

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2561 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members, Subcommittee on Contracting and Infrastructure
FROM: Kweisi Mfume, Chairman
DATE: October 8, 2021
RE: Subcommittee Remote Hearing: “Growing the Small Business Supplier Base in Government Contracting.”

The Committee on Small Business Subcommittee on Contracting and Infrastructure will meet for a remote hearing titled “Growing the Small Business Supplier Base in Government Contracting.” The hearing is scheduled to begin at **12:00 P.M. on Wednesday, October 13, 2021, via the Zoom platform.**

In the last decade, the federal small business supplier base has shrunk by an astounding 40 percent. While not the only factor, Category Management has substantially contributed and accelerated this decrease. The hearing will examine Category Management and its impact on small businesses serving as federal prime contractors. The hearing will also explore potential solutions to reverse this trend and grow our federal small business supplier base.

Panel

- Ms. Alba Alemán, Founder and CEO, Citizant, Inc., Chantilly, VA - Testifying on behalf of the U.S. Women’s Chamber of Commerce
- Ms. Lynn Ann Casey, Founder and CEO, Arc Aspicio, Washington, DC
- Mr. Victor Holt, Founder and CEO, V-Tech Solutions, Inc., Silver Spring, MD - Testifying on behalf of the HUBZone Contractors National Council
- Ms. Sophia Tong, Founder and CEO, T and T Consulting Services, Inc., Falls Church, VA - Testifying on behalf of the Montgomery Chamber of Commerce

Background

The Federal Government is the largest purchaser of goods and services, with acquisitions totaling more than \$650 billion in fiscal year 2020 (FY2020).¹ Moreover, Congress has long enacted policies to promote a robust small business industrial base. In 1953, the Small Business Act (the Act) was enacted authorizing the U.S. Small Business Administration (SBA) to aid, counsel, and protect small business concerns to ensure a fair proportion of contracts and subcontracts for the Federal Government were placed with small businesses, preserve free markets and competition, and strengthen the overall economy. Furthermore, the Act contains policies against unjustified

¹ Government Accountability Office, *A Snapshot of Government-Wide Contracting For FY 2020 (infographic)* (Jun 2021), available at: <https://www.gao.gov/blog/snapshot-government-wide-contracting-fy-2020-infographic>

contract bundling² and consolidation.³ Yet, despite these policies, the small business base is decreasing at an alarming rate, in part because of initiatives like Category Management, which promote contract bundling and consolidation. Concerns have been raised that Category Management, as currently implemented, runs counter to the protections afforded to small businesses under the Act.

History of Category Management

Category Management (CM) is a government-wide procurement initiative led by the Office of Federal Procurement Policy (OFPP), an office within the Office of Management and Budget (OMB), with the support of the General Services Administration (GSA). It involves buying common goods and services as a single enterprise.⁴ The main goals of category management are to eliminate redundancies, increase efficiencies and deliver more savings by leveraging the buying power of the federal government.⁵

Category Management was established in 2014 to address contract duplication and complexity in the federal contracting process. According to OFPP, agencies award contracts for similar products and services, sometimes to the same vendor, which result in significant costs to both agencies and contractors.⁶ Thus, the need for a new paradigm, one that moves away from managing purchases individually across thousands of procurement units to buying as one through category management.⁷ Category Management, as initially envisioned, sought to “manag[e] commonly purchased goods and services – approximately half of the Federal Government’s overall spend – through common categories like information technology.”⁸

The Category Management Leadership Council (CMLC) divided the government’s common spending into 10 categories and issued guidance on how to implement the initiative.⁹ The idea was to manage each of these categories as a “mini-business with its own set of strategies [and] led by a category manager and supporting senior team with expertise in their assigned category.”¹⁰ Currently, these categories, along with their agency leads are:

² The Small Business Act (the Act) defines contract bundling as “consolidating 2 or more procurement requirements for goods or services previously provided or performed under separate smaller contracts into a solicitation of offers for a single contract that is likely to be unsuitable for award to a small-business concern.” 15 U.S.C. § 632(o)(2).

³ A consolidated contract is one that satisfies “2 or more requirements of the Federal agency for goods or services that have been provided to or performed for the Federal agency under 2 or more separate contracts lower in cost than the total cost” of the new contract. 15 U.S.C. § 657q(a)(2). The key distinction between contract bundling and contract consolidation is that consolidation does not require a finding that a contract will not be suitable for award to small business. Therefore, a contract may be consolidated but not bundled, but all bundled contracts are consolidated.

