible for overseeing implementation of agency initiatives within the Office of GCBD, including the 8(a) Business Development Program, the Women's Procurement Program, and HUBZone Empowerment Contracting Program. She is also responsible for managing agency efforts to determine if small business contracts are awarded to businesses that meet the appropriate size standards. Prior to becoming the Associate Administrator, Mrs. Ott served as a senior manager at the SBA.

Welcome. And we look forward to your testimony.

STATEMENT OF MRS. FAY OTT, ASSOCIATE ADMINISTRATOR, OFFICE OF GOVERNMENT CONTRACTING AND BUSINESS DEVELOPMENT, U.S. SMALL BUSINESS ADMINISTRATION

Mrs. OTT. Chairman Braley, Ranking Member Davis and members of the Committee, I thank you for the chance to testify today. My name is Fay Ott, and I am the SBA Associate Administrator for Government Contracting and Business Development. On behalf of Administrator Preston, I welcome the chance to discuss increased access for small business.

SBA has made strides to improve small business access to Federal contracts. From fiscal years 2000 to 2006, prime contracting dollars going to small business have grown 54 percent, from $50 billion to $77 billion. During that time, subcontracting dollars increased 71 percent, from $35.5 billion to $60.7 billion.

In terms of small business jobs, this increase in prime contracting translates into more than 571,000. Among some contractors, we estimate that more than 450,000 jobs were created or retained. This is real progress.

Looking forward, SBA recognizes the need to improve small business contracting programs. We have worked to provide data that more accurately measures agency results, and we continue to improve SBA's scorecard measuring progress toward small business goals.

We addressed the long-standing problem of the size standard recertification through regulations that will focus the efforts of agencies on providing contracts to small businesses. Finally, we are ensuring greater access to Federal contracting opportunities by adding to and providing better direction for the personnel who work directly with small businesses.

Currently, there are 66 procurement center representatives. I know that the Committee realizes the important role that PCRs play, and SBA is committed to supporting this work. PCRs are an integral part of our plan to address access to contracting opportunities and issues such as contract bundling. SBA's fiscal year 2009 budget request is based on 66 PCRs, and this number includes the

recent hires that Administrator Preston discussed during his testimony before this Committee.

Along with more PCRs, SBA is implementing a plan to improve the services provided. One of Administrator Preston's 2008 priorities is to review the duties of the PCRs. This review is ongoing, but, once fully implemented, it will allow PCRs to focus more intently on this vital work. It will allow SBA and our resource partners to focus on getting small businesses the training they need to compete for Federal contracts.

In the 8(a) program, we are streamlining the process for annual reviews and certifications and focusing on the skills that businesses need to succeed. We have established new customer service training for district staff to improve the application review and contracting assistance stages.

In the HUBZone program, eligible firms received $7.1 billion in prime contracts and $2.6 billion in subcontracts in fiscal year 2006. In terms of jobs, the prime contracts supported nearly 53,000, while subcontracts provided more than 19,000. The HUBZone program is directly benefiting historically underutilized areas and the small firms located there.

Today, one of our major objectives for HUBZone is improved accountability. The May 2006 Inspector General's audit of the program identified needed improvements, and we have taken steps to address each of these issues. These plans and actions have satisfied the Inspector General in regards to its audit.

Additionally, in regards to oversight and certification issues, we stepped up program examinations. So far in fiscal year 2008, we have completed 362 program examinations, resulting in 144 positive findings, 183 proposed decertifications and 35 decertifications. This process is continuing, and we are working for greater accountability in the HUBZone program.

In August 2007, SBA released the Small Business Procurement Scorecard. The scorecard measures current performance and the progress plans of Federal agencies in providing more small business contracts. Based on performance, seven agencies were rated green, five yellow, and 12 were red. Since its release, the scorecard has provided a real incentive for agencies to increase access for small business. We work effectively with these agencies, and this new level of accountability is increasing access to Federal contracting.

Chairman Braley and members of the Committee, thank you again for the opportunity to testify today. And I am happy to answer any questions you I may have.

[The prepared statement of Mrs. Ott may be found in the Appendix on page 26.]

Chairman BRALEY. Thank you.

Our next witness is Margot Dorfman, who is the founder and CEO of the U.S. Women's Chamber of Commerce. She is dedicated to championing opportunities to increase women's business growth, career and leadership advancement. The U.S. Women's Chamber of Commerce is a leading national voice advancing economic opportunities for women in America. Ms. Dorfman has an extensive background in business, business ownership, publishing and nonprofit

leadership. Her corporate experience includes 10 years in executive positions with General Mills and other Fortune 500 companies.

Welcome.

STATEMENT OF MS. MARGOT DORFMAN, CEO, U.S. WOMEN'S CHAMBER OF COMMERCE

Ms. DORFMAN. Thank you very much. Chairman Braley, Ranking Member Davis, and members of the Subcommittee on Contracting and Technology, I am here today on behalf of the millions of American women business owners to make you aware of serious issues in reporting of Federal contracting with women-owned small businesses.

Today I will illuminate how the failures of the SBA cause false contracting data to be reported and fail to provide this Committee and the American people with the true picture of the Federal contracting with women-owned firms.

I begin with a snapshot look at the tremendous growth in Federal contracting between 1999 and 2006 versus the incredibly small growth in contracting with women-owned firms during the same period. While total Federal spending grew by $200 billion in 1999 to over $340 billion in 2006, an increase of $140 billion overall, spending with women-owned firms increased only by $5 billion.

And if this were not bad enough, as we took a closer look, we find a very serious issue with the accuracy when reporting contract actions with women-owned firms. As contracts are awarded, contract actions are recorded in the Federal Procurement Data System. This data is used by the SBA to create annual goal reports, and that provides us with information on Federal purchasing such as total contract actions and total dollars spent.

Using data from the FPDS, one can easily generate a report listing the largest contractors to which women-owned small business actions have been attributed. In 2006, the top 100 contractors with actions flagged as women-owned represented over $5 billion of the total $11.6 billion that the SBA claims was spent with women-owned small businesses. By simply making a careful analysis of these top 100 contractors, the SBA could go a long way toward assuring the accuracy of their own reporting.

With just a cursory look through this list of firms, it is clear that this list is shockingly full of businesses that are either not small or not appropriately designated as women-owned.

Suggestion number one: Require the SBA to provide an annual report on the top 100 firms with contract actions attributed as women-owned businesses.

As we perused the CCR and Online Representations and Certifications Application system, we found that the ability to assert women-owned status is far too simple and lacks clarity with regard to how one determines women-owned status. ORCA simply reiterates the FAR definition of women-owned with no further assistance or differentiation that might prevent some of the overt misrepresentations that we found in the data.

Suggestion two: Include more detail in the FAR, in CCR and in ORCA regarding the definition of a women-owned business concern. Include a simple checklist of attributes that force the corporation registering as women-owned to make sure it understands the

elements of the women-owned definition and meets at least the most cursory of requirements.

And be aware that even when we do finally have a women-owned small business set-aside program, there may be a difference in how a business secures women-owned status for the purpose of the set-aside and for the purpose of registering in CCR. We must make sure that this loophole is closed in both places.

The NRC recommended that the SBA should produce more useful reports on Federal contracting. And we would also like to see in our suggestion three that the SBA heed the advice of the NRC to provide more thorough analysis of small business contracting, to include such characteristics as type and size of business, thorough agency breakouts, and contracting and regional breakouts.

Each year, the SBA publishes the total dollars spent and the total transactions completed with women-owned firms. However, no further analysis is presented. Never does this Committee or the American public have the opportunity to understand the total number of women-owned small businesses receiving contracts, the size of these contracts, the geographic disbursement, the number of new firms receiving contracts, the dollars flowing through joint ventures, the top 100 women contractors, or similar data relative to each of the major agencies purchasing with women-owned firms.

I strongly urge you to take action to require deeper accountability, transparency and useful reporting from the SBA. The information gleaned from these actions will most certainly assist in the efforts to assure small businesses have fair access to Federal contracts.

Thank you.

[The prepared statement of Ms. Dorfman may be found in the Appendix on page 30.]

Chairman BRALEY. Thank you.

Our next witness is Mr. Chris Bates, who is the president of National Office Products Alliance, known as NOPA. Prior to joining this organization, Mr. Bates served as president of the Motor and Equipment Manufacturers Association, and he has worked as an independent consultant, international economic policy advisor with the U.S. Government, and congressional legislative assistant, and, most importantly, apparently is a native of my district of Bettendorf, Iowa.

In addition to that, NOPA, which is based in Alexandria, Virginia, is the U.S. industry association for office products dealers and their key industry partners who are focused on continuous improvement to increase profitable business growth.

Welcome.

STATEMENT OF MR. CHRIS BATES, PRESIDENT, NATIONAL OFFICE PRODUCTS ASSOCIATION

Mr. BATES. Thank you very much, Chairman Braley, Ranking Member Davis, Congressman Akin. Thank you very much for the opportunity to be here with you today.

NOPA represents and serves more than 700 independent office product dealers throughout the United States, undoubtedly in all of your districts. We appreciate the opportunity to talk with you

today about the need to ensure that small businesses have fair and equal access to Federal contracting.

This Subcommittee and the full Committee have worked very hard on this issue, with very significant results, the past couple of years. And we are very pleased with that and appreciate that support. We thank you all for that.

And, in particular, we would like to highlight the passage of H.R. 1873 and other legislation that I know you have had an important role in crafting to try and help the small business community. We are working hard to encourage the Senate to pass a counterpart to H.R. 1873, if they can't adopt your measure as it stands. We are still hopeful that we can get some action this year, though, admittedly, it is an uphill battle in an election year. But we are trying very hard to get that done.

In particular, H.R. 1873 establishes a strong foundation for needed reforms in the areas of contract bundling, data collection, reporting and oversight that we believe will help small businesses, and our industry among them. And it is particularly relevant that these kind of foundational changes be made, because it really does help the community overall.

That bill also increases the target for Federal purchasing from small businesses from 23 to 30 percent and would improve Federal agency and congressional oversight to help achieve that goal. Having plans in place which are measurable we think will have a major bearing on the ability of all Federal agencies to make a major step forward.

We do need additional help, however, to address a very serious growing problem that affects our industry, and that is the small business fronts or small business pass-through issue. This problem would not be resolved directly by H.R. 1873. It does have a widespread affect on our industry and perhaps others. Small business fronts harm legitimate independent small businesses across the country, as well as Government customers who are trying to boost their own purchases from them.

Just what are these small business fronts? In the simplest terms, these are situations in which a large national company approaches a small business and proposes to create a quote, ″partnership″ relationship for the sole purpose of gaining improper access to contracts set aside for small business.

Let me emphasize that these fronts are not the same thing as legitimate small business mentoring program relationships. In that case, the small firm plays a commercially useful subcontracting role which is definable and adds value.

The abuses—and I would refer you to appendix 1 of our prepared testimony—are highlighted in appendix 1. These usually occur when, first, the small business has little or no prior experience as a reseller of office products; two, the large company performs most or all of the selling, order, management, customer service, delivery, invoicing and payments processing behind the scenes on behalf of the pass-through dealer partner; third, the small business performs few, if any, commercially useful functions; and then, finally, the small business typically receives a commission for its willingness to serve as a front for the larger business.

The negative impact is fairly obvious. In the case of the office supply industry, independent dealers already are losing tens of millions of dollars annually as a result of this practice just at the Federal level. When you add in public institutions, State government contracting and some Fortune 1000 contracting, we are talking about hundreds of millions of dollars as well.

Government is also harmed as competition declines and independent dealers are excluded and the large national chains or their small business fronts get the lion's share of the awards under false pretenses.

GSA and a number of Federal agencies are working to help legitimate small businesses expand business with them, but allowing small business fronts defeats this purpose. And we need to have the clear intent of Congress and bills like H.R. 1873 restated loud and clear. And specific legislation to help us with this problem would be helpful.

What can Congress specifically do to help us with this problem? Specifically, we ask that there be stricter bid evaluation review criteria; that, two, all bidders on small business set-aside contracts fully disclose and certify their functional roles that they will play in the contract's fulfillment; third, that each Federal agency should be reporting annually to Congress, to the relevant Committees, about the progress they are making in this area in preventing this kind of practice; and then there need to be some meaningful penalties to make sure this doesn't happen.

Again, thank you for the opportunity to be here. This is a serious and expanding problem, and I hope you will give your full attention to it. Thank you.

[The prepared statement of Mr. Bates may be found in the Appendix on page 36.]

Chairman BRALEY. Thank you.

Our next witness, I am very proud, is also a constituent of mine and a founder of Charles F. Day & Associates in Davenport, Iowa.

And it is great to have you here, Dr. Day.

Mr. DAY. Thank you.

Chairman BRALEY. His firm is an established provider of program management, lifecycle management, logistics and business improvement services for the Department of Defense. Dr. Day is a Gulf War veteran who retired from active duty in 1995 and started his firm. He has taught graduate classes in strategic management, management development, organizational development, and program and project management courses. Additionally, he has presented and published nationally and internationally on organizational development and entrepreneurship topics.

And we welcome you here to the Committee.

STATEMENT OF MR. CHARLES F. DAY, SENIOR MEMBER, CHARLES F. DAY & ASSOCIATIONS, LLC, DAVENPORT, IOWA

Mr. DAY. Thank you, Chairman Braley and Ranking Member Davis, members of the Subcommittee on Technology and Contracting. I am Charles Day, the senior member of Charles F. Day & Associates, a small HUBZone SDVOB business headquartered in

Davenport, Iowa. We provide support service primarily to the United States Army and Marine Corps.

