Testimony to House Armed Services Committee Panel on Business Challenges within the Defense Industry

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Hearing: Doing Business with DOD: Unique Challenges Faced by Small and Mid-Sized Businesses

Provided by:

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Good afternoon Chairman Shuster, Ranking Member Larsen and other distinguished members of the Committee.

My name is Linda Hillmer and I am the Chair of the Small Business Division of America's leading defense industrial association promoting national security. The National Defense Industrial Association (NDIA) has 95,000 members worldwide, more than 1,700 corporate members, and nearly 900 small business division members.

In addition to volunteering as the Chair of the NDIA Small Business Division, I am a small business owner whose company has supported the federal government since 2001. I am also a former federal government contracts professional, which means I'm bilingual: I speak both Plain English and the arcane language of Federal Acquisition.

In Fiscal Year 2010, which is the latest information available to the public, the Department of Defense (DoD) awarded over 61 billion dollars in prime contracts to small businesses.

I am here today to talk about some of the challenges small businesses face in doing business with the Department of Defense. One of the key obstacles to more participation by small businesses in DoD contracts is the choice by DoD to bundle requirements into huge contracts.

We know why DoD bundles contracts: it's easier, faster and less work for the government to bunch contracts together, have the details managed by one or a handful of contractors, and simply oversee those primes versus scores of contractors on separate projects. During a war on two fronts, increasing budgets, and a stretched acquisition staff, bundling appears to be a logical answer to meeting wartime requirements.

We are now in a different time however and austere budgets require strategic solutions for meeting short term needs. DoD is very concerned – and rightly so – with avoiding what it calls a "hollow force" inside the military. I believe the Department ought to also be concerned about a "hollow" small business industrial base. One of the acquisition approaches bringing about this "hollow" small business industrial base is the increasing use of bundling.

Let me give you just one example of how bundling hurts small business. Bundling puts small businesses in a dependent, usually minor subcontracting role, well hidden from government

decision makers. The minor subcontracting role keeps small business at arm's length from the government program managers who set requirements. It also means government contracting leaders who determine acquisition strategies do not see the small business performing the work behind the prime.

Bundling contracts not only hurts small business, it hurts the Department of Defense. Bundling means the government pays twice on overhead – once for the prime, which is usually a larger business, and again for the sub. But, more important than dollars, bundling hurts the government by attacking quality. As DoD is awarding more and more IDIQ contracts based on lowest price, the large primes are putting the squeeze on their smaller subcontractors. This may result in lower prices for DoD but at what cost? Small business, in an effort to stay alive, will cut quality OR will leave the defense market space entirely. Both decisions ultimately result in lower quality products and services in support to the Warfighter.

Keep in mind, bundling is an acquisition approach, it is only one symptom of a much larger issue… and that is the issue of reputation, perception and culture of small business in DoD.

It is an issue that requires a longer term cultural and organizational shift. One that makes the meaningful inclusion of small business in all funded requirements the responsibility of three players: (1) the requirements community, which has the need, the money and can forecast requirements; (2) the acquisition community, which commits funding and sets future acquisition strategy; and (3) the small business Directors, who have the responsibility to meet federal small business goals.

As budgets decrease and the Department must make tough personnel decisions, we need to ensure that small business expertise within the acquisition workforce is not only maintained but encouraged. We need to make sure that small business experts are entrenched in the requirements and acquisition communities and that small business expertise is valued by DoD leadership. Through deliberate organizational approaches and strategic cultural changes, DoD can ensure maximum small business participation, smartly stretching limited budgets to meet our nation's defense and security needs.

Thank you again for the opportunity to speak with you regarding small business challenges in doing business with the Department of Defense. I am happy to take your questions.