⁴ Office of Management and Budget, *Memorandum for the Heads of Executive Departments and Agencies: Category Management: Making Smarter Use of Common Contract Solutions and Practices*, OMB Memorandum M-19-13 (Mar. 20, 2019) (hereinafter *OMB memo M-19-13*).

⁵ *Id.*

⁶ Office of Management and Budget, Office of Federal Procurement Policy, *Memorandum for Chief Acquisition Officers and Senior Procurement Executives: Transforming the Marketplace: Simplifying Federal Procurement to Improve Performance, Drive Innovation, and Increase Savings* (Dec. 4, 2014).

⁷ *Id.*

⁸ *Id.*

⁹ Category Management Leadership Council, *Government-Wide Category Management*, (May 2015), available at: http://thecgp.org/images/Gov-wide_CM_Guidance_V1-2.pdf

¹⁰ *Id.*

Category	Agency Lead	FY 2019 Obligations (in billions)
Facilities and Construction	GSA	\$98.9
Professional Services	GSA	\$83.1
Information Technology	GSA	\$68.1
Medical	DOD & VA	\$44.8
Transportation and Logistics Services	DOD	\$31.9
Industrial Products and Services	GSA	\$12.1
Security and Protection	DHS	\$5.9
Human Capital	OPM	\$5.5
Office Management	GSA	\$2.3
Travel	GSA	\$1.5

Source: Government Accountability Office, Federal Buying Power, GAO-21-40, *OMB Can Further Advance Category Management Initiative by Focusing on Requirements, Data and Training* (Nov 2020).

Additionally, in 2015, Category Management was established as one of 15 cross agency priority (cap) goals, a tool used to accelerate progress on key executive priorities where implementation requires cross-agency collaboration. Also in 2015, GSA kept improving “Acquisition Gateway,” the website through which the initiative would be implemented and that offers information and tools by category to the federal acquisition workforce.¹¹ Thus, the foundation for Category Management was developed.

Current Category Management Guidance

In 2018, the President’s Management Agenda (PMA), specifically identified the use of Category Management to “leverage common contracts and best practices to drive savings and efficiencies.”¹² The PMA sought to bring “spend under management” and increase the use of contract solutions designated as “Best In Class” or “BIC.”¹³ To do so, it outlined four key strategies, including the “establishment of annual goals to leverage common contract solutions while meeting small business and other statutory socio-economic goals.”¹⁴

“Spend under Management” or “SUM” is the “percentage of an organization’s spend that is actively managed according to category management principles.”¹⁵ Following the PMA’s directive, OMB issued Category Management guidance in 2019 formally adopting a tiered approach for SUM.¹⁶ The SUM tiered rating scale is used to evaluate agencies’ progress in aligning its spending with Category Management principles. The SUM tier model with additional description is provided below:

¹¹ White House Blog “An Update to Drive Category Management Government-Wide” (Oct. 14, 2015), <https://obamawhitehouse.archives.gov/blog/2015/10/14/update-drive-category-management-government-wide>

¹² The White House, President’s Management Agenda (2018), available at: https://trumpadministration.archives.performance.gov/PMA/Presidents_Management_Agenda.pdf

¹³ *Id.* See also: *Supra*, note 3

¹⁴ *Supra*, note 11.

¹⁵ General Services Administration, *Best-in-Class & Spend Under Management One-Pager* (Last Updated Feb. 5, 2018), available at: [BIC_&_SUM_One-pager_252018.pdf](https://www.gsa.gov/BIC_SUM_One-pager_252018.pdf) (gsa.gov)

¹⁶ *Supra*, note 3.

Tiers	Description	What this means:
Tier 3	Spending managed at the Government-wide level through use of BIC solutions	Select few Government-wide contract vehicles, (i.e. multiple-award Indefinite Delivery/Indefinite Quantity (IDIQ) contracts for government-wide use) meeting OMB’s strict BIC criteria.
Tier 2	Spending managed at Government-wide level through multi-agency or Governmentwide solutions that are not BIC solutions.	Multi-agency contract vehicles or government-wide contract vehicles that do not meet OMB’s BIC criteria.
Tier 1	Spending managed at the agency-wide level with supporting mandatory-use policies and strong contract management practices.	Agency-wide contract vehicles (i.e. multiple-award IDIQ contracts specific to one agency).
Tier 0	Unaligned spending by the agency which involves purchasing in a decentralized manner and not conforming to category management principles.	One-to-one contracts (i.e. individual contracts between the government agency and one vendor).