I am happy to share my small business views of the technology challenges that may not be visible in the business environment but may impact entry opportunities. I would also like to discuss two core challenges I see in dealing with the Department of Defense, namely winning contracts and getting paid.

The emerging technological requirements in the business environment are as important as the functions of human resource management, operations, finance and accounting, and marketing. Our business, like so many others now, is Net-centric, which means we are also Net-dependent. Increased Net dependency leaves us more vulnerable to threats of hackers, viruses, spoofing and similar activities.

We all recognize that we have to continually update our intranet and Internet security measures. However, we are completely dependent on two or three security providers, and, personally, I am not confident that we are able to keep up with the threats. Where new and small businesses really need help is in defining the risks and the threats of information security and information assurance to the business environment.

Another challenge is application of quality initiatives to the digital environment or how to take action to take action to continuously improve quality status in this environment. I personally don't know how to keep abreast of quality and innovation in this environment. We don't know what best practice is or where to find best practice. The cost of research is restrictive. I think small businesses need a helpful source, such as a small business technology community of practice and technology assistance centers.

In the specifics of working with the Department of Defense, the two critical challenges are winning contracts and getting paid.

Brand identity is a critical component to winning contracts with the Department of Defense. I think it consists of three elements: social capital and networks, status within the networks, and past performance. For new companies with no brand identity, there is minimal chance of entering the DOD market. In my experience, contracting officers generally do not allow personal experience to be submitted in lieu of corporate experience. Without an individual's past performance being permitted, a new company has limited chance of entering into the market.

Now, the GSA schedule should be a good vehicle for contracting with the Federal Government. However, a GSA schedule award is based on past performance. Further, the GSA schedule is not necessarily good for growing small businesses because the prices negotiated for award are based on better than your current best prices. We are told there are no allowances for forward rates to support companies' growth. The GSA contracting office also tells us the initial negotiation locks you into a rate structure for 10 years. That is not good for a small business.

The second issue is being paid and managing your cash flows. In my written testimony, I stated 90 percent of our payments were late. I would like to clarify that and say 90 percent of our invoices, from the time that we created them to when they were paid, were late. We have data that shows that 29 percent, based on DFAS

measures, were late. When you look at the measure from when it was submitted to the Government and were accepted by the Contracting Officer's Representative (COR) to when it was paid, 42 percent were late. There is a gap of when you create an invoice and when there is action by the COR and put into the system that eats anywhere from 1 to 21 days, in our experience.

The net result was that we were not able to execute our projected cash flow sources and uses because of the fluctuations in the DFAS payment schedule. When we went into the electronic system, we eliminated a lot of the variability, but most small businesses have not migrated.

Thank you for your time, and I would be happy to answer any questions.

[The prepared statement of Mr. Day may be found in the Appendix on page 47.]

Chairman BRALEY. Thank you.

Our next witness will be introduced by the ranking member, but I just want to personally welcome her to the Committee hearing, and we look forward to your testimony.

Mr. DAVIS. Our next witness will be Ms. Aundrea Wilcox. Ms. Wilcox holds a master's degree from Brenau University, located in Gainesville, Georgia. Currently, she is executive director of the Kingsport Office for Small Businesses Development and Entrepreneurship at Kingsport Area Chamber of Commerce in Kingsport, Tennessee, also known as KOSBE.

In her role as business advisor, she helps navigate startups and existing businesses through the maze of small business ownership and management. She helps small businesses with, one, providing technical guidance, finding sources of capital, identifying the available State resources, and outlining Small Business Administration programs.

Before coming to her present position, she had more than 15 years of corporate marketing and sales support experience in various industries. Ms. Wilcox is also actively involved in community service. At the present time, she is a board member of the Holston Business Development Center, a small-business incubator, and a board member of the Symphony of the Mountains Orchestra.

Ms. Wilcox, welcome.

STATEMENT OF MS. AUNDREA WILCOX, EXECUTIVE DIRECTOR, KINGSPORT OFFICE OF SMALL BUSINESS DEVELOPMENT AND ENTREPRENEURSHIP (KOSBE), KINGSPORT, TENNESSEE

Ms. WILCOX. Thank you. Pleasure to be here. Thanks for having me. My name, again, is Aundrea Wilcox. I am the executive director at KOSBE in Kingsport. And, as you know, Congressman, Kingsport is a different place. And so, what I would like to do today is talk about my experience in Kingsport, and it may be certainly a different experience for others in the same position.

As was mentioned earlier, we are engaged in helping our clients write their business plans, find capital for their business, find a location for their business. So the mission of KOSBE is to not only help them start up, so it is not just for startups, but for also for

existing businesses, seasoned businesses as well. KOSBE is a partnership between the city of Kingsport and the Kingsport Area Chamber of Commerce. And KOSBE has actually been around, out there, since 2004. I joined KOSBE in 2006, and been having a good time. There is a lot to do.

So we already know what the statistics are for the contracting and small business. So, again, I just want to share with you my experience with SBA and also some of the service providers that have helped me help my clients with the Government contracting.

In preparation for this visit, I did look at the CCR database and found, actually, that there are 95 companies in Kingsport, Tennessee, that are registered in the CCR that are active. And of those active registrants, 14 of them were clients that I have actually dealt with.

I felt that it was important to look at the different certification programs that SBA has in place and just do a quick analysis to see what had been done.

And as far as SBA small disadvantaged business being certified, there were none of the 95 that were actually certified SBA businesses. Twelve of those were veteran-owned businesses in the system. And of those 12, three of them were KOSBE clients.

Many of the clients that had registered in the CCR went a bit further than just the step one in the CCR; they had to have additional help. And so what I am trying to say here is that most small businesses, in my experience, most of the clients that I have dealt with find the system a little complicated for them, a little complex, and they are easily overwhelmed. But it is not a difficult process. I think that the steps are there. There is a system in place, and we just need to follow through with our clients and get them through the process, because the process—there is a system in place.

Ms. WILCOX. The relationship with SBA is a new relationship. We recently, on March 28th, signed a strategic alliance with SBA. Our Mayor, Dennis Phillips, Miles Burdine, the President and CEO of the Kingsport Chamber of Commerce, myself and Clint Smith, who is the district director at SBA, did sign a SAM agreement, a strategic alliance, so that we could look at ways to collaborate, share information and help our clients in a greater way by having the partnership.

Now the partnership would not have been possible so soon without the help from BERO, the State of Tennessee. Ronald Wade is the East Tennessee BERO specialist, and he has introduced me to a number of folks and made KOSBE's success possible, made it possible for us to forge the relationship with SBA and get the additional help and resources for our clients.

He has also introduced me to the lending specialist, Maria Lloyd at SBA, TDOT contract administrator, Carol Crawley at SBA. They came to Kingsport in 2007 and put on an SBA certification workshop, which was very well attended; and we did have a lot of participation from the region.

So it was not just the Kingsport area. This type of workshop and this type of help coming to Kingsport was a draw for KOSBE. And whenever we do an event with SBA we get that type of draw, because there is a need for education on the part of the small busi-

ness and also on my part, on the part of the technical service provider. I feel like the more information that is made available to us, of course, the better we are able to help our clients this is number one.

Mr. Wade also introduced me to Mr. Paul Middlebrooks, who is with the Procurement Technical Assistance Center, and they are actually in Chattanooga, and that is a bit far. The Women's Business Center is also in Chattanooga, and that's a bit far. And, unfortunately, we do not have a SCORE chapter that is existing in Kingsport. But, despite all of that, Mr. Wade, through introducing me to the various persons that I mentioned earlier, made it possible for us to make it happen in Kingsport and get our clients the help that they are needing in the contracting.

The biggest area that I feel that SBA could help us and continue to concentrate and must work on is just the face to face, you know, getting out there, coming out to Kingsport and training the customer or the client and also training the technical service provider. That has been happening in Kingsport.

As I said earlier, Kingsport is a different place. We have had a lot of contact with SBA, and we have been able to work with them and help our clients get a step further ahead. What I find again in the certification process I think, it is overwhelming, although it is on line and it is streamlined and supposed to be a little bit easier for them to work with. But if they are not aware of the resources that are out there, if I am not aware of the resources that are out there, it is going to be underutilized. So mainly from SBA, we are just looking at some additional training, getting out there, getting face to face and just a regular communication, letting us know what services and resources are available.

In Tennessee, again, in Kingsport, I feel the relationship with SBA has been positive. There is a lot of information, a lot of people still to meet; and, again, I think those things are there. We need the help to discover them.

So I am just asking the Committee to please assure that the small businesses will have an equal chance for these contracts, and the way to do that is through training and communication with the client, as well as the technical service provider such as KOSBE, and I hope they keep it up. I am very pleased with the relationship, and it is a pleasure to be here today.

If there are any questions, I will be happy to have them. Thank you.

Chairman BRALEY. Thank you.

[The prepared statement of Ms. Wilcox may be found in the Appendix on page 55.]

Chairman BRALEY. Mrs. Ott, let me begin with you. One of the focal points of not just this Subcommittee but also the Committee as a whole has been on the implementation of the Women's Procurement Program, and I am not going to go back over all of the ground we have covered this year on that. But the SBA's proposed rule for implementing the Women's Procurement Program was issued in December of last year, 7 years after the program passed Congress; and the comment period, after being extended, was

closed on March 31st. Can you tell us when we can expect to see the program up and running by the administration?

Mrs. OTT. Well, we did extend the comment period, and we received over 1,600 comments that we are currently going through and we are cataloging and analyzing at this point. We are happy that we received so many. We extended the deadline so that we could get more comments in, and we are going to take the time and go through and do that analysis. Once we have completed that analysis, we will move forward.

Chairman BRALEY. And given the volume of comments that the agency received, you consider that to be a reflection of the interest in this particular rule? Is it an abnormal amount of comments? A typical amount of comments? How would you characterize that?

Mrs. OTT. I think this rule has generated a tremendous amount of interest, and we welcome the public's comments, and we are looking forward to going through and analyzing the comments and moving forward.

Chairman BRALEY. Now one of the goals that I have as Chair of this contracting Subcommittee is to try to encourage a more equitable distribution of contract opportunities outside the Beltway, and we have heard a little bit from some of the other witnesses about that concern. I know in June the SBA will be working with me on a contracting forum in Waterloo—or back in my district in Iowa.

But my question for you is, does the agency have a specific program or programs in place to help businesses in those areas that normally are not as familiar with contracting opportunities in the Federal marketplace as those located in and around the metro D.C. area?

Mrs. OTT. We have a number of initiatives. As I mentioned the PCRs in my opening statement, we found that our PCRs were spending a lot of time training and counseling small businesses. What we tried to do was get the PCRs to focus more on the buying activities and to push training and counseling out to our district offices as well as our resource partners. So we have really broadened the scope of resources available to small businesses, and we have given our district offices and our resource partners the tools that they need to educate and train small businesses.

We have developed an on-line course. We have developed a brochure on how to contract with the Federal Government. As a matter of fact, the on-line course, we just went live with it in February. Already 5,000 people have taken the on-line course on how to contract with the Federal Government. Over 40 percent of those that have taken the course—or 45 percent, I believe—are women that have taken the on-line course; and we have a number of initiatives in place to reach out to more small businesses and provide them with the opportunity to register in CCR and learn about contracting with the Federal Government.

Chairman BRALEY. One of my passions is pushing Federal agencies to use plain language in communicating with their intended audience; and on Monday we passed with an overwhelming bipartisan vote, 376 to 1, my Plain Language in Government Communications Act that is going to require Federal agencies, if passed

into law, to use plain language in communicating in Federal brochures, documents and other communications.

Has the SBA done anything to implement plain language guidelines as part of its outreach effort? And I ask this question because of Ms. Wilcox's comment earlier, which is consistent with my perception, is that many small business owners are struggling to incorporate a lot of new information and sometimes new technologies; and I am interested in what the SBA is doing to try to communicate with that intended audience in a manner that they can clearly understand and respond to.

Mrs. OTT. Absolutely. One of the big concerns that we had was everybody kept saying that it was so difficult to contract with the Federal Government, which is why we came up with the on-line course. The on-line course is a step-by-step guide in plain language; and a brochure that goes along with it is very comprehensive, and it is plain language. We also have workshops that we are putting together with plain language that go through the steps that are necessary for small businesses to participate.

So we have really focused on that, and we have looked at all our small business programs. The administrator has been very focused on making our programs more accessible to small businesses and asked us to consult with small businesses as we look at business process reengineering. So we take that very seriously, and we are constantly looking at ways to improve.

Chairman BRALEY. So if this bill becomes law, the President signs it, it is passed in the Senate, your belief is that the SBA would be well-prepared to implement those practices as part of its overall day-to-day operations?

Mrs. OTT. Yes, I believe we would.

Chairman BRALEY. Dr. Day, the GSA schedule offers many opportunities for small businesses, but it also creates some long-term challenges. In your testimony, you touched upon how the 10-year pricing mechanisms can limit small business' ability to grow. Could you elaborate for us on those concerns and these GSA contracts and how they present smaller entities challenges; and, as part of that, how do the rising costs of energy and other inputs exacerbate that problem?

Mr. DAY. First of all, I have to tell you that being told something by GSA doesn't mean that it is correct. So the function of overhead as a business grows is actually a step function. You can establish the overhead that will sustain you through a certain percent growth. At that point, you take a new step up in your cost structure and in your overhead to be able to continue fueling the growth and maintaining the growth.

