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Testimony of

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*Chief Operating Officer and Co-Founder, Wovenware, Inc.*

before the

**U.S. House of Representatives  
Committee on Small Business**

**“Serving Small Businesses: Examining the Effectiveness of  
HUBZone Reform”**

**Wednesday, September 13, 2017**

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Chairman Chabot, Ranking Member Velázquez, my representative from Puerto Rico Congresswoman Jennifer González-Colón, Members of the House Small Business Committee, thank you for the opportunity to speak today as the Committee examines the effectiveness of HUBZone reform.

My name is Carlos M. Meléndez and I am the Co-Founder and Chief Operating Officer of Wovenware, an 8(a) and HUBZone-certified business located in San Juan, Puerto Rico.

As you all know, Puerto Rico was seriously affected by Hurricane Irma one week ago today. Most of the Island has been without power and water at different points, but as you can attest from my presence here today we are resilient and do not let these types of set-backs stand in our way of achieving economic development for our US Territory.

Since 2003, my company, Wovenware, has been developing custom software solutions for enterprises in industries, such as telecommunications, healthcare, and distribution.

It took us 3-months to organize and fill the application for the HUBZone Program and 3 additional months to get certified. We are grateful for the help provided by our local Procurement Technical Assistance Center (PTAC), the Puerto Rico Federal Contracting Center, before and during the process.

Here at Wovenware, we have recently been highly focused on developing smart and predictive software solutions that use Artificial Intelligence, predominantly Deep Learning, to help companies derive greater insights from their data and

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automate key functions. This deep expertise has allowed Wovenware to enter the federal market and conduct AI related projects for the National Geospatial-Intelligence Agency (NGA). Today, Wovenware employs more than 90 people, most of whom are software engineers, computer and data scientists.

Despite the fact that Wovenware has been part of the Inc. 5000 list of the fastest-growing U.S. companies for three years, and that 60 percent of our revenue comes from customers outside our physical Island boundaries, it is only recently that we were given the opportunity to work with the Federal government as a subcontractor on a DigitalGlobe NGA contract. We need more out-of-the-box thinkers like DigitalGlobe's executives Rob Torres and Tony Frazier who gave us the opportunity to win this first federal contract.

*"Lead with quality, not certification"*, was the recommendations Mr. Robb N. Wong, Associate Administrator of the SBA gave companies like ours during a previous hearing of this committee. A fair recommendation, but one in my opinion that underestimates the difficulty of getting your first federal contract despite years of high-quality, referenceable private business experience, especially in an economically depressed area like Puerto Rico.

It has taken Wovenware almost four years and significant investments to get our first federal contracts. I hope the proposed new performance metrics outlined in the HUBS Act put a spotlight on this problem and help SBA develop initiatives to stimulate the opportunities that originally inspire hope for HUBZone companies.

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As an example of these difficulties, HUBZone set-aside solicitations by agencies are scarce specially in our area of information technology (IT). A search in FBO.gov, the Federal Government Business Opportunities portal, reveals that since 2009, only 8 opportunities have been awarded in select NAICS codes related to IT. This statistic highlights one of the reasons why most federal agencies do not meet with the statutory 3-percent HUBZone contracting goal. If IT and other related services are not considered by procurement officers for sole source and competitive opportunities, not only are the goals of the program not met, but companies like ours, providing state of the art technology are at a much bigger disadvantage.

Wovenware is a perfect example of a company that would greatly benefit from revisions to the current HUBZone program. Not only do we have the expertise, experience and drive to provide needed technology services that rival or exceed the capabilities of other U.S. companies, but securing more federal contracts would enable us to organically grow our business, employ more local workers and contribute to the revitalization of the economy in Puerto Rico.

As a corporation, Wovenware has always been committed to giving back to the community. We contribute to non-profit organizations that foster entrepreneurship and technology in Puerto Rico, like Grupo Guayacan or ConPRmetidos, as well as Hogar de Niños que Quieren Sonreir (Home for Children who Want to Smile), which offers temporary shelter and free services to childhood cancer patients and their caregivers. We are proud of our employee-giving campaign and look forward

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to continuing to support our community to not only foster entrepreneurship, but also to improve people's lives.

