

STATEMENT OF
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U.S. GENERAL SERVICES ADMINISTRATION
BEFORE
THE SUBCOMMITTEE ON CONTRACTING AND WORKFORCE
COMMITTEE ON SMALL BUSINESS SUBCOMMITTEE
U.S. HOUSE OF REPRESENTATIVES
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Good morning Chairman Mulvaney, Ranking Member Chu and Members of the Subcommittee. My name is Steven Kempf and I am Commissioner of the United States General Services Administration's (GSA) Federal Acquisition Service (FAS). I want to thank you for providing me with an opportunity to discuss GSA's accomplishments and continual efforts to improve the efficiency and effectiveness of the Multiple Award Schedules (MAS or Schedules) and government acquisitions generally. Over time, the Schedules have proven to be a highly effective contracting vehicle for small business in the government marketplace.

I would like to discuss three specific initiatives and several related programs we are taking to ensure the future success of the MAS while making the best use of taxpayer dollars:

- Implementing the Small Business Jobs Act of 2010, sponsored by this committee;
- The Federal Strategic Sourcing Initiative; and
- The MAS Demand Based Model.

The MAS is one of the most successful government contracting program in terms of creating opportunities for small businesses. The MAS program routinely exceeds the government-wide small business contracting goal of 23%. Specifically, more than 70% of all MAS vendors are small businesses and approximately 34% of all dollars spent on the MAS go to small businesses. This success is not accidental; it is the result of robust programs and a commitment to the success of small businesses across our agency.

One factor we hope will increase these numbers is full implementation of the authority in Section 1331 of the Small Business Jobs Act of 2010 addressing agencies' discretion to set aside orders under multiple award contracts. Untapped opportunities exist to increase small business participation on multiple award contracts, including the MAS, and we are committed to helping agencies take full advantage of these opportunities. Since promulgation of the FAR rule in November of 2011, GSA has trained approximately 1,700 members of the acquisition workforce and offered over 6,850 hours to the individuals who keep our government well served, properly equipped and focused on mission accomplishment. Our blog, Set Aside Orders for Small Business (<http://interact.gsa.gov/blog/set-aside-orders-small-business>), has received over 4,000 views and we have updated our policy guidance to include a frequently asked questions section specifically addressing Section 1331 concerns (which has received 5,000 views) www.gsa.gov/schedulesandsbgoals. Additionally, in the past few weeks, GSA conducted two webinars for over 700 members of the acquisition workforce on MAS and the new Federal Acquisition Regulation implementing Section 1331.

While it is still early, we are starting to identify some indicators of success. Anecdotal information from our trainings indicates that multiple agencies are planning or considering the use of the discretionary set aside authority to make awards to small business valued at over \$250 million. Given that our efforts have only recently begun, I am excited about the possibility this anecdotal information represents.

While we are pleased with our progress thus far, we continue to identify additional ways to ensure that use of this authority continues to be a success. For example, in partnership with the

Federal Acquisition Institute (FAI) and the Defense Acquisition University (DAU), FAS will launch a four-hour Continuous Learning Module – or CLM – on how to use the new authority, and converting the Utilization of Small Business course into a CLM that will be available on both organizations' virtual campus sites.

When Section 1331 is fully programmatically implemented and utilized, it will represent a very powerful tool that the acquisition workforce can use to ensure they are reaching and contracting with small businesses. Full implementation includes other proactive programs. For example, GSA's Mentor Protégé program, directed by our Office of Small Business Utilization, has changed the way protégée small businesses and more experienced mentor companies approach government contracting. There are now over 100 partnerships in the GSA program, and the assistance mentors provide has resulted in protégés winning 82 GSA contracts and 112 non-GSA contracts. Due to these new opportunities, the protégé firms have created more than 105 jobs.

One of the less quantifiable benefits, but one that is arguably beneficial to both the small business and government, is that the program has provided protégés with the insight and resources required to make smart, educated business decisions about which contracts represent a viable marketplace for their business model. Anecdotal reports indicate that some protégés have decided to wait to obtain a MAS contract based on what they learned from their mentors because they realized it was not the right fit for them at that time. This ultimately saves both the government and small businesses precious time and money.

While GSA's mentor protégée program has been extremely successful, its size and scope prevent it from reaching all small businesses. GSA has long considered the type of information and knowledge gained through the mentor protégée program as crucial to the success of both small businesses and the MAS program. Addressing this need has and will continue to be an ongoing challenge; however we have taken a significant step forward via the Vendor Toolkit and Business Breakthrough program. These resources provide current and potential MAS contractors with information about the MAS program and a simple process to help them determine whether they are properly situated to succeed on a MAS contract.