If you go into a GSA schedule and they require that you provide them a better than your best cost and it is a 10-year instrument where they tell you you can't use forward rate, what you are doing is you are being pinned to where you are in your current cost structure as a function of your growth status. You are getting pinned to that; and, in fact, if you are getting ready to take the next step up in growth, that cost structure will not be supported by GSA schedule.

So when you talk about the increasing cost of energy and so on, that is a variable that has significant impact on an overhead ex-

pense; and depending on what industry you are operating in, that may be a key driver on your success or failure within that industry.

There is a serious risk to the small business in getting into the GSA schedule if they don't have a very firm understanding of how that cost structure will affect their future growth and what variables, what risks they are carrying along with getting into that schedule, with that kind of duration.

Chairman BRALEY. It has been my experience that one of the challenges facing many small business owners is that frequently, especially if they are in their start-up phase, they are operating under smaller margins to begin with. When you add these long-term variable costs, it really can be a detriment to their success as they move forward. Is that a fair characterization?

Mr. DAY. That is absolutely correct. When you are young and small and you have tightened your belt and you are getting by and everybody is wearing multiple hats, at that point your rate structure will not support you through 10 years of growth; and that is a real challenge.

Chairman BRALEY. One of the obstacles small businesses face in breaking into the Federal marketplace is quantifying their private business experience as it competes against larger competitors that have performed government contracts, and I think you touched on this in your opening statement and you noted that contracting officers tend to favor those companies with prior experience. What ways do you think procurement methods could be changed to account for private business experience and success?

Mr. DAY. Well, the issue isn't actually private business experiences. It is personal experience that I am referring to. Obviously, a lot of the folks who are doing work in the Department of Defense have had defense experience; and they understand the lay of the land. If someone wants to start a small business and contract for the Department of Defense, when they initially try to gain contracts, whatever they have personally done—let's say they established a sole proprietorship. Their personal experience prior to establishing that sole proprietorship has no bearing on past performance when they are competing. Only past performance on government contracts or commercial contracts do that.

If you have someone who is highly qualified and has done something in the military that they now want to do as a contractor because they have retired, in most cases they don't have the past performance to be able to compete for the contract. They are driven to belong to someone else.

Chairman BRALEY. Thank you.

At this time, I would yield to the ranking member for questions that he might have.

Mr. DAVIS. Thank you, Mr. Chairman.

I know time is short. Again, they have called votes, so I will be very brief.

Ms. Wilcox, could you tell me how the SBA could enhance their outreach efforts to make it easier for small businesses to do business with the government?

Ms. WILCOX. Yes. I think, again going back to my testimony, it is about visibility, actually getting out there and meeting with operations such as KOSBE, the other technical assistance providers.

For example, my relationship, as I mentioned, with SBA is a new relationship; and I have been with KOSBE since 2006. But really it was not until last year actually that I started to have contact with SBA. And, as I mentioned, that contact was brought about through Ronald Wade with the State of Tennessee economic development, BERO, Business Enterprise Resource Office, who introduced me to SBA representatives. So it wasn't the SBA coming out on their own to make the introduction. So thank goodness for the State of Tennessee and BERO for making that introduction.

But since we have met, it has been a wonderful relationship. We do see representative from SBA frequently.

And again, as I mentioned, to just answer that question, it is just getting out there, being visible, making the personal contact. Regularly.

Mr. DAVIS. Could you tell me if the Web site is working?

Ms. WILCOX. Yes, it is.

Mr. DAVIS. Is that a good outreach program?

Ms. WILCOX. It is if the recipient of the education is open to that. Everybody is not a distance learning subject. Everybody doesn't learn the same way, as we know, especially when we deal with our clients. Every client is different, and so the way they learn is going to be different. So that is effective up to a point, but, of course, it is not going to satisfy everyone.

I think it is a good product, especially the contracting piece. I went through that one myself. It is very simple, and it is easily understood, and I think that the matter there is just letting people know that that is out there, letting me know that that is out there so that I can tell my clients that is there. But it is a good product. I think it is effective.

Mr. DAVIS. Thank you.

I yield back.

Chairman BRALEY. Well, I want to just apologize to our panel. I know that Dr. Day has a plane to catch; and these votes are very challenging, require us to do a lot of multitasking. I am committed to making sure that our other witnesses get an opportunity answer some questions. So I am going to run over and vote and then come back.

Mr. Davis, if you are willing and able to, that would be fine. But I just want to make sure that the witnesses who have made the effort to come here get an opportunity to talk a little bit more about the issues that brought them here. And then we are probably going to adjourn after this first vote, because it looks like it is going to be about an hour of votes. So I really appreciate your indulgence, and the hearing is adjourned until we return.

[Recess.]

Chairman BRALEY. I call the Committee back to order.

And, Mr. Bates, let me ask you some questions. One of my favorite TV shows is The Office, which admittedly is a comedy about the business that you represent. But there is also some important lessons about what is going on in the office product industry in that show, and one of the things that I think is significant is how the industry has changed in the last 10 or 15 years. One of the things that we know is it has faced many issues recently, some of which relate to the administration policies, rather than to SBA programs.

In your opinion, what can Congress and the SBA do, without micromanaging, to help small businesses that suffer when the government changes its buying procedures?

Mr. BATES. Well, I think education is a critical component. I mean, we heard a story here earlier where getting the word out in a quick, easy-to-understand way is important. But I do think that the choice of purchasing vehicle has a big impact on the act of any small business to participate; and our general approach is there ought to be more competition, not less. So excessive contract bundling, things that limit the number of competitors on any given contract really in the long run doesn't help the government. You get higher prices, less choice, less effective service to the end customer. And there is always a big disconnect if you talk to any of our members between what the people in the field say and what the people who let the contract say at headquarters. So there is a lot of goodwill here, but getting it connected through more competition is really the solution at the end of the day.

Chairman BRALEY. And I know I am going to lose people who aren't fans of the show, but my kids and I, this is one of my favorite things that we do together. There is a great episode where Dwight and Jim go out on a call to a customer who has placed most of their business with somebody where price is the primary objective, and they make a call to that competitor and leave the phone on the desk while they are having the conversation with the potential customer just to demonstrate the point that sometimes customer service is an important component in addition to pricing.

For your members, you know, what types of challenges do you face in a government procurement system where price is such a high priority in breaking through and talking about the total contract performance and what your members can provide to be competitive in that type of an environment?

Mr. BATES. Well, I think one of the disturbing things is past performance has not been really adequately factored into the equation. A large number of our members at one point in time over the last 2, 3, 4, 5 years have had more significant government businesses in many cases than they have today. And that whole positive history has been, I think, left by the wayside in a lot of cases.

Also, again, I will come back to the end user. There is a disconnect between the value that is actually provided when the product is ordered and delivered versus the people who are just responsible for making the purchase order, so to speak. There are also a lot of the shenanigans, frankly, about pricing. In our industry, a large number of products, difficult to audit and track. You have a lot of product substitutions. You know, private label for branded product, different units of measure. All sorts of things that can go wrong to really change from what was actually bid to what is actually priced when it is delivered.

Chairman BRALEY. So what are some of the solutions to address those problems?

Mr. BATES. I think the solutions are, one, that we do need to have legislation that focuses in on this and makes it clear that past performance is something that ought to be taken into effect. We obviously have to do a better job of getting the message out to the people who are involved in the procurement as well about what

that value is. But they have to be empowered to recognize and take that into account.

I think the other key issue here is that the whole shift toward sole sourcing contract, bundling, and even—forgive me, the Small Business Administration is not at the top of the list in terms of their purchasing from small business, and there needs to be more of walk the talk. If there is a goal, let's get good data in place which your bill and other bills have started to do. Let's measure that information, let's get it out where it is visible, and then I think people will perform.

The other thing that hasn't come up today is there are fewer and fewer contracting officers government-wide who are out there. So part of the lack of oversight or insufficient oversight is really related to the problem that there just aren't enough qualified people who are able to look into the details of a contract as they are reviewing bids before them.

Chairman BRALEY. Thank you.

Ms. Dorfman, it is great to have you back, and we have had an opportunity to talk a little bit today about some of the issues and concerns historically with the Women's Procurement Program. We do know the government is falling short of its goal for contracting with women-owned businesses, and the SBA recently released the proposed rule I mentioned earlier for implementing the Women's Procurement Program which will allow for set-asides. Allowing set-asides for small businesses as a whole has nearly doubled agency achievements. However, the rule will only allow for women-owned set-asides effectively in three very narrow industries, for example, kitchen cabinet manufacturing.

Apart from set-asides, what can the SBA do to help women-owned businesses that are small businesses enter and compete in the Federal marketplace?

Ms. DORFMAN. Well, thank you.

First of all, I would say that the SBA needs an attitude adjustment. I really would hope that the SBA would start to go back to its core mission and assist small businesses, whether it is implementing a program that was passed by Congress as Congress had intended or providing the funding needed to the regional offices which are struggling to provide the real resources that are needed.

We do need to also see them working hand in hand with the small business committees so that we can work together as a team. I should include it to include small businesses to get to the next level.

I spoke a lot about transparency and the numbers, which also would be part of the accountability process. I believe that very strongly. Also, the number of PCRs, 66. Well, back when the spending wasn't so great, it was about 125 PCRs; and, obviously, we need to increase the PCRs.

I am very glad to hear today that now we are not having them train small businesses, but they are actually going back to do the job they should be doing, which is making sure that contracts, as they come forward, do provide for small businesses to be able to access part of those contracts, and I would like to see more and more of that.

And then, also, access to capital is huge for women. We still are finding it challenging to get the amount of funding we need to grow our businesses. And even with the SBA, if we get a loan, it is generally not to the amount of money that we need for the small business owner to grow at the rate that she needs to grow.

Chairman BRALEY. Two of the concerns you mentioned in your opening statement, I wanted you to follow up on and amplify if you would. One has to do with the problem we talked about frequently, and that is false contracting data and how that impacts small women-owned businesses who are trying to get their foot in the door of the Federal procurement opportunities.

And the other thing you mentioned was the need for regional breakouts of data showing what successes are being achieved. And this is similar to the concern I raised earlier about this circle that has been drawn around the District of Columbia and where the concentration of Federal contracting dollars goes and then the other circle that goes around the large corporations that have the lion's share of these Federal procurement dollars. If you would, if you could just elaborate a little bit on those two concerns, false contracting data and the need for requested regional breakouts.

Ms. DORFMAN. Sure. When we take a look at the measurements and the top 50 firms, for instance, that I mentioned, what we see is there is over—there is about a third of the contracts with the top 50 firms that are claiming to be women owned, but they are not. And there is about $5 billion is what we are looking at when you look at the 100 firms that is in question of the dollars.

So giving some examples of some of the issues, approximately half of the 50 firms listed in the top 50 have male CEOs, approximately 21 of the 50 firms listed at the top 50 are not designated as women-owned and CCR, and then 17 of the firms that we found in the top 50 are not shown as small in the codes in CCR that they have the contracts in. And so there are a number of those issues.

And what happens, especially when we get the women's contracting program up and running—there are two portions of that. One is how this will impact that, making sure that women-owned firms are really accessing it. But then also from this side of it, where we don't have that program yet, we are reflecting data that is out there and the agencies are claiming to make their numbers and yet they are not. So women, I believe, are being locked out of more contracts than what the SBA is showing right now.

So that is the first part. And I forget the second part. I apologize.

Chairman BRALEY. The second part had to do with the regional breakouts and why that is important.

Ms. DORFMAN. Right. I think it is important to show where the contracts are going so that you can see the impact in the communities. When you take a look at right now the companies that are in D.C. and are able to get to D.C. that are servicing most of the contracts and when you get—well, there might be agencies that have buying capabilities in the various regions. We need to make sure that those businesses in their regions have access to those dollars.

Chairman BRALEY. I spent part of Friday afternoon in the small community of Oelwein, Iowa, in my district with five women who own their own businesses and are really having an enormous im-

pact on revitalizing a downtown area. My sense is that a lot of your members really feed on this synergy that develops when one successful women-owned business is providing opportunities for networking and connection with other women. Is that why expanding regional access to procurement opportunities is so critical to the people in your membership?

Ms. DORFMAN. I think that is a part of it and certainly what we see in general for small business, whether it be woman or not, that when you bring the buying back into the community—and I think Hurricane Katrina speaks very closely to this, where the contracts were actually awarded to corporations that were not based in the region and the region is still suffering how many years later, going on 3. Whereas if we could make sure that in the communities that there are—whether it be this disaster and helping to rebuild or there is other economic impact within the community, that is how we are going to make sure that the community itself will be growing. If we can provide access to contracts into the community, then the money will come in. We can further businesses, hire more employees in the community. The money goes back into the community, and that is very good for the economy.

Chairman BRALEY. Thank you.

Ms. Wilcox, the SBA Certification Workshop you described in Kingsport sounded like a great opportunity to help bridge some of this knowledge gap that many small business owners experience. Can you just share with us some of the observations or lessons you learned from being part of that and what things you think the Committee could benefit from knowing about that particular workshop?

Ms. WILCOX. The workshop that I mentioned earlier was the SBA Certification Workshop, and also Carol Crawley came out and did the certification for TDOT. And whenever we do an event like that on certification or anything money related, capital related, we do tend to draw a larger participation. And it is not just Kingsport participation, but it is a regional draw. So the need for that—it just demonstrates to me that there is a tremendous need for that type of workshop to go on.

In 2007, we did about five SBA events in Kingsport; and I think that, of course, put us in the position that we are in today having that strategic partnership. But there is definitely a need for it. There is a draw. People come out for it, and people actually register in the CCR after doing that.