Source: Columns 1 and 2 explicitly portray the SUM tier model as provided in OMB Memo M-19-13, see: *supra*, note 3.

Additionally, the guidance required agencies to set agency-specific goals annually in collaboration with OMB to reduce the percentage of unaligned spending (i.e., move tier 0 spending to tiers 1, 2 or 3). It also requires setting goals to increase spending through BIC solutions (i.e., increase tier 3 spending).

Current Issues and GAO Report on Category Management

There are many issues surrounding the Category Management initiative, particularly as it relates to small businesses. As previously stated, Category Management consolidates requirements into large contracting vehicles, which result in less contracting opportunities overall. More importantly, through the use of the tiered SUM model and the establishment of goals to decrease tier 0 spending and increase tier 3 spending, Category Management discourages the use of individual contracts (those awarded directly between an agency and a vendor) and promotes funneling those requirements and dollars through agency-wide or government-wide vehicles, including those government-wide vehicles categorized as BICs. Thus, the result is that it impedes small businesses’ ability to participate in the federal marketplace, leading to less innovation and competition. Equally important, concerns have been raised that a weakened small business base would offset the cost savings Category Management pursues because as small businesses are driven out of the federal marketplace, the few businesses that do participate within Category Management will effectively monopolize and set prices.

Most importantly, Category Management along with similar initiatives that have been implemented since 2010 are resulting in a significant decrease in the small business base. In 2020, the Government Accountability Office (GAO) issued a report where it noted that while dollars and contract actions had grown for small business within the Category Management initiative, the

overall number of small business vendors receiving awards for common products and services had declined.¹⁷ In other words, the few small businesses that were able to navigate the Category Management initiative, were receiving a larger amount of small business dollars. According to the numbers provided by GAO, there were 95,237 small businesses providing common products and services in FY 2016, compared to the 79,114 small businesses providing those products and services in FY 2019.¹⁸ This represents a 17 percent drop in just three years.

With regard to the barriers to entry, the GAO report also detailed some small businesses concerns. In particular, small businesses highlighted that higher tier contracts, such as BICs, are structured to assist multiple agencies, and require businesses to provide a larger range of products and services, which small businesses may not be able to provide. Moreover, higher tier contracts require more upfront costs and staff resources, which may be risky for small businesses because they may not recoup the investment if they don't win the award.¹⁹ Additionally, higher-tier contracts require small businesses to have numerous certifications in place, some of which take years to obtain and require substantial investment.²⁰

Small concerns also expressed concerns with OMB making mandatory the use of certain BICs and the limited clarity or notice for when a BIC will be awarded or when BICs will offer "on-ramp" opportunities.²¹ "On-ramp" opportunities allow a business to get into the BIC vehicle after initially awarded. They are essential when it comes to BICs because some BIC contracts last many years. Thus, if a small business competes but is not awarded a BIC contract when it was originally established, in many instances this means that the small business will be essentially locked out of the federal marketplace.

Finally, GAO concluded that OMB was overestimating the extent to which Category Management has eliminated potentially duplicative contracts and underestimating the impact to small businesses. For instance, in December 2019, OMB reported that only 5 percent of the contracts that were eliminated were won by small businesses. However, OMB did not report that such finding was based on data from 2016 through September 2018. Upon inputting 2019 data, GAO concluded that over 53 percent of the contracts that had been eliminated had previously been won by small businesses.²²

Legislation

In recent years, the Small Business Committee has been actively engaged in providing oversight of Category Management in the small business base. As part of these efforts, an amendment was offered to the National Defense Authorization Act for FY 2022. The amendment would preserve individual set aside contracting opportunities and give agencies flexibility to award them, which ultimately will help preserve the small business base. To that end, the bill states that if an agency awards an individual contract (those that otherwise would be categorized as tier 0) to a small business in any of the socio-economic programs (HUBZone, Women-owned, service-disabled

¹⁷ Government Accountability Office, Federal Buying Power, GAO-21-40, *OMB Can Further Advance Category Management Initiative by Focusing on Requirements, Data and Training* (Nov 2020).

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.*

²² *Id.*

veteran-owned or 8(a) small business), then the contract is exempted from Category Management principles and the goals set by Category Management. Thus, with this legislation much needed flexibility is granted, ensuring that individual set asides can coexist with Category Management.

Conclusion

While the goals of the Category Management initiative are to deliver more savings to federal agencies, and eliminate unnecessary redundancies, the approach has unquestionably decreased the small business industrial base in federal contracting marketplace. The hearing will allow Members to learn more about the initiative, its evolution, and the many challenges it poses for small businesses.