Our Vendor Toolkit in particular is one of the most powerful tools available to help small businesses prepare for a MAS contract. Found in our Vendor Support Center (vsc.gsa.gov), it provides one stop access, a structured process and information on how small businesses can:

- Select the right Schedule for their business model;
- Identify the size of their market and new business opportunities;
- Assess competition; and
- Determine if a MAS contract would be the best vehicle to grow their business.

Additionally, the Toolkit offers a Readiness Checklist – now a mandatory submission with each new offer -- emphasizing the importance of small businesses completing the research and analysis needed to make an informed decision about whether or not spending the money to get a MAS contract is a good investment.

When small businesses are informed and ready to compete, they succeed. Nowhere is this better demonstrated than our Alliant Small Business Government-wide Acquisition Contract (GWAC),

GSA's premier small business set-aside vehicle. Alliant Small Business provides agencies with easy and flexible access to customized IT solutions from a large, diverse pool of industry partners, with a \$15 billion program ceiling. Alliant Small Business allows agencies to do long-term planning of large-scale program requirements while strengthening opportunities for small businesses. Examples of Alliant Small Business awards and indicators of success include:

- One small business earning a \$52 million task order to operate the Department of Energy's National Nuclear Security Administration's (NNSA) Information Assurance Response Center (NIARC) in Las Vegas, NV.
- The Department of Energy's National Nuclear Security Administration (NNSA) Office of the Chief Information Officer Headquarters awarding a \$70 million task order to a small business.
- The Department of Defense (DoD) issued a memo on July 14, 2011, encouraging the use of Alliant Small Business and other GSA small business GWACs, to meet the DoD's small business contracting and information technology needs.
- The Department of the Navy recently conducted a General IT Development and Support Services strategic sourcing analysis, focusing on cost savings. They recommended increasing the use of existing contract vehicles to generate greater competition while reducing cycle time, including the Alliant Small Business GWAC. Alliant Small Business will work with the Navy team to establish and deliver training opportunities.

At GSA's FAS it is a top priority to do business with those contractors who are committed to delivering the best value to the taxpayer and finding savings for government agencies. Small businesses are our economy's engine of innovation and are a critical feature of the competitive marketplace that drives best value for the government. When agencies use GSA solutions to conduct their acquisitions they get critical ideas and expertise required to make government work better, faster and more efficiently, saving scarce taxpayer dollars. As we look to the future, FAS is developing a Supplier Relationship Management program focused on lowering government's cost of doing business by enhancing our relationships with our critical suppliers. Doing business with those contractors who are committed to delivering the best value to the taxpayer is one of the top priorities for new Office of Management and Budget (OMB) Office of Federal Procurement Policy Administrator Joe Jordan. It involves a continued push to maximize contracting with small and disadvantaged businesses, and redoubling efforts to document and share past performance information to fully realize the intended benefit of motivating and rewarding good contractor performance. This includes considerations like a contractor's history of reasonable and cooperative behavior and commitment to customer satisfaction; factors that have not consistently been available to the acquisition workforce when they are making business decisions on behalf of taxpayers. For our part, the MAS program will deliver standardized evaluation factors and rating scales when collecting past performance information, giving the government aggregate level measures of contractor performance.

Like the Supplier Relationship Management effort, data collection, analysis and enhanced competition are at the heart of the Federal Strategic Sourcing Initiative (FSSI). This program has generated meaningful cost savings to taxpayers while, in the relevant markets, has increased the number of dollars going to small business. Governed by the Office of Management and Budget and the Chief Acquisition Officer Council's (CAOC) Strategic Sourcing Working Group, and

managed by GSA FSSI leverages the Federal Government's buying power to obtain the best possible prices, thereby increasing the dollars agencies can put toward mission critical activities. It is important to understand that price is only one of FSSI's key priorities. Socio-economic goals, understanding the government's spending patterns, ease of use and removing government cost drivers are other key goals. FSSI works to meet these goals by providing easy access to:

- Procurement vehicles that offer greater discounts as volume increases;
- Business intelligence and best practices to achieve significant savings and benefits through streamlined government-wide spending; and
- Increased transparency and management controls that ensure regulatory compliance with a socio-economic focus.