And I was talking to a panelist during one of our breaks, but I found that, after a workshop like that, the client will go in, they will register themselves in the CCR, but then I think it stops at that point because it can be a little bit overwhelming for them. They don't know where to go next. So it is a good start, but I think we need to help them get further with it.

The 95 clients that I mentioned or businesses in Kingsport that are there, how many are really still interested in doing Federal Government work? How many have been awarded a contract? And how many are just going to stay right there on that step one? I am in the CCR system. But they haven't gone that step further to say, I am a small disadvantaged business. I am a HUBZone business. They don't go the extra steps. They seem to stop.

Chairman BRALEY. My perception is it is a lot like fishing. If you haul out a trophy fish and take it around and show it to your friends and family, they are more likely to go fish in that lake or pond.

I think with SBA programs, if you can document some of the successes that businesses in your region are having in participating in these procurement opportunities, it creates more enthusiasm for further participation. But if people don't see result, they don't have the incentive to continue to explore the opportunities. Is that what you are seeing?

Ms. WILCOX. That is exactly what I am seeing, and I can give you a great example, great example.

Keith Joy with Oak Ridge National Laboratories has been to Kingsport a number of times last year to support KOSBE. And he came out one time, he did a breakfast meeting for us and spoke to about 50 small businesses at that breakfast meeting. On another occasion, he came out and we set him up with individual appointments with clients that we had prescreened and prequalified.

So that means they were already in the CCR. They were already in the Oak Ridge database; and Keith sat down with them and talked about marketing strategies, et cetera. That client, that KOSBE client, has actually been contacted. At least he is getting a little bit further. He is the one that was HUBZone certified. He is a veteran. So there is a good story there.

Now he has an opportunity to bid on something. Now did he respond to it? I don't know. I will have to verify that. But there is a good story, and it is contagious.

Chairman BRALEY. Great. Thank you.

I want to thank all of our witnesses for coming here today.

Mrs. Ott, it is not always fun to be the SBA representative at these hearing, but it is a very important function for the work of the Subcommittee. We appreciate your willingness to come and share your candid assessment of some of these issues. It is very important to the small business owners of this country. So thank you for joining us today.

To all the other witnesses, I know this is an imposition on your time; and we really do appreciate the stories you have shared, the experiences that you have learned. It makes the work of this Committee more vital and gives us a human face that we can apply to these important decisions we are making here. So thank you all.

I ask unanimous consent that members have 5 legislative days to enter statements into the record. Without objection, so ordered.

This hearing is now adjourned.

[Whereupon, at 4:45 p.m., the Subcommittee was adjourned.]

BRUCE L. BRALEY, IOWA
CHAIRMAN

DAVID DAVIS, TENNESSEE
RANKING MINORITY MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business
Subcommittee on Contracting and Technology
2361 Rayburn House Office Building
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STATEMENT
of the
Honorable Bruce Braley, Chairman
Subcommittee on Contracting and Technology
House Committee on Small Business

Hearing on "Ensuring Small Businesses Have
Fair Access to Federal Contracts"
April 16, 2008

Today, we will examine whether the nation's entrepreneurs are being given a real opportunity to access the federal marketplace.

The topic comes before us at a time when the U.S. economy is in a sharp downturn. The subprime mortgage crisis that began in 2006 is one of the worst we have seen since the 1930's, and GDP data for the last quarter of 2007 shows less than one percent growth in our economy.

Two weeks ago, the U.S. Department of Labor reported unemployment has risen from 4.8 to 5.1 percent—with 80,000 jobs lost during the month of March alone. Oil prices continue to climb and the average price of a gallon of gas is now $3.33—a new record. Meanwhile, credit is drying up, liquidity is limited, and businesses are finding it difficult to secure affordable capital.

The picture is grim, but there is hope—and it rests with small firms. Entrepreneurs have always led the way to economic recovery and growth. However, the question of whether this Administration is giving them a fair chance to do it again, remains.

While most sectors in our economy are struggling, the federal marketplace continues to grow. Last year alone, federal procurement spending rose by over 9%. In fact, the federal government now spends upwards of $400 billion dollars in good and services, which amounts to more than the GDP of many nations.

Our government buys everything from thumbtacks and staples to navigation components for satellites and turbines for submarines. The likelihood of a small business making one of these products—or providing a needed service to the federal agency that uses them—is very high.
Just as importantly, small businesses increase the diversity and quality of the supply base and stimulate the economy. Congress recognized this fact 55 years ago when it passed the Small Business Act.

That law commits our federal agencies to ensure a "fair proportion" of government contracts are awarded to entrepreneurs. But this Administration has moved away from those goals. Over the past seven years, it has not met the government-wide 23% targets for contracting with small businesses a single time. Moreover, contract bundling—which robs small firms of the opportunity to compete for federal projects—is on the rise.

Within the agencies, the situation is even worse. Contracting systems are being mismanaged, and we are seeing many large businesses chosen to tackle projects that entrepreneurs could do far more efficiently.

Last May, the Committee approved H.R. 1873, the *Small Business Fairness in Contracting Act.* I introduced this legislation to bring greater transparency to the contracting process, because it is obvious a high level of miscoding and contract bundling is shutting out small firms.

In March of last year, this Subcommittee held a hearing on the delayed implementation of the Women's Procurement Program. At the time, I was less than three months into my tenure in Congress, and I was shocked by the utter disregard of the Administration for the important role women entrepreneurs play in our economy.

Incredibly, SBA continues to drag its feet on the implementation of this important initiative. In January the agency even issued a regulation that was completely unworkable. That was just the latest in a series of contracting decisions that run clearly counter to the intent of current law.

American small businesses are drivers of innovation and growth. That is a fact. They increase quality and help us give tax payers the biggest bang for their buck. Offering these businesses a fair chance to compete for federal contracts is the least we can do. I remain committed to ensuring the Administration lives up to that commitment.

U.S. House of Representatives
SMALL BUSINESS COMMITTEE
Subcommittee on Contracting and Technology

Wednesday,
April 16, 2008

Opening Statement of Ranking Member David Davis

Ensuring Small Businesses Have Fair Access to Federal Contracts

Good morning. Thank you, Mr. Chairman, for holding this hearing on "Ensuring Small Businesses Have Fair Access to Federal Contracts." The House Small Business Committee, this subcommittee, and our nation recognize that small business is critical to the country's overall economic well-being. The drive, creativity and innovation of small businesses are the hallmarks of entrepreneurship and the keys to job creation and economic growth.

I'd like to extend a special thanks to each of our witnesses who have taken the time to provide this subcommittee with their testimony. I would also especially like to welcome fellow Tennessean Ms. Aundrea Wilcox, Executive Director of the Kingsport Office of Small Business Development and Entrepreneurship of the Kingsport Area Chamber of Commerce. She is responsible for advising startup and existing small businesses. Welcome to the Small Business Subcommittee on Investigations and Oversight, Ms. Wilcox; I am sure we will find your testimony extremely helpful.

The Small Business Act was signed in to law in 1953 creating the Small Business Administration. The Act recognizes that competition is the essence of the American economic system of private enterprise. The preservation and expansion of such competition is basic not only to the economic well-being but to the security of the Nation. Such security and well-being cannot be realized unless the actual and potential capacity of small business is encouraged and developed.

Congress has amended the Act to authorize a number of programs to ensure that small-business concerns receive their fair proportion of contracts for property and services. These programs are controlled and managed by the Small Business Administration. As a result of these initiatives, small businesses produce 13 to 14 times more patents per employee than large firms. Small businesses participate in all major industries and represent 99.7 percent of all employers and 50 percent of all private sector workers. In addition, small businesses employ 39 percent of high tech workers such as scientists, engineers, and computer workers.

To President Bush and many Americans, small business embodies so much of what America is all about. Self-reliance, hard work, innovation, the courage to take risks for future growth: The President states that these values have served our Nation well since its very beginning. They are values to be passed on from generation to generation. We must ensure that our small businesses continue to thrive and prosper, not for their own sakes, but for all our benefit.

The SBA has overall done a good job in implementing the Congressional direction in the Small Business Act and specifically the contracting programs. The SBA, as this committee does, should continually assess the effectiveness of existing Federal contracting programs and recommend any changes and/or improvements. They should also review and recommend inherent synergies that would benefit all small business. This course of action may reduce or eliminate infighting among the small business community involved in competing Federal contracting programs.

We have excellent witnesses here today to provide us with insight into how well the Congressional direction to assist small business in the procurement process and increasing opportunities to do business with the federal government are working. I look forward to their testimony. Thank you Mr. Chairman and I yield back the balance of my time.

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Testimony of
Fay E. Ott
Associate Administrator
Government Contracting & Business Development
U.S. Small Business Administration

Hearing on
Small Business Access to the Federal Marketplace

Committee on Small Business
Subcommittee on Contracting and Technology
US House of Representatives

April 16, 2008

Chairman Braley, Ranking Member Davis and Members of the Committee, thank you for the opportunity to testify today. My name is Fay Ott, and I am the Associate Administrator for Government Contracting and Business Development at the Small Business Administration, and on behalf of Administrator Preston, I welcome the chance to discuss SBA's progress in increasing federal procurement opportunities for small businesses.

SBA has made significant strides to improve small business access to federal contracts. From FY 2000 to FY 2006, federal government prime contracting dollars going to small businesses have grown by 54 percent, from $50 billion to $77 billion. During that same period, federal government subcontracting dollars going to small businesses increased 71 percent, from $35.5 billion to $60.7 billion. In terms of jobs among small businesses, this increase in prime contracting dollars translates into more than 571,000, while among subcontractors we estimate that more than 450,000 jobs have been created or retained. This is significant and represents real progress for America's small businesses.

Looking forward, SBA recognizes the need to improve small business government contracting programs, both within SBA and externally by working with other Executive agencies. We have worked to provide data that more accurately measures agency results, and we have continued to improve SBA's Scorecard so that it more clearly measures agency progress toward small business goals. We are addressing a long-standing problem over the size standard recertification process, and we are continuing to work on updating size standards across the range of business categories. Finally, we are working to ensure that small businesses have the best possible access to federal contracting opportunities by augmenting and providing better direction to the personnel who work directly with small businesses.

PCRs

Currently, there are 66 Procurement Center Representatives (PCRs). I know that the committee and its members realize the important role PCRs play, and SBA is committed to supporting and, where appropriate, augmenting this valuable work. This number includes the recent hires that Administrator Preston discussed during his testimony before the committee. The agency's FY 2009 budget request is based on a total of 66 PCRs.

Because of the dynamic nature of the PCR workforce, we have in place a succession plan that takes into account the future retirements of current PCRs, and we will backfill in a timely fashion any positions that become vacant.

Along with the increased number of PCRs, SBA is also implementing a plan to improve the services these individuals provide. One of Administrator Preston's priorities for 2008 is to review the duties of PCRs to ensure that they can devote more time to finding opportunities for small businesses with procuring agencies. This process is ongoing, but we believe that once fully implemented it will allow PCRs to focus more intently on finding Federal contracting opportunities while also allowing district offices, SBA, and non-SBA resource partners to focus on the training and counseling necessary to get small businesses ready to compete for Federal contracts.

8(A) PROGRAM

The 8(a) Business Development Program assists small disadvantaged firms in gaining the skills they need to more successfully compete for federal contracts. Since 2007, the 8(a) portfolio has grown by 32 percent, and the reported 8(a) derived revenue is $5.7 billion. On average, 8(a) revenue represents approximately 29 percent of the total revenue for 8(a) firms. On the employment front, 8(a) firms employ more than 182,000 people per year.

SBA is moving ahead with plans to improve 8(a) program services. We are reengineering the process for annual reviews and certifications to make them both less burdensome and more focused on the skills that businesses need to succeed. We have established new training for district staff to improve customer service during the application, review, and contracting assistance processes. Further, we have completed two tribal consultations for new ANC regulations and we are evaluating the results as part of an overall review.

HUBZONE

The HubZone program, which provides vital assistance to historically underutilized business zones, is another area where we are focused on improving accountability. The May 2006 SBA Office of Inspector General audit of the program produced five recommendations to address various concerns. SBA has taken positive steps to address each of these issues, and these plans and actions have satisfied the Inspector General in regards to this audit.

Additionally, concerns have been raised about possible fraud or misrepresentation by HubZone applicants, and I want to assure the committee that SBA takes these issues very seriously. We have increased site visits, and we have made stepped-up Program Examinations a priority. Thus far in FY 2008, we have completed 362 Program Examinations, resulting in 144 positive findings, 183 proposed decertifications, and 35 decertifications. This process is ongoing, and we are working to ensure greater accountability and transparency in the HubZone program.

SCORECARD

In August 2007, SBA released the Small Business Procurement Scorecard, which we believe is an important new tool that will help federal agencies provide the maximum possible access for small businesses in the federal marketplace. The Scorecard measures "current" performance, while also reviewing the "progress" plans of federal agencies in providing more small business contracting opportunities.

The scorecard is patterned on the one used under the President's Management Agenda. It rates 24 agencies green, yellow or red, based on their performance in meeting annual small business contracting goals. To achieve a green rating a Federal agency has to meet its overall small business contracting goal, as well as the goals for at least three of four subcategories. Based on performance, seven agencies were rated green, five yellow, and 12 were red.

SBA's Scorecard is the direct result of a series of initiatives to improve small business participation in Federal contracting, and we believe it is a significant step forward in allowing the public to assess the agencies' performance in meeting their goals.

