



**TESTIMONY OF ML MACKEY
CEO OF BEACON INTERACTIVE SYSTEMS
ON BEHALF OF THE
NATIONAL SMALL BUSINESS ASSOCIATION**

**AT A HEARING BEFORE THE
U.S. HOUSE COMMITTEE ON SMALL BUSINESS**

**“SEQUESTRATION: THE THREAT TO SMALL BUSINESSES, JOBS,
AND THE INDUSTRIAL BASE”**

SEPTEMBER 20, 2012

Good afternoon. Chairman Graves, Ranking Member Velazquez, and the Members of the Committee, thank you for the opportunity to testify here today and for your tireless efforts to promote economic development and job creation in America's small-business community. Your continued leadership on critical issues such as the one before us today and your collective ability to understand and shed light on the challenges facing small business in the federal marketplace is invaluable and greatly appreciated.

My name is ML Mackey, and I am the CEO of Beacon Interactive Systems, a small business located in Cambridge, Massachusetts. I am also on the Board of Trustees of the National Small Business Association (NSBA).

18 years ago my husband and I co-founded our company out of our rent-controlled apartment on Beacon Street. We built the company as a provider of commercial systems initially providing software products to companies like Olympus, MetLife and IBM. For the past nine years, we have worked as a federal contractor delivering efficiency improving and cost-savings applications to the Department of Defense (DoD). The Navy is currently using products we developed through the highly successful Small Business Innovation Research (SBIR) program to improve performance of the equipment maintainers deployed across U.S. Fleet Forces Command, the sailors who keep our ships mission ready. At full deployment of our software, initial estimates on cost-savings and cost-avoidance are in excess of \$40 million; all on an initial SBIR investment of \$5.5 million. This is the kind of cost savings and efficiency improvements that small businesses provide for the DoD, exactly the approach needed in these austere times.

The federal budget deficit has exceeded \$1 trillion in each of the last three fiscal years and is expected to exceed that level in Fiscal Year 2012. Concerns over these large deficits, as well as the long-term trajectory of the federal budget, have resulted in considerable uncertainty among small businesses like mine. According to NSBA's recently released Mid-Year Economic Report¹, 68 percent of small businesses said that economic uncertainty is the most significant challenge to the future growth and survival of their business. Today, 34 percent of small-business owners anticipate a recessionary economy in the coming year – the highest it's been since December 2009².

Therefore, while I recognize that the current fiscal environment will require lawmakers to make some tough choices that will have a significant impact on the size of the budget deficit and the pace of our economic recovery, I, along with many of my counterparts across the country, am very concerned with the proposed arbitrary approach to sequestration. Simply cutting the top line of non-exempt agency budgets is not based on a rational assessment of the relative effectiveness or usefulness of various programs. It has the potential to devastate key programs and, specifically, to have a disproportionate impact on small business. While major program cuts will be necessary inside federal agencies, these cuts should be made with a purposeful and thoughtful approach in order to not only ensure an equal impact across the defense industrial base but also to ensure a rational approach that does not gut the advances made in government procurement to this point.

¹ NSBA 2012 Mid-Year Economic Report (<http://www.nsba.biz/docs/2012Mid-Year-Economic-Report.pdf>)

² *Id.*

Today, I am speaking to you as someone who has already felt the effects of this uncertainty. We, like many other small businesses in this sector, have had to tighten our belts in anticipation of the rough times ahead. In spite of successful pursuit of new opportunities, we have purposefully trimmed our workforce. This is counter to how we have strategically built our business over the last 18 years. Previously, once we closed a big opportunity the first thing we did was evaluate our team and act on ways to improve our capabilities like defining new roles and hiring new employees. This approach has not only kept us viable, but has helped us expand our business and create jobs. Unfortunately, given the uncertainty surrounding sequestration, this is not the approach we are taking now. And, generally speaking, we're not alone. The number of small-business owners who project increases in employee size in the coming 12 months dropped from 30 percent in December 2011 to 25 percent today³.

I am by no means the first business owner, nor will I be the last, to tell a Congressional panel that sequestration will have major, negative impacts in areas ranging from business survival to national security. Nor will I be the last to argue that something must be done to stabilize our economy. Surely Congress can craft a more deliberate and careful approach than the current strategy, which will lead to considerable job loss and greater economic uncertainty at a time when job creation and economic growth remain a top priority for our country.

The federal contracting and acquisition systems are over taxed and have struggled with efficiency and transparency issues for years. This problem will only get worse with

³ *Id.*

sequestration in place. The contracting staff of Federal agencies will likely face major personnel reductions under sequestration. As a result, we're likely to see an increase in contract bundling and a less efficient, less predictable contracting system. This will have a major impact on small business contractors who are likely to be the first to go on many projects. According to NSBA's most recent Politics of Small Business Survey⁴, 99 percent of small-business owners are registered to vote, 97 percent said that they regularly vote in national elections, and the 25 percent of small businesses who have contacted their elected officials on a small business issue have done so on the matter of contracting.

Small businesses create efficiencies. We are agile and flexible, which saves the government money. We believe that program managers and contracting officers should be incentivized to create efficiencies and cost savings through increased work with small business, not the other way around. Small businesses around the country are waiting on funds from previously awarded contracts, large businesses are contemplating mass layoffs and the end users, our men and women in uniform and the people who are served by our federal government, are waiting for products and services they expected months ago.

Washington needs to set their differences aside and not use the excuse of an election year or partisan gridlock to short change America's small businesses and the broader public. We cannot afford to wait and fix our economy or shore up our industrial base after it has

⁴ NSBA's The Politics of Small Business Survey (<http://www.nsba.biz/wp-content/uploads/2012/06/Politics-of-Small-Business.pdf>)

been decimated. If sequestration happens, DoD contracts being competed now or in the near term may be cancelled with little recourse for contractors. Business owners don't know which opportunities are real and which are illusory, causing a massive waste of our limited resources. Businesses are frozen, in need of personnel but unable or unwilling to hire because of this uncertainty.

Congress, to its credit, has increasingly recognized the benefits of small business engagement. The small business contracting reforms incorporated into Title XVI of the FY2013 National Defense Authorization Act (NDAA) are a positive step forward and incentive behavior that incorporates the efficiency and cost savings approach that our small businesses are known to provide. These are the kind of proposals that will push the federal government toward greater efficiency.

I know that pointing out problems is far easier than finding solutions. The path ahead will definitely be challenging. Having said that, as a small business owner, I can state unequivocally that we are a critical component of the solution to our government's fiscal concerns.

I applaud this committee for your vigilance in promoting small-business friendly policies and your work to reinforce the idea in your colleagues that small business is a value added proposition for the government, and an enabler of innovation and growth.

I appreciate the opportunity to be here today and I welcome your questions.