Current GSA FSSI solutions include:

- Express and Ground Domestic Delivery Services;
- Office Supplies;
- Print Management;
- SmartBUY;
- Wireless Telecommunications Expense Management Services and, shortly,
- Wireless Services and Devices.

One of our most successful FSSI solutions is our Office Supplies Blanket Purchase Agreements (BPAs) known as OS2. Prior to OS2 federal agencies had little visibility into what office supplies they were purchasing. Much of the purchasing was done directly via purchase cards, often resulting in agencies paying higher prices. While Schedule 75 was – and is -- an excellent vehicle, we recognized that the government could further leverage its capabilities by improving buying practices and harvesting additional savings by identifying common requirements, streamlining business models and driving further operating efficiencies.

To accomplish this we brought over a dozen different federal agencies to the table to help us design OS2. Through this collaboration, we identified several key features that needed to be part of the solution. For example, offers had to be:

- Authorized Ability One resellers;
- Able to provide more detailed transactional data; and
- Offer point of purchase OS2 pricing through the use of the Smart Card program.

Additionally, offers had to meet automatic substitution requirements to achieve AbilityOne and green buying requirements.

A critical component to OS2 was requesting and incorporating industry's expertise and feedback into the new contract. We held multiple outreach events to include the voice of small business in our planning. Our extensive market research indicated that we would have excellent competition, with an estimated 100 companies meeting the established criteria. Ultimately, we received 48 qualified offers and 13 of the 15 awards went to small businesses. Of the 13, nine fall into a

socio-economic category¹. Additionally, two of the 13 awards are to consortia consisting of over 120 small businesses.

OS2 resulted in significant savings to the Federal Government. In its first year, Federal agencies saved \$17.5 million over the prices they had been paying previously. Additionally, we found that the lower prices offered through the OS2 BPAs caused the general prices offered on the office supplies Schedule to drop 4.7 percent from the pre-OS2 prices. As of today, we are on track to surpass our projected four year total of \$208 million in savings. Finally, OS2 has also demonstrated significant cost avoidance savings by eliminating other agencies' need to create duplicative contracts. At the time OS2 was established, several agencies were considering establishing their own office supply strategic sourcing contracts. By eliminating the need to create individual contracts, we estimate OS2 has saved each agency more than \$1,000,000 in administrative costs.

In addition to the cost savings, OS2 has significantly increased our socio-economic results. Prior to the inception of OS2 in 2009, 66.6 percent of the dollars under Schedule 75 went to small business. In 2011, this figure increased to 73.9 percent and we expect it to surpass 75 percent in 2012. We believe this figure demonstrates that not only can small business compete with large business, they can excel.

The MAS program was created in 1948, and over the years GSA has made significant changes to ensure it continually meets federal agencies' and our industry partners' needs. For some Schedules, such as Schedule 75, strategic sourcing allows us to do that. However, strategic sourcing is not well suited for all the Schedules and GSA has not significantly changed the MAS business model since 1992. There have been significant market changes in 20 years and in today's budget environment, we need to do everything possible to save taxpayer dollars by increasing competition and making it easier to do business with us. That is why GSA is committed to implementing a new "Demand Based" business model.

Let me be clear, GSA is 100 percent committed to providing the service and direction our industry partners need to be successful. However, with limited exceptions, the MAS program is perpetually open to qualified new offers and while vibrant markets exist in some of the Schedules, we have reached the point of saturation in others. In some instances, over 60 percent of the contract holders receive little to no business. In these cases, the sheer volume of contract holders prevents agencies from sifting the wheat from the chaff to find the right offer at the right price. Moreover when the volume reaches the point of saturation, there is simply not enough spend to support the volume of vendors. When Schedules reach this point, it is a disservice to our customer agencies and costly for the vendors, including small businesses, who have expended resources to prepare and submit offers under the impression that they will be able to compete for and earn business. It is also a disservice to the American taxpayer as we are required spend funds monitoring and maintaining these nonperforming contracts without any expectation or chance of a return.

¹ Socioeconomic category information: Women-Owned Small Business (WOSB), Historically Underutilized Business Zones (HUBZone), veteran-owned small business (VOSB), service-disabled veteran owned business (SDVOSB), and Small Disadvantaged Business (SDB).

These concerns form the basis behind our Demand Based Model. This model allows us to focus our resources and capacity on those areas identified by both our analysis and our customer agencies as areas of the greatest concern. Most Schedules are vibrant and competitive with extremely strong small business representation and sales. If all small businesses and all of the Schedules were doing well, it would be an excellent story. However, this is not the case.