DATA INTEGRITY

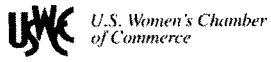
As the implementation of the Federal Procurement Data System – Next Generation evolved, quality control concerns were raised about the system's data. SBA and the Office of Federal Procurement Policy directed agencies to review their FY2005 data, allowing miscoding and anomalies in the database to be corrected. Today, we have much greater confidence in the contracting data, and the American public will benefit greatly from this increased accuracy and transparency.

SIZE RECERTIFICATION

SBA's size recertification rule took effect on June 30, 2007. The regulation requires small businesses to recertify their size status on long-term contracts at the end of the first five years of a contract and thereafter whenever a contract option is exercised. In addition, recertification is required for short-term contracts when a small business is purchased by or merges with another business. When contractors can no longer certify their small business size status, Federal agencies can no longer count awards to them toward their small business goals. These changes do not affect the terms and conditions of the underlying contract, nor do they require termination of existing contracts where

size status has changed. Ultimately, the new recertification rules will ensure more accurate data and further support our efforts to help small businesses receive more contracts throughout the federal government.

Chairman Braley and Members of the Committee, thank you again for the opportunity to testify before you regarding our work to promote government contracting programs for America's small business, and I am happy to answer any questions you may have.



Testimony
of
Margot Dorfman, CEO
U.S. Women's Chamber of Commerce

Before the House Small Business Committee
Subcommittee on Contracting and Technology

Hearing on Ensuring Small Businesses Have
Fair Access to Federal Contracts
April 16, 2008

Chairman Braley, Ranking Member Davis, and Members of the Subcommittee on Contracting and Technology, my name is Margot Dorfman and I am the CEO of the U.S. Women's Chamber of Commerce (www.uswcc.org). I am here today on behalf of millions of American women business owners to make you aware of serious issues in the reporting of federal contracting with women-owned small businesses, the large number of contract actions falsely attributed to the women-owned small business category in the Federal Procurement Data System, and the lack of analysis of women-owned small business contracts and contractors.

I have spoken many times to this committee about the ongoing failure of the federal government to provide women-owned small businesses with fair access to federal contracts and the failure of the Small Business Administration to act authentically and proactively towards the fulfillment of their mission.

Today, I will illuminate how the failures of the SBA cause false contracting data to be reported and fail to provide this committee and the American people with a true picture of federal contracting with women-owned firms. Let me begin with a chart that shows the tremendous growth in federal contracting between 1999 and 2006 vs. the incredibly small growth in contracting with women-owned firms during the same period.

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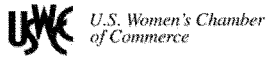
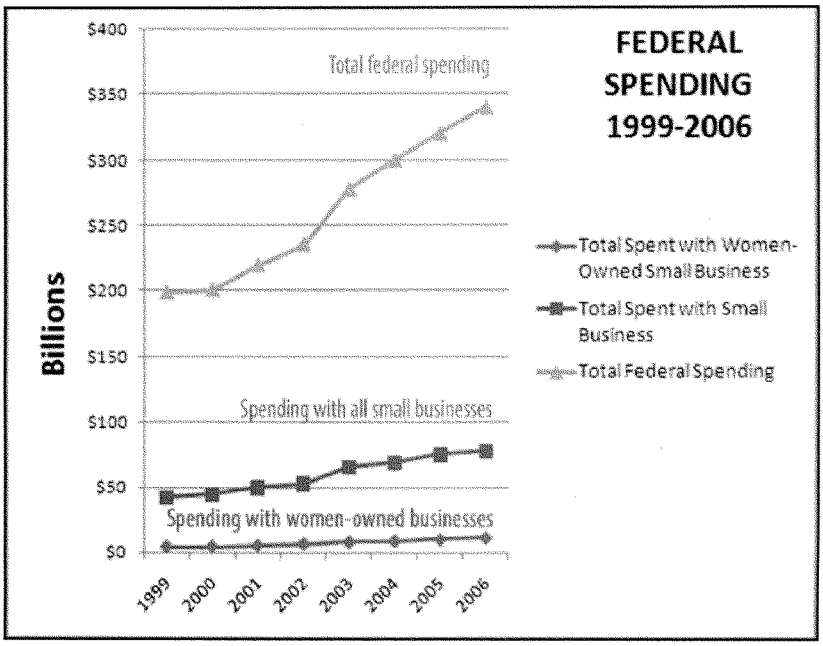


Government Spending Soars – But Not For Women-Owned Firms



While total federal spending grew from approximately $200B in 1999 to over $340B in 2006 – an increase of $140B, federal spending with women-owned small businesses grew from only $4.6B to $11.6B – an increase of only $5B.

If ever there was a time for the federal government to finally fulfill its promise to women to assure fair access to federal contracts – the period between 1999 and 2006 was the time. $140B in new spending, and the federal government still could not meet its pitiful five percent, decade old goal for contracting with women. Instead, as the total number of women-owned businesses in America grew at a record-breaking rate and federal spending grew dramatically, our relative share of federal contracting participation continued to grow at a snail's pace.

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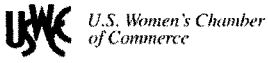


Lack of Accuracy in Reporting of Contract Actions

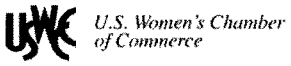
This brings me to the very serious issue of reporting contract actions with women-owned firms. Over recent years, the SBA has failed to make certain that even the most significant contract actions and contractors are accurately attributed as women-owned firms.

As contracts are awarded, contract actions are recorded in the Federal Procurement Data System (FPDS). This data is used by the SBA to create annual goaling reports that provide us with information on federal purchasing such as total contract actions and total dollars spent. Using data from the FPDS (which is now readily available to the public through the new government transparency website – www.usaspending.gov), one can easily generate a report listing the largest contractors to which "women-owned small business" actions have been attributed.

In 2006, the top one hundred contractors with actions flagged as "women-owned" represented over $5B of the total $11.6B that the SBA claims was spent with women-owned small businesses. By simply making a careful analysis of these top one hundred contractors, the SBA could go a long way towards assuring the accuracy of their own reporting.

Unfortunately, it is clear that the SBA did not carefully peruse even these largest contractors and take action to assure that the FPDS accurately reflect the women-owned business status of these companies. With just a cursory look through the list of firms and the associated transactions, their CCR registrations, their "small business" NAICS code designations, and their company websites, it is clear that this list is shockingly full of businesses that are either not small, not authenticated as "women-owned" in CCR, or clearly should not qualify as women-owned as their company's CEO's are not women.

SUGGESTION NUMBER ONE: Require the SBA to provide an annual report on the top one hundred firms with contract actions attributed as "women-owned small business." Simply require the SBA to confirm these businesses are in fact small, that the NAICS codes attributed to these actions are small for the firm in question, that they are appropriately designated in CCR as women-owned, and that their firms meet a simple but valid litmus test for women's business ownership.



Lack of Clarity and Authentication in Claiming Women-Owned Small Business Status

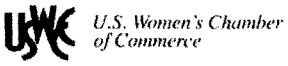
As we perused the CCR and ORCA (Online Representations and Certifications Application) systems looking at how "women-owned" status is designated and how the business owner provides their representations and certifications to contracting officers, we found that the ability to assert women-owned status is far too simple and lacks clarity with regard to how one determines "women-owned" status.

ORCA simply reiterates the FAR definition of "women-owned" with no further assistance or differentiation that might prevent some of the overt misrepresentations we found in the data. For example, the FAR definition of women-owned as detailed in ORCA is as follows:

> ***"Women-owned business concern," as used in this provision, means a concern that is at least 51 percent owned by one or more women; or in the case of any publicly owned business, at least 51 percent of its stock is owned by one or more women; and whose management and daily business operations are controlled by one or more women.***

CCR and ORCA allow firms to "self-certify" that they are ***owned, operated, and controlled by one or more women***. But, what does this mean? If a man is the CEO of the firm, can it possibly be attributed as women-owned? If a man and woman found a business together, and simply establish 51 percent ownership for the woman, can it be asserted that the woman owns, operates and controls the business? If the SBA never bothers to check even the top one hundred contractors receiving the attribution of women-owned, can we trust what is reported towards annual women-owned small business goals?

SUGGESTION NUMBER TWO: Include more detail in the FAR, in CCR and in ORCA regarding the definition of a women-owned business concern. Include a simple checklist of attributes that force the corporation registering as women-owned to make clear it understands the elements of the women-owned definition and meets, at least, the most cursory of requirements. And, be very aware that even when we do finally have an appropriately implemented women-owned small business set-aside program, there may be a difference in how a business secures women-owned status for the purpose of the set-aside and for the purpose of registering in CCR. We must make sure that this loop hole is closed in both places.



Lack of Detailed Reporting and Analysis of Women-Owned and Small Business Contracting

In 2005 the SBA commissioned a report from the **National Research Council** entitled, "***Analyzing Information on Women-Owned Small Businesses in Federal Contracting***." This was the study of the study secured by the SBA in order to implement the Women's Federal Procurement Program. The SBA placed great emphasis on the need for this report from the NRC, and then chose to ignore most of the NRC's recommendations.

A strong recommendation from this report was to, "Produce More Useful Reports on Federal Contracting." The NRC report states, "The SBA Office of Advocacy has a program of regular reports and analyses on small businesses and their contributions to the economy and has worked to develop data files for such analysis. However, the SBA does not sponsor regular reports that would inform Congress, other interested parties, and the public about trends in federal contracting disaggregated by such characteristics as type and size of business, agency, and region. It annually publishes goals for the use of various types of small businesses in federal contracting, but it does not regularly publish tabulations or analyses related to contracting even though federal contracts are an important source of business for many small firms."

SUGGESTION NUMBER THREE: Heed the advice of the NRC and require the SBA to provide a more thorough analysis of small business contracting to include such characteristics as type and size of business, thorough agency contracting breakouts, and regional breakouts. How many unique contractors are used by each agency and in each business-type? How many unique contractors are participating in the federal contracting system from each state? How many new contractors were used or lost in each fiscal year and by each agency? This is the type of data regularly gathered and analyzed in the commercial marketplace and can absolutely be provided through the straightforward creation of reports from existing tables within the FPDS system.

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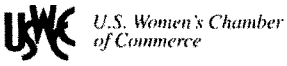

Accountability, Transparency, and Useful Reporting Will Help Assure Small Businesses Have Fair Access to Federal Contracts

Each year, the SBA publishes the total dollars spent and the total transactions completed with women-owned firms. However, no further analysis is presented. Never does this committee, or the American public, have the opportunity to understand the total number of women-owned small businesses receiving contracts, the size of these contracts, the geographic disbursement, the number of new firms receiving contracts, the dollars flowing through joint ventures, the top one hundred women-owned contractors, or similar data relative to each of the major agencies purchasing with women-owned firms. We also never learn how many new small businesses register in CCR, how many small businesses have dropped their CCR registration, or how many total small businesses are receiving federal contracts.

Even with all the tools now at our disposal to establish transparency in federal government contracting – and readily at the disposal of the SBA, the SBA only publishes the total dollars spent and the total number of contract actions. It seems the SBA, as the champion of small business opportunity in America, should be driving for greater transparency in federal contracting and helping this committee and the American people to better understand the depth and breadth of small business and women-owned business participation in federal contracting.

I strongly urge you to take action to require deeper accountability, transparency and useful reporting form the SBA. The information gleaned from these actions will most certainly assist in the efforts to assure that small businesses have fair access to federal contracts.

Thank you.

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Testimony of Chris Bates, National Office Products Alliance
Committee on Small Business, Subcommittee on Contracting & Technology
U.S. House of Representatives

Hearing on Ensuring Small Businesses have Fair Access to Federal Contracts
Wednesday, April 16, 2008

Chairman Braley and members of the Subcommittee, I am Chris Bates, President of the National Office Products Alliance – NOPA – a not-for-profit trade association established in 1904 that represents and serves more than 700 small independent dealers throughout the United States, along with their key suppliers. NOPA members range in size from $1 million to $90 million in sales per year. Further pertinent industry background is provided at the end of this prepared statement for the hearing record.

NOPA appreciates the opportunity to speak to the Subcommittee today about the need to ensure that small businesses have fair access to Federal Contracts. This Subcommittee and the full Committee have worked hard on this issue throughout the 110th Congress. HR 1873, passed with a broad bipartisan majority in May 2007 is an important result of your efforts.

This legislation establishes a strong foundation for needed reforms in the areas of contract bundling, data collection, reporting and oversight that will help small businesses in all industries who are working to develop federal government business. HR 1873 also increases the target for total federal purchasing from small business from 23 to 30 percent and would improve federal agency and congressional oversight to help achieve that goal.

NOPA and its members greatly appreciate the leadership of this Subcommittee and Chairman Braley in developing and passing HR 1873. We continue to urge the U.S. Senate to pass similar bipartisan legislation this year but this is an uphill effort.

My primary message today is that NOPA needs additional help from the House Small Business Committee and Congress as a whole to address a serious and growing problem facing small office product dealers who have government business: Small Business "Fronts", also known as pass-throughs. This problem would not be resolved directly by HR 1873 and affects our 200-plus members who serve federal government customers in offices around the country. Small business "fronts" harm legitimate, independent small businesses and government customers who are trying to boost purchasing from them.

Small Business "Fronts" – What Are They?

Just what are "pass-throughs" or small business "fronts"? In the simplest terms, these are situations in which a large national company approaches a small business and proposes to create a "mentoring" relationship for the sole purpose of gaining improper access to contracts set aside for small business. I refer Subcommittee members to Appendix 1 to my prepared remarks, which compares a legitimate, independent dealer to a "pass-through" or small business "front" dealer.

