

Thank you for allowing ADDAPT to testify today.

I will be presenting points which have been collected from member companies of ADDAPT. They represent Tiers 1, 2 and 3 of the supply chain.

In order to set a baseline, let me reference the following points that were made in a message by Secretary of Defense Austin.

“Small Businesses account for:

- 99% of all employer firms and 44% of our nation's economic activity.
- Small Businesses comprise more than 70% of the companies that do business with DOD.
- They keep our military forces combat ready, with critical parts, cutting edge technology, and top-notch services.
- They fortify our defense supply chains in times of crisis.
- They ensure our military has the best capabilities to keep us safe.
- The most innovative minds in the country come from smaller companies.
- Despite efforts, the defense industrial base has declined by over 40% in the past decade.
- If we do not work to reverse the decline of small business contracting, then the industrial base that equips our military will weaken.
- If we do not take action, we risk losing mission critical domestic capabilities, stifling competition and innovation, and potentially weakening our supply chains.”

In fact, Small Businesses that support aerospace and defense efforts are struggling to survive and stay relevant. Small businesses are faced with many challenges. We have categorized our presentation of challenges into two basic classes:

1. Overarching or primary issues
2. Breakdown of system or secondary issues

Overarching or primary issues

Regulations - are many and complicated, leading to the need to hire costly attorneys to translate regulations for small business owners. Small business owners do not employ full-time attorneys on staff. Many small businesses agree to contractual terms and conditions that are too onerous or risk intense, because they have no choice.

Financial issues - arising from the economic environment, resulting in high interest rates, limiting access to capital.

There is a need for equitable adjustments to be available for multi-year fixed price contracts to counter unprecedented inflation increase and the drastic changes to the markets such as raw material, process and finishing, and power.

Consideration should be made for Interest Costs to be considered as “allowable costs” where progress payments have not been extended as part of the contract consideration. It is difficult for Small Businesses to be extended progress payments or milestone payments as part of contracts from the government or primes.

There is a need to maintain the waiver on Progress Payments Rates and encourage Prime OEMs to extend that to Tier 1 suppliers. Also request the Progress payment Threshold to remain at 95% for Small Businesses.

Cybersecurity - has added a new wrinkle to the challenges. We understand and support that this is a required effort, but it is expensive to implement for a small business. According to our members, to accomplish and implement CMMC for a small business can run from \$200,000 to \$500,000. For the average small business this is a considerable amount and is growing. This is just to be allowed entry into the system to provide a quote.

Who will ultimately bear the cost for this? If it is added in the cost of items being quoted, will the small business be deemed noncompetitive? Furthermore, at the lowest levels of the supply chain having to implement CMMC can be too expensive or beyond their capabilities, leading to a “death spiral” of the DIB. Is there a “Right sized” solution to protect the small businesses of the DIB while still protecting the data integrity of our warfighting apparatus?

Will there be sufficient numbers of assessors on hand to perform certification to address demand?

Workforce development - Pandemic effects have reduced the workforce. In order to recover, defense manufacturers need programs that encourage and assist those who wish to be employed in the industry. Grants for Training, Certification, and Transportation are needed to develop that workforce.

Breakdown of system or secondary issues

Other Contracting issues –

- The release of multiple small requirements over the course of a few weeks for the same NSN, instead of reviewing user demand and combining for a larger procurement quantity which will ultimately save DOD significant dollars. Very few contractors can manufacture 1 ea. or 2 ea. of anything without incurring extensive costs. Lot charges for materials, processing, and finishing, as well as quality assurance costs, along with general inefficiencies of starting and stopping a work order make small quantity buys 2-3X as expensive as larger quantities.
- Releasing multiyear Indefinite Delivery, Indefinite Quantity requests for pricing with a very small, guaranteed purchase quantity, negotiating pricing for multiple years, and then not buying any more than that initial guaranteed quantity or contract value. This drives significant overhead and opportunity costs with no return on investment for the business and no long-term savings for the government
- The Government’s proclivity for low-quantity spot buys over long-term contracts. This makes it difficult for contractors to hold inventory in support of anticipated requirements, to plan economical production lots, and to invest in facilities and employees. Drastic increases in raw

material lead times are driving corresponding increases in Reorder Lead Time. Smaller lot sizes are negatively affecting pricing. Forecasting data would be immensely helpful if DOD could provide consistent forecasting to industry. This would help Government Contractors make better decisions on material buys, and stock, which ultimately would save everyone money and time.

- In some cases, contractors receive multiple low-volume inquiries for the same item, rather than combining the requirements for price advantage.
- Extensive delays in the approval cycle for First Article Tests and Production Lot Tests – even when the contractor has been manufacturing the contracted item for decades.
- Extensive delays in reviewing Post-Award Requests, which is impacting the contractor's delivery ratings to the Government. Many of these Post-Award Requests are required based on the aforementioned issue with First Article Inspection and Production Lot Test approval prior to shipping production items.
- Forecasting data: would be immensely helpful if DOD could provide consistent forecasting to industry. This would help Government Contractors make better decisions on material buys, and stock, which ultimately would save everyone money and time.
- Reduce time it takes and process to gain Joint Certification Program approval.
- The breakout initiative by use of Source Approval Request package submittals is an amazing program. Currently DOD manages most NSN's, but many are still managed directly by the services. Some of these services are difficult to deal with when it comes to Source Approval Request package submittals. Services state that they don't have the budget to review these packages, so they pick and choose what they want to review. With the current climate, DOD overall should be looking to foster competition. They have a process to save significant costs, but do not use it because of capacity constraints.
- Communication. VERY difficult to get folks on the phone. Since the pandemic, this has worsened. This lack of being able to get in touch with government POC's means bids don't get responded to, improper assumptions are made, and risk is moved closer to the point of delivery, which affects readiness.
- Bidding on a solicitation that never gets awarded. Months, or a year later, the government releases a new solicitation for the same part. The original solicitation is still open. Similarly, no response from buyers when asking for status on bids. Quoting bids the government has no interest in awarding or resourcing is non-value added work which drives overhead costs, and increases costs on EVERY subsequent delivery to the government.
- Full and open solicitations with short expiration dates. This reduces competition and is seen as a shortcut by the government to say it's an open competition, when the outcome is pre-determined. These anti-competitive solicitations return no value to the taxpayer.
- Difficulty in navigating the SAM and FBO websites, and difficulty communicating issues with cFolders (part of Defense Logistics Agency (DLA) Internet Bid Board System). Passwords expire in 30 days without warning and need to be reset by phone. Typically, the phone queue is between 65 and 90 calls, and wait times could be 90 minutes, or more. This makes it near impossible to retrieve technical data.
- Regarding ITAR, extensive delays in reviewing and issuing export licenses for technical data and personnel.

As we have seen there are many issues that challenge Small Businesses. It has become very difficult for small businesses in the aerospace and defense industry to make a good living and continue to invest in their companies to provide for the kind of stabilities and capacities that we need as the country moves into the future.

Once again ADDAPT thanks you for this opportunity to testify.