

**“The Impact of Category Management on the Small Business Industrial Base”  
Testimony before the Committee on Small Business  
United States House of Representatives  
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## **Introduction**

Chairman Chabot, Ranking Member Velázquez, and Members of the Committee, thank you for the opportunity to testify here today, and for your consistent efforts in supporting America’s small business community.

My name is ML Mackey, and I am the CEO and Co-Founder of Beacon Interactive Systems, a small business with offices in Waltham, Massachusetts and Norfolk, Virginia. Beacon delivers innovative, efficiency improving, and cost-savings technology to the Department of Defense. Today I am representing the Small Business Division of the National Defense Industrial Association (NDIA), the nation’s oldest and largest defense industry association, comprised of nearly 1,600 corporate and over 80,000 individual members. While Category Management greatly impacts the full spectrum of the U.S. industrial supply chain that provides goods and services to the DoD, my testimony this afternoon will focus on the constraints that it places on small businesses trying to deliver innovative solutions to support the U.S. warfighter at home and abroad.

The intent of making government procurement efficient, streamlined and cost effective is a goal with which I, and my small business colleagues, are aligned. Getting best in breed products and services as rapidly as possible to the men and women who protect us is of paramount importance. Unfortunately, the contract approach prescribed by Category Management will have an opposite and deleterious effect on this goal. It drastically reduces competition within the existing supply chain and creates a tremendous barrier for new contractors to participate and deliver the valuable innovations necessary for staying one step ahead.

As battlespace needs evolve ever-more rapidly, so too must acquisition practices evolve on both cost and capability vectors. Category Management, by only addressing cost through contracting requirements ignores the overwhelming need and value of innovation. Without thoughtful implementation, the acquisition of innovation is unplanned, disruptive, fluid, and in the past has

been costly. A cost-only approach does not incentivize industry to explore innovative or longer-term solutions because contract requirements sacrifice taking new approaches in order to cut costs. As the owner of a small business that provides Internet of Things (IoT) technology to solve many of the DoD's mission critical operational needs, the myopic approach of limiting access to contract vehicles simply as an attempt to limit cost will make it even more difficult for the innovation economy to participate in helping the warfighter.

### **Implications of Category Management to Small Business Innovation**

Category Management, through the practice of Strategic Sourcing, would consolidate the number of contracts the Federal Government awards to small businesses for a single or multiple goods and services delivery. As an approach to cost savings, it is well intentioned, but it unfortunately drives high technology small businesses out of the defense marketplace resulting in reduced competition within the procurement process and the loss of small businesses who choose creating innovation over building a business based on cutting corners and costs.

An impact of Category Management is that small businesses must align themselves with Prime Contractors on a cost basis (as opposed to value or capability) to even be able to engage with the Government. Small businesses must be recognized as more than just a reliable supply chain for larger companies to utilize in their own cost savings approaches. The small business community represents the valuable marketplace of ideas and innovation. Category Management, like Lowest Price Technically Acceptable (LPTA) methods when applied to broad acquisitions, does not consider that innovation is an aberration to standard government contracting requirements yet provides incredible value. The bottom line is that industry is concerned that the Federal Government is mistaking lowest cost for best value in how they spend taxpayer's money, creating requirements that eliminate the ability to access the best options from industry.

One of the stated laudable intents of Category Management is to accomplish a streamlined best-of-breed acquisition practice. The Small Business Innovation Research Program (SBIR) and the Small Business Technology Transfer Program (STTR) are examples of where the small business community delivers directly on this intent. Technology acquired from the SBIR Program is an example of accessing best of breed solutions in a streamlined manner. During the development phases of the SBIR investment (Phases I & II) the needs of the warfighter are explicitly addressed with new and innovative approaches. Acquisition is streamlined as the competitive threshold has already been met in the highly competitive Phase I and Phase II processes. Instead of helping, Category Management will impinge on the ability of the US Government to acquire these results by reducing access to contract vehicles.

Many of my small business colleagues have spoken with me directly in terms of the Category Management approach as well as previous strategic sourcing initiatives. Across the board, they are overwhelmingly opposed. Anything that winnows down the ability to compete on a fair and level playing field is challenging across the industrial base.

### **Recommendations**

While we are not in support of a Category Management approach, we are supportive of the intended outcome; the streamlined acquisition of best-in-breed goods and services. And specifically for those of us who deliver much needed innovation to the DoD we are absolutely interested in a nimble acquisition process in support of the warfighter. Along those lines we have three suggestions:

- 1) Support the Contracting Community with increased funding in order to provide the resources necessary in enabling innovation and widespread Small Business participation within the contracting process.
- 2) Reevaluate LPTA with an eye towards focusing on how to best procure what will meet the evolving needs of the warfighter. Focus on what is the best value not what is the least expensive acquisition.
- 3) Deliver best of breed innovative goods and services in a streamlined acquisition process by implementing a Pilot Program at the DoD for Streamlined Technology Transition from the SBIR/STTR Programs as described in Section 1710 of the 2018 NDAA.

### **Conclusion**

Chairman Chabot, Ranking Member Velázquez, and Members of the Committee, thank you for the opportunity to appear before you this morning and thank you for your continued efforts in helping the small business community. I would be pleased to respond to any of your questions.