Let me emphasize that these "fronts" are NOT the same thing as legitimate small business mentoring program relationships. In the latter case, the small firm being mentored plays a commercially useful primary or subcontracting role. That is not the case when a "front" is involved in a federal contract – largely in name only.

The abuses associated with the small business "fronts" problem occur when:

- The small business has little or no prior experience as a reseller of office products, particularly to government customers, and little or no ability to itself support such business;

- The large company offers to performs most or all of the selling, order processing, customer service, product delivery, and invoicing and payments processing for the contract on behalf of the "pass-through" dealer "partner;"

- The small business performs few if any commercially useful functions once the contract award is made, beyond providing an entry point through its website to the full operating infrastructure of the large corporation; and

- The small business typically receives a commission for its willingness to serve as the "front" for this business, which is "passed through" to the large corporation.

Section 301 of HR 1873 (Small Business Size Protest Notification) will help our industry in situations where a legitimate small business is successful, grows and becomes "other than large" according to the U.S. Small Business Administration's size standards for our industry. However, it will not address those situations in which a very small, but non-qualified company pretends to be a qualified small business prime contractor that merely "outsources" contract fulfillment functions to a larger corporation. This is the "front" situation of concern to NOPA.

Regrettably, several of the large national chains in our industry have used and are using small business fronts to improperly capture federal government, as well as state government, public institution and Fortune 1000 contracts aimed at small businesses. This practice is totally inconsistent with congressional intent as evident in HR. 1873 and other reform legislation, whose underlying goal is to create a level playing field for legitimate small businesses in federal government contracting.

Congress has encountered and dealt with a similar issue in the form of Federal Prison Industries, through which purchasing preferences aimed at enhancing the work skills of federal prisoners often led to "drive-by manufacturing." In reality, prisoners were paid below minimum wage and received little or no training in the higher-level skills associated with production of office furniture or other products.

Congress has consistently voiced its disapproval of such practices by passing legislation to end them. NOPA asks that Congress now turn its attention to the urgent, comparable problem of small business fronts.

Negative Impact of "Fronts" on Legitimate Small Businesses

The known direct loss of federal business experienced by legitimate independent dealers already totals tens of millions of dollars annually. This loss will grow as these office products dealers continue to unfairly lose access to future multi-year federal, state and local government office products contracts as a result of the small business "fronts" problem. Conservatively, these total losses already have reached more than 100 million dollars per year on a national basis, including federal and state government contracts.

In FY 2006 federal agencies spent between $322 million and $540 million on office supplies, according to FederalTimes.com. Estimates are imprecise, because of incomplete government data collection. These data also exclude the large volume of business done through the government's credit card program.

How Small Business "Fronts" Work

NOPA has conducted research into a variety of small business "front" situations. This research shows a common pattern of unethical and misleading contracting behavior, which in most cases may not be illegal due to loopholes in present federal laws. Appendix 1 compares the legitimate independent dealer to the "pass-through" dealer. Pass-through situations typically work as follows:

1) The large office products corporation identifies a small business owner with socio-economic preferential selling status and some business experience – sometimes in a different industry – to serve as its "front" to gain access to government set-aside contracts for small business.

2) The large corporation offers to help the small business enter the office products industry with the understanding that the major company will handle all or virtually all of the value-added sales, order placement and processing, product delivery, customer service, quality assurance and even billing functions. In exchange for a commission, the smaller company agrees to serve as a mentored partner "front" through which orders are passed to the major corporate "partner".

3) Government orders placed with the small business "front" are usually captured by the website/customer management computer system of the major corporation, and

the order management, customer service and fulfillment processes are then fully administered by employees of the major corporation.

4) Payments may even be handled through "lock boxes" established in the name of the "front", but with the major corporation making the actual payment collection. The commission is then paid to the "front" to close out the transaction.

NOPA believes that GSA and many federal agencies are trying to provide more opportunities for legitimate small businesses to compete on a level playing field for federal contracts. However, we do not believe they fully understand the "pass-through" phenomenon. The current Army Blanket Purchase Agreement (BPA) and a recent multi-agency strategic sourcing initiative contract awards that include small office product dealers are positive signals that federal agencies are making a greater effort to buy from small businesses in our industry. But even those multi-supplier awards appear to include some dealers that the industry believes are "fronts" for a national office products chain.

Small Business Fronts Harm Government Customers

Small business "fronts" harm not only legitimate, independent small business dealers, but also the federal government as an office products buyer. Federal customers are injured by the steady erosion of effective competition for federal contracts as legitimate small dealers are less willing and able to pursue new government business. Regular, ongoing competition involving multiple alternative office product suppliers – the best way to ensure best price and value – erodes and in some cases no longer occurs.

Pending legislation in the U.S. Senate (S. 2300) would require the General Accountability Office (GAO) to study the small business "fronts" problem at the federal level. Presumably, this study would address the issue of impact on competition for federal government contracts.

However, NOPA notes that there already is strong hard evidence of the negative effects of reduced competition for state government office product contracts in several states. In several cases, state contracts that allow a large prime contractor to work with small business "fronts" have had significant problems and anticipated cost savings to governments in those states have not been realized.

In North Carolina, the state purchasing authority awarded a multi-year sole-source contract in 2006 to one of the large national office product chains. Over the prior 5-10 years, the state steadily eliminated the participation of independent, full-service dealers in this contract despite their long-standing, superior performance records. Competition suffered as a result.

Within a year after the sole-source contract was awarded, the Inspector General for the Department of Administration in North Carolina found significant examples of unauthorized product substitutions and incorrect (usually higher) pricing on a large number of contracted "core" office products, where charged prices did not match the

awarded bid prices. The large office product chain was forced to make restitution, but was not removed from the state contract.

In Georgia, a similar audit found even more widespread product substitutions and overcharges by the large national chain. In February 2008, the State terminated its contract with the large national chain and has reopened office products business to all qualified suppliers, including independent dealers.

In the Georgia situation, the large national chain was awarded the state office products contract with the understanding that it would work with a consortia of small dealers in the State as "subcontractors". Ultimately, the national chain could not find any small dealers in Georgia willing to participate in a "sham" arrangement with them and they therefore became the sole supplier involved in the contract. Several legitimate dealers lost their prior business with the State when the national chain won the bid but failed to live up to its promise of "small business involvement."

A similar state contract arrangement with one of the national office product chains prevails in California, with most of the 9 small business consortia members having no apparent significant prior experience in the office supplies business. That situation too has recently come under closer legislative and administration scrutiny. The State is now auditing all contract participants and the California Assembly has introduced legislation (AB 1942) to address the small business "front" problem. Other states are reported to be looking into their office supplies contracts as a result of these episodes.

NOPA believes that similar situations would be discovered if individual agencies conducted thorough audits of actual versus bid pricing and the scope of unauthorized product substitutions under federal office product contracts. In recent years, a growing number of federal office product contracts have been awarded to one of the large national office product chains on a multi-year basis and/or to their small dealer "fronts".

These "fronts" are expanding as vehicles for large corporations to demonstrate their "commitment to small business" subcontracting, and specifically to provide "assistance" to disadvantaged or under-represented socio-economic groups. Unfortunately, the reality does not match the public claims or image presented.

Federal Legislation Essential to End Small Business "Fronts"

NOPA and its members greatly appreciate the exceptional efforts this Subcommittee has made, particularly in the past 18 months, to assist small businesses in our industry and others. The results have been legislation to:

1) Require more complete and accurate government accounting of purchases from small businesses;

2) Create better standards for determining which federal contracts are appropriate for "bundling," a growing federal contracting practice that has taken new form under GSA's "Strategic Sourcing Initiative; and

3) Encourage increased government-wide contracting opportunities for small businesses through closer congressional oversight and more ambitious agency-level goal setting, monitoring and reporting to Congress.

None of these reforms, however, have become law as yet. And none will directly address the small business fronts problem, which can only be curbed or eliminated through more specific legislative and regulatory reforms.

Small Business "Fronts" Inconsistent with Recent Reform Legislation

There are three elements of the "fronts" problem, each of which must be addressed:

1) Federal agencies should not receive credit for small business awards when the work done under a given contract is largely performed by employees of a large corporation;

2) Small business "fronts" should not be allowed to gain access to set-aside government contracts when they effectively serve as brokers that receive a commission from large companies, and when they add little or no value added to the contracted work; and

3) Large national companies should not improperly gain a larger piece of the federal market through sham mentoring programs.

In stark contrast, legitimate independent office product dealers typically perform a high percentage of the service work associated with government contracts. Appendix 1 provides a visual comparison of the typical functions performed by independent small office products dealers versus small business "fronts". One such "front", Faison, was recently determined by the Small Business Administration to be "other than small." And this decision was upheld on appeal (Appendix 2).

Independent dealers meet long-standing FAR requirements for government service subcontractors (50% minimum value-added rule) operating under set-aside contracts for small business. They also meet relevant state procurement requirements, such as the "commercially useful function" criteria used in California. A copy of those standards appears in Appendix 3.

Because there are no specific criteria in current U.S. law or the Federal Acquisition Regulation (FAR), small business "fronts" may be not be illegal and federal agencies have either not seen or tolerated the practice, despite having reservations about it.

With new requirements in place to more accurately measure and report federal small business contracting and pending legislation (HR 1873) to reform small business contracting in general, it is time to address small business fronts, which are one of the most glaring and widespread unfair federal contracting problems our industry faces.

Specifically, NOPA asks the Committee and Congress to draft and approve legislation to:

1) Establish strict bid evaluation and post-award review criteria to ensure that federal contracts set aside for small business are not awarded to companies that play only minimal roles in servicing such contracts;

2) Require federal agencies to ensure that all bidders on small business set-aside contracts fully disclose and certify the functional roles they will play in contract fulfillment, as well as the specific functions their primary suppliers and subcontractors, if any, will perform;

3) Require each federal agency to report annually to the appropriate committees of jurisdiction in the U.S. House of Representatives and the U.S. Senate regarding their implementation of these provisions to end the use of small business "fronts" in federal contracting; and

4) Establish meaningful penalties for companies found in violation of the proposed new legislative and FAR provisions aimed at elimination of "fronts".

Office Products Industry Background

Government and commercial customers typically buy office products from small independent dealers or from one of the four large national corporations that operate in this market. The same manufacturers and wholesalers sell to both dealers and the large national chains.

A few dealer-owned purchasing cooperatives negotiate direct purchasing agreements with manufacturers to buy large quantities of the highest-volume office products to help their independent dealer members stay cost-competitive with the major national office product specialist chains. For lower-volume products, both independent dealers and the national chains rely heavily on wholesalers to supply them.

With similar costs for goods they sell, the main differences between independent office product dealers and the national chains is their size and how they operate. Dealers are entrepreneurial businesses focused on government, institutional and commercial delivery accounts and are known for their flexibility and exceptional customer service. They usually are not retailers. The large national chains are mixed retailers and commercial resellers. Not surprisingly, their strategies for serving customers are quite different from those of independent dealers.

To serve government and commercial customers in multiple locations – especially for large national contracts, independent dealers often participate in special "teaming arrangements". There are several such teaming arrangements in operation, including but not limited to the American Office Products Distributors (AOPD), which has operated successfully since the 1970s, and dealer networks managed by the is.group and the George W. Allen Company on behalf of the TriMega Purchasing Association.

For these reasons, "subcontracting" is not necessary and generally has not been used in the office products industry, except in the context of the collaborative teams of independents I just mentioned. Independent dealers and large national chains are competitors who do not work well together, and have different operating strategies and philosophies.

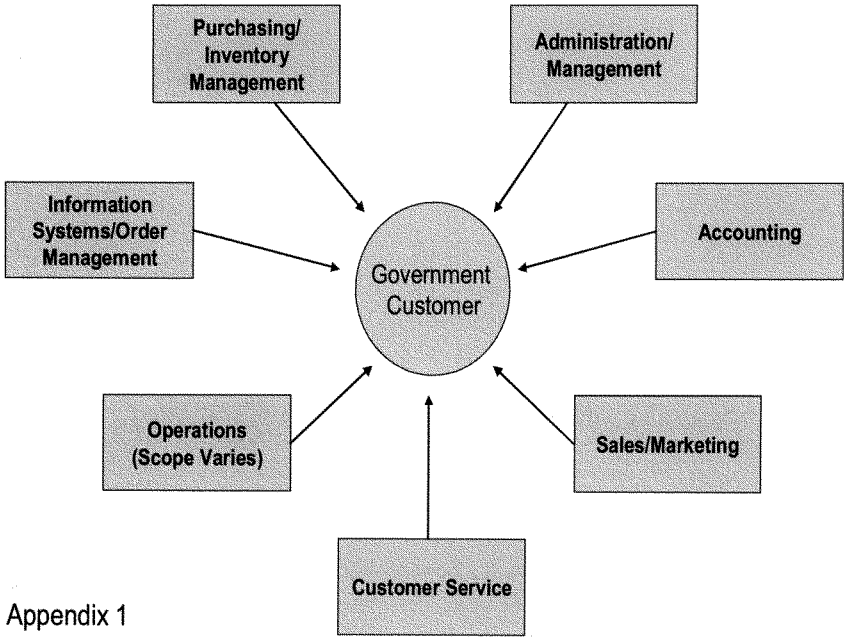
As a standard industry practice, the legitimate independent dealer has the sole responsibility to negotiate contracts with its supporting business partners as well as government customers, and remains legally liable for the performance of any and all functions to be performed under those contracts. In known pass-through situations, this is not typically the case, with the larger company playing the central role in bid development and negotiations with supporting vendors and the government customer.