Over the last several years the number of companies seeking MAS contracts has roughly doubled and the volume of contract modifications has roughly tripled. Some of this represents the effective addition of new services and products to the Federal sector. However, too much of this increase is related to duplication, with numerous contractors offering the same item at different price points. GSA projects that well over 50% of the estimated 3000 contractors will have no sales or sales less than the \$25,000 minimum threshold and that the Government will spend over \$20 million dollars to support and manage low/no sales contracts. Furthermore, in numerous parts of the MAS program, continuation of the perpetual open season model is resulting in the addition of more contractors to a flat or declining market sector, such as photographic equipment. By adding new contractors to these Schedules we are continuing to further divide an ever shrinking market. The current fiscal challenges facing Federal agencies requires that GSA refocus its acquisition professionals on helping agencies to use the MAS program more effectively by bringing new solutions to market faster, improving pricing and simplifying the buying experience. Industry needs GSA to give clear signals, to create opportunity, and to act quickly.

Our acquisition work force is a limited resource. At the same time we have seen significant increases in new offers we have been shifting our focus more to contract oversight, enhancing customer support, and initiatives such as FSSI. The overall effect is that we have increased the wait times for approval of all offers, both those that are sorely needed and those which will likely receive little to no business; in many cases the wait is now 12 months or more. GSA needs greater agility, federal agencies need faster access to emerging solutions, and small businesses need real access to areas of opportunity in the Federal market.

GSA's plan for moving to a Demand Based Model is built around careful analysis before any action is taken and continually monitoring customer demand. The plan will include a review of the major part of each Schedule (the Special Item Number) and determination of whether it represents an opportunity for continued innovation and program growth, or if it is an area no longer in need of additional contractors. Those areas identified as high demand or likely to be affected by innovation will remain open to new offers. The oversaturated areas will be closed to new offers for twelve months. At the end this period the Schedule will be reviewed to determine if the demand or innovation requires additional contractors. Through this measured approach, GSA will create a more cost-effective environment for managing the schedule program. We will also create a healthier business environment both for current and prospective vendors. Combined with tools such as order set asides, we are confident that FAS will be even more successful in meeting its obligation to maximize opportunities for our small business partners and we remain fully committed to providing them with the help they need to win work.

As an example of how we intend to proceed, FAS recently created a new Special Item Number, SIN 132-99, under its IT Schedule 70 to allow new products, services and solutions within the

scope of Schedule 70 but not currently offered a ready channel to the government marketplace. This SIN allows new technology to be available to our customers faster and supports our industry partners, especially small innovative businesses." On the opposite side of the equation we intend to close the portions of schedule 78 related to promotions and awards as the market demand for those items is dropping and those contractors currently on the schedule adequately address the market needs.

Anticipated benefits of the Demand Based Model are:

For Federal Agencies	For Industry	For GSA
Brings new technologies to market faster	Clearer indication of growth areas and new opportunities	Greater focus on helping Federal agencies save
Frees GSA resources to help agencies use MAS better	Faster processing of offers and modifications	Better use of resources
Makes it easier to find best solutions	Increased success rate	Improves Supplier Relationship Management
Greater focus on price	Focuses Industry on underserved markets	Controls expenses and reduces waste/duplication
Help meet socioeconomic goals	Aligns to other small business initiatives	Increases small business access to market share

The agencies that rely on the FAS are facing difficult times, budgets are shrinking but work and the needs of our nation continue to grow. We must address the changing reality faced by the agencies we serve. To do this we have to institute changes. We assessed the program, consulted Congressional, agency and industry stakeholders and developed the Demand Based Model as the solution. This model will increase our agility, provide agencies with faster and better access to emerging solutions, send clear signals to the marketplace, and reduce the percentage of contractors with low or no sales.

The final matter I would like to bring to your attention is our vision for the Next Generation of the MAS Program. This effort will focus on greater transparency into the spend data for our customers and improve GSA Advantage. These improvements will assist our contract holders in marketing their goods and services by placing a special emphasis on ensuring that all Federal customers experience a simplified acquisition process when using MAS. As we continue to plan and progress toward implementation of these objectives, I look forward to working with you and your staff to make the next generation of the MAS even better than the current version.

On behalf of GSA's Federal Acquisition Service I again thank you for this opportunity and I would be happy to answer your questions.