Strong local businesses that are given the opportunity to succeed almost always give back.

While we are pleased to have received HUBZone certification late last year, there is much more that can be done to ensure that it accomplishes its original goal; to give small businesses in under-served areas a chance to succeed. It is our hope that a reformed HUBZone program lowers the barriers of entry for federal contracts for companies like ours.

Currently, almost all of Puerto Rico qualifies as a HUBZone, but according to the United States Government Accountability Office (GAO), in March of 2017 only 40 companies were HUBZone certified.

The U.S. government is the world's largest buyer of services and goods, spending billions of dollars each year with both large and small businesses, yet it still struggles to ensure compliance by federal agencies to meet the requirement that 3 percent of contracts be negotiated with HUBZone-certified companies.

I believe the proposed changes to the HUBZone program included in H.R. 3294, The HUBZone Uniformity and Business Stability Act of 2017, have the potential to change this situation.

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The new model to recalculate HUBZone areas in five-year increments will encourage private investment, as well as stability and predictability to contracting officers.

Agencies can rest assured that for at least five years all their HUBZone companies will remain eligible, allowing for more competitive set-asides and sole-source HUBZone opportunities.

Similarly, the proposed “grace period” for firms that drop below the 35-percent threshold of employees from a HUBZone area will encourage private investment commitments, and empower small businesses with more confidence to succeed.

Since 2006, more than 94 percent of the small businesses located in Puerto Rico that received contract awards got them for work performed in Puerto Rico. An increased use of contract bundling or consolidation, difficulty in meeting contract procurement requirements, and a lack of knowledge about the federal procurement process inhibited them from expanding beyond Puerto Rico.

Puerto Rican companies that become HUBZone certified are not only being given the spark to ignite their own growth even beyond their borders, but they are also greatly benefiting the Federal government and contributing to U.S business growth overall.

While currently one-third of federal contracts are filled right here in Washington D.C. and the remainder elsewhere in U.S. states, Wovenware’s success serves to prove, that there is

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enormous untapped potential for making Puerto Rico and other HUBZone areas the next frontier for outsourced federal projects.

As previously discussed, three key amendments on the HUBZone reform bill have the potential to generate this environment. These amendments are: the new performance metrics, new 5-year time model, and “grace period”.

The new performance metrics requires the SBA to submit a report that I hope will at least highlight the following metrics:

- Existing businesses in the program
- Existing businesses in the program by State and Territory
- Existing businesses in the program by State and Territory, and NAICS
- Number of new businesses that enter the program
- Number of new businesses that enter the program by State and Territory
- Number of new businesses that enter the program by NAICS
- Number of new businesses that enter the program by State and Territory, and NAICS
- Available and awarded sole source HUBZone contracts by NAICS and the percentage of this contracts in relation to other programs and all contracts
- Available and awarded competitive HUBZone contracts by NAICS and the percentage of this contracts in relation to other programs and all contracts
- Contracts awarded to HUBZone businesses, specifying the NAICS and type of contract (sole source, competitive

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HUBZone, or open competition), also the percentage of these contracts in relation to other programs

These metrics will highlight the use (and not use) of the program by federal agencies and how effective (or ineffective) the program is in helping businesses sell to the Federal government.

The 5-year time model that will allow the SBA to recalculate HUBZone areas in 5-year increments and the “grace period” for firms dropping below the 35-percent threshold for employees from a HUBZone will provide federal agencies certainty into the number of HUBZone companies available for their contracting opportunities. It is my hope that this certainty will translate into additional HUBZone only opportunities and will thus, increase the use of the HUBZone program to the point where the 3-percent contracting mandate be achieved.

Revising the provisions of the HUBZone program so that it remains true to its original intentions: to jumpstart opportunities for small business to succeed, would empower small businesses not only in Puerto Rico but across the country, with a path to revitalized growth.

The spirit of innovation, entrepreneurship and inspiration, combined with a steadfast perseverance (that Hurricane Irma proved so well) is alive and well in Puerto Rico. A reinvigorated HUBZone program would be just the right spark, not only for Puerto Rico, but for small businesses everywhere, to ignite hope, confidence, and ultimately growth that will stimulate healthy economies across the country.

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