Conclusion

On behalf of NOPA and its members, I thank you for opportunity to testify before this Committee about one of the most damaging and unfair practices that often prevents independent office product dealers from competing on a level playing field for federal government contracts.

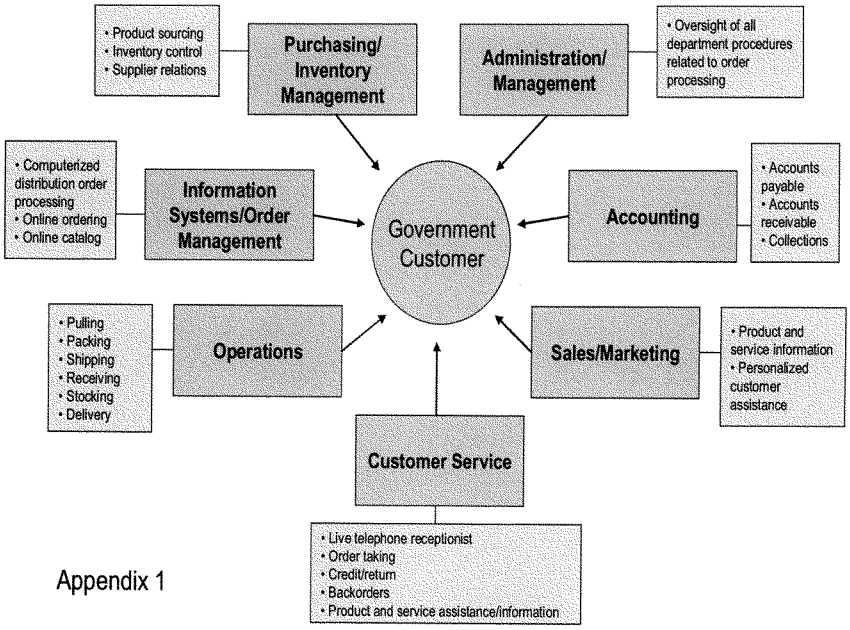
For Further Information Contact: Paul Miller, Miller Wenhold Capitol Strategies (703/934-0219) or Chris Bates, President, National Office Products Alliance (NOPA) at 703/549-9040, x 100.

Independent Small Dealer Business Functions for Customers



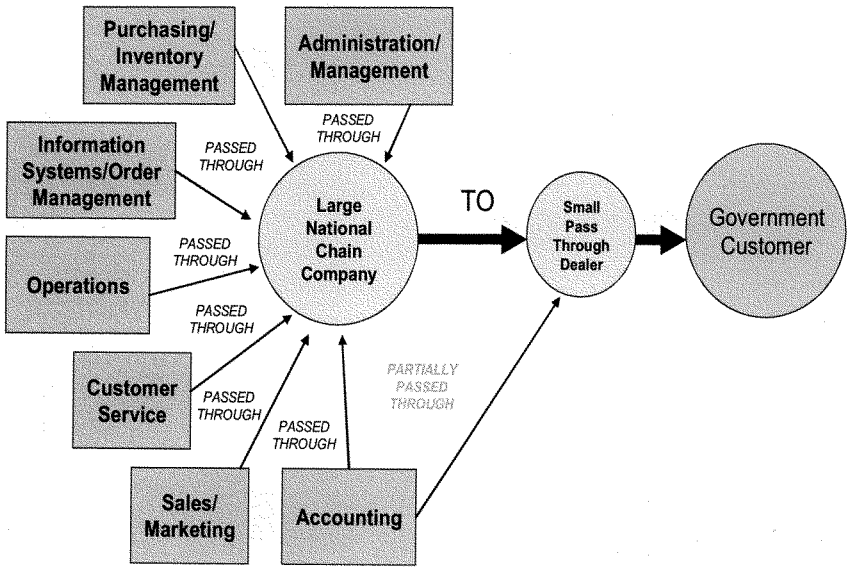
Appendix 1

Independent Small Dealer Business Functions for Customers (Detail)



Appendix 1

Large Company Business Functions Passed Through Small Business "Front" to Customer



Appendix 1

House Small Business Committee Hearing

On Contracting and Technology

April 16, 2008

Dr. Charles F. Day

Senior Member

Charles F. Day & Associates LLC

131 W. 3rd St., Ste M01

Davenport, IA

Introduction

Chairman Braley, Ranking Member Davis, and Members of the Committee, my name is Charles Day and I am the Senior Member of Charles F. Day & Associates LLC, a small business headquartered in Davenport, Iowa. It is my privilege to be here today and to have the opportunity to share my views on the small business environment.

I wish to give insight into the small business environment as I see it, and the challenges and risks that we deal within our small business in providing services to the Department of Defense. I will move from general comments to specific issues we have experienced. In my closing I will outline what I believe to be appropriate issues for this committee to address in making improvements in support to small businesses.

Background

As background information, our small business provides services in program management and acquisition logistics support to the Department of Defense. We currently provide various services and levels of support to seven programs and twenty five projects. Our principle customers are the US Army and the US Marine Corps. We are HUB Zone certified and a veteran and SDVOB owned business.

General business environment

I believe how correctly and fully a company is able to define its business environment is the first determinant in its success. Without first having a clear understanding of the environment, is not likely that a company can survive. It must have a fundamental understanding of the business functions that must be performed, then it must have and an ability to provide for those functions. I see training and education outreach as a critical role of the SBA.

A company must have access to capital. As this committee is aware, more and more new businesses finance startup costs, and to some extent working capital, through the use of credit cards. New businesses are generally seen as having higher risk than established businesses. The cost of capital is higher, and during periods of unusual risk adversity by lending institutions, capital may not be available at all to new or small businesses. Awareness and access to SBA guaranteed loans is critical.

A company must also have social capital and social networks. In recent years researchers from several disciplines have become increasingly aware of the importance of the structure and strength of interpersonal relationships and strength of interpersonal relationships in social systems. It is widely maintain that the development of social capital within an organization is likely to be a source of competitive advantage for the firm. Social capital is valuable because it solves problems of coordination, reduces transaction costs, and facilitates the flow of information between and among individuals. Researchers have also found that diverse ties in a network facilitate the business start-up process. Findings support the contention that heterogeneous networks and greater social capital serve as an important resource for business owners and persons who are seriously attempting to start a business.

Status also has an impact on potential success. A core sociological perspective is that there is a distinction between an actor and an actors' position in the social structure and that rewards are largely a function of position. Status has business implications in two ways. A producer's status, or more accurately, the association with that status, is generally valued in its own right by consumers and investors. A more critical aspect is that market status acts as a signal of the underlying quality of a firm's products. The producer's status based on the producer's ties within networks becomes their quality signal.

Putting these together, there are three types of ties that serve as quality signals based on market status; ties to prominent buyers, ties to third parties, and ties to other producers. Social capital and networks in and of themselves become leading indicators of quality and may act independent of actual quality to influence business success.

Research studies of organizational failures often point to personal deficiencies of the founders like lack of experience in the field or managerial incompetence. Many new start-ups are by people who have certain technical skills but don't have the full range of managerial skills – or the knowledge of what skills they're missing – to be successful. They don't have a good understanding of the complete environment.

Shortfalls in any of these areas increase the likelihood of failure. This committee is well-versed in the challenges and risks faced by small businesses in today's environment which I have outlined above. Issues of access to capital, business assistance, the

social and business networks, and the government programs available to help mitigate risk are routinely examined and improved through the work of this committee.

Emerging technological requirements

There are emerging competencies that are less well understood in the small business environment. The more important of them, in my view, is the ability to perform and thrive in the digital environment. A second competency of growing global importance is in understanding and applying quality tools, techniques and methodologies and integrating them into the digital environment.

Our small business is net – centric. We have gone to a paperless office with the exception of hardcopy documents with original signatures that we are required to maintain. The majority of the labor hours of our overhead staff are performed by telecommuting. Our total workforce is distributed among seven states. We use collaborative tools and techniques such as webcasts, webexes, instant messaging, voice over IP, blogs, and share point. Our webpage is out portal from the web to our servers for our employees. Our invoices are now submitted electronically, our payroll is dispersed electronically, and at least 50% of our routine accounts payable outside of payroll are processed electronically. Unfortunately, along with net centricity goes net dependency.

A major concern we have deals with Information Security and Information Assurance. Our leading concern is with information security. We have employee records that must be protected from unauthorized access. We require a password to access our server, and have created restricted access areas for HR records and security clearance records. But, with the increasing threat of hackers, viruses, and spoofing, we need continual updating of our internet and intranet security measures. We are not content we are keeping up with the threat of our data shields being breached. The cost of research to keep current is restrictive in time and money

We have not been able to quantify our risk from net-dependency. The cost of researching potential hardware and software solutions often prevents us from pursuing improvements. We recognize we need redundancy; redundant servers, redundant network access points, redundant communications modes, and a good continuity of operations plan to pull it all together. We can't put the business case together because there are too many variables and the cost of the market research is more than we can bear at our size.

The second area I believe is underappreciated and generally not provided for by new and small business is the global competition in quality. I have sent employees to the lean manufacturing class, certified by NIST and provided through the local community college. I also sent a senior manager to Motorola University for Six Sigma Black Belt

certification. We are prompted to do these things now, regardless of cost, because our customers within the DoD are all moving to lean / Six Sigma as part of their transformation efforts. We also face market pressures to be equally competitive in quality performance in the digital environment. We must continue to streamline our business in the digital environment to stay competitive. We have performed Kaizan events to our Information Systems architecture. We have performed Six Sigma processes to measure, track and improve our knowledge management in the digital environment. I believe we are the exception rather than the rule in our accomplishments for businesses of our size. Small businesses need expertise to assist them in performing these increasingly critical activities to become and remain competitive.

The real core competency of small businesses and challenges from the DoD

After having considered the environmental factors that must be addressed for a small business to succeed, we come to ultimate tasks, and arguably core business competencies of small businesses, winning contracts and managing the cash flows.

Winning contracts

Selling to the government can be traumatic for small businesses because of the complexities of the contracting laws and regulations in the federal sector. Past surveys of small business owners concerning the perceived barriers to participation in the government market report that doing work for the federal government was more costly than working in the private sector. The prime reasons found were higher cost for making proposals, higher cost to produce goods and services, and, less profitability from revenues.

In my opinion, the best vehicle for contracting with the federal government should be the GSA schedule. The GSA schedule allows a business to perform work on a task order award basis. A GSA schedule may not be an appropriate vehicle for a growing business because the prices negotiated for award are based on past prices. There are no allowances for future cost structures to support the company's growth. A very small business has limited overhead because the small staff wears many hats. As the company grows and they respond to increased requirements, their overhead cost structure changes. Large businesses have a Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Technology Officer, Chief of Contracting, and a Director of Marketing. Small businesses do not generally have the luxury of carrying such expertise individually on staff and must be able to program costs for this higher level of expertise into their future rates. We have been informed by the GSA contracting office that the prices negotiated with GSA will bind our company for 10 years. This can have the effect of limiting growth opportunities of the small business.

A critical restriction placed on new businesses trying to enter the DOD market is that contracting officer and source selection boards do not accept an individual's past experience in lieu of company past performance. Without consideration of an

individual's past performance, if it is a new company with no company performance, the best rating the company receives for past performance is neutral. Often times the individual entrepreneur has a wealth of technical experience in the service they wish to provide but, without credit for that personal expertise, they stand little chance of winning contract awards.

As an example, my years of experience as a systems manager for Department of the Army are not given any consideration when my company is competing to perform the same or related services. I have the business systems manager with 17 years experience as a Certified Quality Engineer who spent years in the automotive industry as a quality manager performing lean manufacturing and who is a certified Six Sigma black belt from Motorola University. This in-house expertise cannot be included when we compete for lean/Six Sigma services to DOD clients. The same is true for a management analyst on my staff who is a certified ISO auditor. This expertise is treated as irrelevant to our company's ability to perform in that area.

In another case, we are preparing to compete on a solicitation that is scheduled to be issued this summer. We've made a significant effort to identify and recruit the skill sets to be able to perform this effort. We are bringing subject matter experts on board, both to help write our proposal and to perform key managerial tasks upon award. None of the expertise we bring on board will be given consideration in terms of our company's ability to perform, only our limited past performance as a small business will be considered.

DFAS

My second discussion concerns managing cash flows; how DFAS measures, how gaps in measures create an appearance of higher performance of their part, and how the gaps adversely affect small businesses.

In our business model, the value stream is: listening to the voice of the customer, identifying the value proposition, providing the value proposition, and expansion or creation of additional assets to improve the value proposition. The bookkeeping and accounting function, which includes submission of invoices and receive payment is an enabling process, it is not a value added process. The true metrics should be based on the enabling process linkage to the value stream. From this value stream view there are only two appropriate metrics. The first is, time from the invoice submission to the government, to payment received from the government. The second metric is time from the date of completion of the services to receipt of payment by the service provider from the government. A portion of that is outside the government's control, but that should be the true metric for the enabling process.

I take exception to the DFAS metrics discussed in GAO – 06 – 385 titled, "DOD payments to small businesses: implementation and effective utilization of electronic invoicing could further reduce late payments."

