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

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

**Buying smarter and maximizing opportunities for small businesses**

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

process that holds the government accountable to the taxpayer. These efforts also included an aggressive campaign to root out waste, fraud and abuse in small business contracting programs to ensure that benefits from these programs flow to the intended recipients.

Supporting small businesses is especially important during this critical time as agencies strive to meet mission needs within increasingly tight budgets. Over the past four years, agencies dramatically reversed the unsustainable annual growth rate in acquisition that saw contract spending grow by an average of 12 percent per year from 2000 through 2008. From Fiscal Year (FY) 2011 to FY 2012, agencies reduced contract spending by more than \$20 billion, the largest single year dollar decrease in Federal contract spending on record. Over this same period, with strong leadership attention, agencies were able to increase the percentage of eligible contract dollars awarded to small businesses. That said, there is much left to be done to ensure we meet our small business goals year after year and provide meaningful contract opportunities in these challenging economic times. My experience at SBA reinforced my belief that small business contracting is a win/win. These businesses get the revenue they need to create jobs and grow the economy, while the government gets access to some of the most innovative companies in our supply chain. I appreciate the continued help of this Committee, including important legislative changes that removed caps on the use of set-asides for women-owned small businesses.

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

- Conducting effective market research so that small businesses are aware of potential opportunities and agencies can find capable small businesses;
- Developing clearer requirements through the collaborative efforts of program and contracting personnel so that vendors can better understand agency needs and make informed decisions as to whether and when they compete for work;
- Giving interested sources sufficient time to develop quality proposals; and
- Taking better advantage of technology to make doing business with the government easier and less costly.

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

## **Taking greater advantage of strategic sourcing**

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

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

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

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

The results from smart acquisition planning and careful consideration of small business needs are both telling and impressive. According to GSA, total dollars going to small businesses

increased from 67 percent prior to implementation of the strategic sourcing solution to 76 percent through the solution, and in recent months, the number has approached 80 percent. According to GSA's analysis, through April 2013, actual savings from OS2 totaled over \$88 million, or more than 14 percent under baseline costs.

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

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

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

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

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

technology software, janitorial and sanitation supplies and building maintenance and operations services.

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

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

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

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

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

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

### **Moving Forward**

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

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

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