For each of our contracts there is a contracting officer representative assigned to who we are directed to provide our invoices. When in the paper environment, we submitted

paper invoice by hand or by fax to the Contracting Officer Representative (COR), and followed up with a telephone call to confirm receipt. Under our interpretation of the prompt payment act, the point at which we gave the government agent our invoice should be the time at which the clock starts for determination of net 30 or 14, whichever the contract calls for. We found in the paper environment that DFAS does not enter the invoice into their system in a timely manner. We also found that if there is any error, on our part or on their part, *they will cancel the invoice out*. It is left up to the service provider to track acceptance by DFAS and to continuously track that the payment is still scheduled to be made. In other words, if DFAS chooses to cancel an invoice, they do not inform you. They leave it to you to make the discovery and initiate the replacement invoice. And of course, the clock is reset for payment.

Another major issue we have had which is not reflected in the DFAS metrics, is the availability of the appropriate government agent to receive the invoice. The time between the assigned government agent receiving the invoice to the invoice being entered into the DFAS system is not included in the DFAS metrics. On those occasions when the COR is not available due to their travel requirements, personal leave, or sick leave, the invoice sits waiting for acceptance signatures. The month of December has proved to be the worst month for submission of invoices because most of the CORs we have for our contracts take two to three weeks at Christmas for leave.

2007 was a particularly painful year for us in terms of collection of payment. Approximately 90% of all our invoices were not paid within the contract terms of net 14 or net 30 from the date the invoice was received by the government. Roughly half of those that were late were late only because of the lag time between when the invoice was received by the government agent and when that invoice was actually accepted by DFAS to start their clock. The other half had late days for the receipt to acceptance lag, but also had other, exceptional causes for additional days of delay.

The worst impact we suffered was because DFAS arbitrarily changed our payment office twice without prior notice. The first move was from DFAS Rock Island to DFAS St. Louis. The second move was to DFAS Columbus. DFAS Columbus closed all of our invoices out and refused to accept new invoices. They informed our small business that the government would not make any payments on invoices until we had the government contracting officer's modify the contracts to reflect DFAS Columbus was the new vendor pay site. And, of course, they reset the clock for all invoice resubmissions after we were able to work through getting the contract mod in place with the government.

A related point of discussion is about direct travel reimbursements, and the risks and costs that are pushed to the contractor.

There are three hidden costs to our debt collection and timing experience last year. First, between 15% and 20% of invoices values were for direct travel reimbursements. We can only be paid the direct cost of travel performed for the contract and cannot recover the carrying costs associated with funding the travel up front. We estimate the carrying costs, with were not billable back to the government, were approximately $3,500. That is .16 % of labor revenues for the year. The second and more drastic cost

was the cost of internal resources that went to collection of debt. We estimate our total cost for invoicing and debt collection exceeded $75,000 for the year on $2.4M in labor revenues. That's 3.2% of labor revenues going to invoicing and debt collection for the year. Our total estimated costs for invoicing and debt collection, and "fronting and floating" the reimbursable travel was 3.4% of total labor revenues for the year. The third hidden cost is the financing costs for the "invisible days" between government receipt and DFAS acknowledged acceptance of the invoice. We have not attempted to calculate that cost for last year.

I can go into detail about specific cases but prefer to tell you what we did to resolve the issue. We informed our customers, the CORs specifically, that we were required by law to use the Wide Area Work Flow (WAWF). The chief of contracts in our organization walked each of our CORs through the WAWF training multiple times until each of them was felt comfortable with WAWF. When we submitted invoices into WAWF, we then contracted the COR and walked them through the receipt process until they were all comfortable. None of our CORs had attempted to use WAWF prior to this.

When everyone operated under paper invoices conveyed by mail, NET 30 made sense. It established a reasonable time for all of the computations, invoice verification, and delivery transactions to occur. Now, when transactions are electronic, if not executable in the same day, they are at least executable in two days. NET 30 no longer makes sense except as a policy transferring the cost of capital from the government to the business to who it owes a debt. Along with this transfer of the cost of capital is a creation of risk for the business in the form of increased capital requirements. This is an unjust burden to place on small businesses.

Recommendations

PTACs can play a more central role by:

- Increasing their ability to provide specialized expertise with continuously refreshed knowledge of the emerging digital environment.
- They should have increased visibility to entrepreneurs.
- They should assist in planning and development of social networks and increasing social capital for the entrepreneurs.
- The PTACs should be a central point for bring established businesses and new businesses together.

The DoD should allow small business owners to use their personal experience in lieu of corporate experience in contract solicitation responses.

The DFAS should pay electronically submitted invoices based on the invoice submission into WAWF instead of basing the payment date on internal government processes of receipt acknowledgement and acceptance acknowledgement.

DFAS should pay electronically submitted invoices to small businesses NET 10 days.

Conclusion

First, providing services to the federal government is more difficult and costly than provision of services in the commercial market. The government should actively work to reduce the barriers and open itself to the full market. Instead of creating difficulties in a small businesses ability to manage cash flows, it should expedite payment to reduce risk to small businesses. Second, the competitive landscape is changing with increased use of the digital environment. For small businesses to remain competitive, they need assistance staying current with Information Systems architecture, Information Assurance, Information Security, and Knowledge Management. The SBA can play a pivotal role in providing this expertise to small businesses.

Again, thank you for the opportunity to address the House Small Business Committee.

Testimony of

Aundrea Wilcox, Executive Director

Kingsport Office of Small Business Development & Entrepreneurship

Before the Subcommittee on Contracting and Technology

Hearing on "Ensuring Small Businesses Have Fair Access to Federal Contracts"

April 16, 2008

Thank you for giving me this opportunity to speak on behalf of the Kingsport Office of Small Business Development & Entrepreneurship (KOSBE), a nonprofit 501(c)(3) economic development organization representing a partnership between the City of Kingsport and the Kingsport Area Chamber of Commerce. Specifically, the mission of KOSBE is to nurture, counsel and encourage the continued robust growth and development of startups and existing small businesses in Kingsport, Tennessee. Services provided include but are not limited to: business plan writing; business formation; education and training; access to grants, loans and other capital sources; access to new markets; business development; sales and marketing assistance; e-commerce facilitation; providing networking opportunities; professional services referrals; connection to international trade; small business certification guidance; computer and software support; and lead generation. I am here today representing more than 200 clients served by KOSBE. Typically our client has fewer than 25 employees and generates less than $1 million dollars in sales revenue annually, but some of the seasoned businesses that we work exceed the aforementioned parameters. Presently, more than 45 percent of our clients are women or minorities, at least seven percent of the small business enterprises are

veteran-owned, and all of these groups are underrepresented in federal contracting. Rather than restate the well-known facts and figures concerning small business government contracting, I would like to share with you the experience that I have had working with the SBA Tennessee District Office and obtaining Government Contracting assistance from other service providers for my clients during the time Ihave been with the Kingsport Chamber of Commerce and KOSBE.

In my experience, many small businesses still perceive the SBA procedures to verify certification eligibility as complex and cumbersome. Small business owners still need personalized help throughout the process of vendor registration –far beyond the initial CCR registration step. As of yesterday, there are 95 active vendors in the CCR database for Kingsport, Tenn. Fourteen were recognizable KOSBE clients. Only one of the 95 registrants, a KOSBE client, is a *SBA Certified HUB Zone Firm*; 12 are *Veteran-Owned,* of which three are KOSBE clients; four are *Disabled-Veteran-Owned* of which three are KOSBE clients; seven are *Self-Certified Small Disadvantaged Businesses*, with six being KOSBE clients; 20 are *Woman-Owned,* of which five are KOSBE clients; and none are identified as *SBA-Certified 8A Program Participants* or *SBA-Certified Small Disadvantaged Participants.*

From this data, it is apparent that a considerable number of CCR-registered vendors may never move beyond this first step in the SBA registration and certification process despite the launch of SBA's web-based certification application process. And, although SBA's recent implementation of new online training (i.e., How to Win Federal Contracts) is commendable, if small business owners and TA Providers do not know the tools and resources are out there, or they are not self-helpers, or a distance education approach does not work for them, these web-based tools and resources will not be fully utilized. Effectively 'getting the word out' about the new tools and resources available for small businesses, *and*

providing live hands-on training to TA Providers are two of the most essential and logical ways to reach small businesses and potential vendors. In the same vein as the SBA Tennessee District Office, SBA as a whole entity must continue to increase its face-to-face communications and training for better clarity and impact, as well as more positive branding of the SBA and its resource partners.

During the inaugural Kingsport Chamber Fourth Friday Breakfast and Business Meeting on Friday, March 28th, Kingsport Mayor Dennis Phillips, Kingsport Chamber President and CEO Miles Burdine, myself, and Small Business Administration Tennessee District Director Clint W. Smith all signed a Strategic Alliance Memorandum (SAM) intended to develop and foster mutual understanding and a working relationship between the SBA and KOSBE in order to further strengthen and expand small business development in the local area. Under the SAM agreement, the SBA will provide KOSBE with up-to-date information about SBA's programs and services, conduct ongoing training of KOSBE's staff and volunteers, offer marketing support, and make available to KOSBE select SBA resources such as well-regarded speakers to participate in KOSBE workshops, conferences, seminars and other activities, web site content, research and other publications. In return, KOSBE will disseminate SBA-provided information, participate in SBA-sponsored events, and collaborate with SBA and its other Resource Partners including SCORE, the Tennessee Small Business Development Center (TSBDC), Small Business Development Centers (SBDCs), and Women's Business Centers (WBCs) to provide information to its clients about the wide range of business development services available to small businesses regionally. Through this collaboration, our clients will be better equipped to launch successful entrepreneurial careers.

This alliance would not have come about so soon without the help of the State of Tennessee Economic Community Development Business Enterprise Resource Office (BERO) and Mr. Ronald Wade, BERO East Tennessee Enterprise Specialist. Mr. Wade was instrumental in helping KOSBE forge the partnership with SBA, which has been a goal of ours since the time we began working closely with BERO in 2006. Mr. Wade pointed us in the right direction and helped us develop the right relationships that would ensure KOSBE's success, although lacking a locally situated and easily accessible Women's Business Center, Procurement Technical Assistance (PTA) Center, and SCORE representation. The nearest Women's Business Center is 300 miles away from Kingsport in Chattanooga, Tenn. The nearest PTA Center is also located in Chattanooga and has been a program of The University of Tennessee Center for Industrial Services since 1986. The PTA Center is funded in part by the U.S. Department of Defense and administered through a cooperative agreement with the Defense Logistics Agency. The Kingsport SCORE Counseling Office was closed prior to 2006 due to insufficient volunteer counselors to maintain dedicated office hours available to clients.

Mr. Ronald Wade, BERO East Tennessee Enterprise Specialist, introduced me to Mr. Paul Middlebrooks, Marketing Consultant with the University of Tennessee PTA Center, who has provided one-on-one and group training on the topic of Government Contracting for KOSBE clients upon request.

Mr. Wade also introduced me to three further contacts: Ms. Carol Crawley, TDOT Contract Administrator with Business Resource Group, Ms. Kena Dixon, SBA Tennessee District Office Business Development Specialist, and Ms. Maria Lloyd, SBA Tennessee District Office Lender Relations Specialist, who co-conducted a well-attended SBA and TDOT Certification Workshop in Kingsport in 2007. Shortly thereafter, Guy Sawyer, SBA Tennessee District Office Deputy District Director, visited me in Kingsport.

Since then, a representative from the SBA Tennessee District Office has come to visit with KOSBE periodically.

Both Mr. Wade and Ms. Michelle C. Proctor, BERO Director, State of Tennessee Dept. of Economic & Community Development, have invited me to attend the *Business Matchmaking Event* and *Veteran's Conference* in Knoxville (both of which I have attended with clients). I have also been invited to participate in upcoming BERO events such as the Knoxville Small Business Expo on April 22, 2008.

In 2007, Keith Joy, Small Business Programs Manager, Oak Ridge National Laboratory (ORNL) came to Kingsport on several occasions to support KOSBE. On one occasion he spoke to a group of 50 attendees at a Monthly Small Business Breakfast Meeting. In addition, he met with six prequalified clients individually at the Kingsport Chamber of Commerce to provide feedback regarding small business marketing strategies, discuss procurement procedures and guidelines, and underscore small business procurement opportunities at ORNL.

Undoubtedly, expanding access to capital increases procurement opportunities for small businesses. In 2007, KOSBE played a large part in helping Kingsport small businesses gain access to over $900,000 collectively in funding through secondary lenders and SBA-endorsed loan programs, for example, Southeast Community Capital, Georgia Certified Development Corporation and the Small and Minority Owned Business Assistance Program. As well, KOSBE recognizes Sue Malone, Strategies for Small Business, for making available to local businesses more than $145,000 in small-sized loans ranging from $5,000 to $25,000, in association with SBA's Community Express Loan Program.

In closing, I ask that the Subcommittee on Contracting and Technology continue to ensure small businesses have fair access to technical assistance and federal contracts, by holding the SBA accountable

to educating small businesses and TA Providers such as KOSBE about the contracting process and achieving government-wide contracting goals, which will gradually decrease the unmistakable underrepresentation of small disadvantaged businesses. The more that small business owners, TA Providers, and SBA resource partners such as KOSBE know, and the more collaboration on a regional basis, the easier it will become for small businesses to secure federal contracts, and the less necessary it will be for some of today's statutory obligations. Locally, I believe that the SBA is supporting KOSBE's mission to help navigate small business owners and entrepreneurs through the sometimes rough waters of small business ownership and management. I hope they will keep up with the effort. Thank you for allowing me this time to speak today.

The Kingsport Office of Small Business Development & Entrepreneurship is a nonprofit economic development organization that represents a partnership between the City of Kingsport and the Kingsport Area Chamber of Commerce

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