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**“The Impact of Category Management on the
Small Business Industrial Base”**

Committee on Small Business
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Introduction

Chairman Chabot, Ranking Member Velázquez, and Members of the Committee, thank you for the invitation to testify on behalf of the Professional Services Council's (PSC) nearly 400 member companies and their hundreds of thousands of employees across the nation. I appreciate the opportunity to discuss with you Category Management's evolution and impact on the small business industrial base.

For over 45 years, PSC has been the leading national trade association of the government technology and professional services industry. PSC's member companies represent small, medium, and large businesses that provide federal agencies with services of all kinds, including information technology, engineering, logistics, facilities management, operations and maintenance, consulting, international development, scientific, social, environmental services, and more. Together, the association's members employ hundreds of thousands of Americans in all 50 states in support of virtually every federal agency and perform work in all ten categories. The diversity of functions performed and the business size of PSC members gives us a unique perspective on the objectives and evolution of Category Management within the Executive Branch.

Today, I will offer some considerations and criteria that PSC urges you to take into account as your Committee evaluates the impact of Category Management and potential changes to the current process, both in this hearing and in your future efforts. They include:

- How has Category Management impacted the ability of federal agencies to meet their mission needs?
- Are there sufficient safeguards to ensure competition in the marketplace for small business participants, both now and in the future?
- Does Category Management meet the government's objectives of assisting small businesses?

Contractors Provide Significant Value to the Government

The contractor community plays a vital role in assisting the government in providing services to the American people. Contractors' contributions are necessary to maintaining government operations. Many of the capabilities that contractors provide do not exist, or are insufficiently available, within the government, and contractors can quickly expand or adjust capacity to meet changing mission needs. Contractors of all sizes are a strong, diversified national interest business base that support current and emerging requirements for every agency of the government.

In fiscal year 2017, the U.S. government spent more than \$308 billion to acquire services from federal contractors. Government-wide, services spending accounts for roughly 60% of contract awards, and that has grown over the last two years. These numbers highlight the importance of ensuring that any federal procurement initiative, including Category Management, is designed, implemented, and overseen in the most effective manner.

Category Management's Evolution

Category Management (CM) began as a federal initiative intended to develop and provide the federal acquisition community with more efficient acquisition strategies based on major categories of federal procurement by capitalizing on subject matter expertise and lessons learned across the government. The CM approach includes “strategic sourcing, but also a broader set of strategies to drive performance, like developing common standards in practices and contracts, driving greater transparency in acquisition performance, improving data analysis, and more frequently using private sector (as well as government) best practices.”¹

The ten categories that comprise the CM initiative are:

- 1) Information Technology
- 2) Professional Services
- 3) Security and Protection
- 4) Facilities and Construction
- 5) Industrial Products and Services
- 6) Office Management
- 7) Transportation and Logistics Services
- 8) Travel and Lodging
- 9) Human Capital
- 10) Medical

Each category is led by a senior government executive (Category Manager) designated as an expert in that category. That executive is also charged with implementing a government-wide strategy to drive improved performance. The Office of Federal Procurement Policy (OFPP) announced the initial 10 government-wide Category Managers on February 10, 2016.² While the ten categories have not changed since that time, many of the categories have new leaders. Many agencies have also designated managers who are responsible for each category of spend at the agency level.

Since its inception in 2014, I believe that CM has evolved through four major phases and, in doing so, has transitioned from what began as a management technique for collecting and analyzing federal spending into an integrated combination of both management information analysis and federal purchasing strategies.

Last November, the Chairman and Ranking Member of this Committee wrote to the Office of Management and Budget (OMB) challenging the implementation of CM and raised the concern

¹ OFPP Administrator Anne Rung Dec. 4, 2014 Memorandum: Transforming the Marketplace: Simplifying Federal Procurement to Improve Performance, Drive Innovation, and Increase Savings. Available at: <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/procurement/memo/simplifying-federal-procurement-to-improve-performance-drive-innovation-increase-savings.pdf>

²“A Major Step Forward in Category Management: Announcing New Government-wide Category Leaders.” Feb. 25, 2016. Available at: <https://obamawhitehouse.archives.gov/blog/2016/02/24/major-step-forward-category-management-announcing-new-government-wide-category>

about the ability of small businesses to fully and fairly compete for federal contracts.³ It remains a valid concern.

The four phases of CM that I have observed are as follows:

First Phase: Establishment and Spending Analysis

The first phase was the establishment of Category Management. When CM was initiated, it was intended to provide acquisition executives—both within each purchasing organization and across the “category”—with better visibility into agencies’ spending per category and thereby enable the federal government to approach the government’s purchase of goods and services as if it were a single enterprise.

The approach also provided for the collection of government-wide buying data for each category and enhanced the ability of government to track spending trends over time. It provided the foundation for the government to find efficiencies, reduce unnecessary duplication or inconsistencies in both the purchasing decisions and the acquisition vehicles, and enhance value for agencies when purchasing such goods and services. Additionally, through the designation of Category Managers, CM helped to meaningfully improve the skills and expertise of the federal acquisition workforce. PSC has supported, and continues to support these goals, even though the metrics for success are hard to articulate and even harder to validate.

Second Phase: Designation of “Best-In-Class” Contract Vehicles

The second phase in the evolution of the CM was the determination by OMB that certain contract vehicles satisfy key criteria defined by OMB and earned the designation of “Best-In-Class” (B-I-C).⁴ As of April 23, 2018, thirty-two contracts have been designated by OMB as “B-I-C” awards;⁵ OMB will update that listing periodically.

But it is also important to recognize that many of the B-I-C designations have very specific scopes of work or have limited application in the federal purchasing world. For example, under the Medical category, the two B-I-C contracts are for Veterans Affairs (VA) hearing aids and the Department of Defense/VA national contracts for generic pharmaceuticals. In Travel and Lodging, one B-I-C is for the U.S. Government’s rental car program and another is for civilian employee relocation.

Third Phase: Institution of “Spend Under Management” Tiers and Targets

The third phase in the evolution of CM was the imposition of agency quotas for spending through category management principles, referred to as “spend under management.” Under OMB’s three-tier system for evaluating qualifying spending, the highest tier for applying approved category management principles is dollars obligated on “Best-In-Class” contracts.

³ “Chabot, Velázquez Challenge OMB on Procurement Policy.” House Small Business Committee press release, Nov. 10, 2016. Available at: <https://smallbusiness.house.gov/news/documentsingle.aspx?DocumentID=399375>

⁴ Category Management Policy 15-1: Improving the Acquisition and Management of Common Information Technology: Laptops and Desktops. Oct. 16, 2015. Available at: <https://obamawhitehouse.archives.gov/sites/default/files/omb/memoranda/2016/m-16-02.pdf>

⁵ Best-in-Class Solutions (as of April 23, 2018). Available at: <https://hallways.cap.gsa.gov/app/#/gateway/category-management/6243/best-in-class-bic-consolidated-list>

However, agency spend through any of the three tiers of OMB-designated contracts counts as “spending under management.” Where agency contract dollars are obligated through contracts that do not fit into any of those tiers, awards are designated as “unmanaged contracts” and agencies are urged to do further analysis of their spend to “find opportunities” for shifting to solutions that qualify as “spend under management.”⁶

It is my understanding that OMB has established government-wide targets of making 35 percent of available spend through B-I-C awards and decreasing the available spend categorized as “unmanaged” by 20 percent. Agencies are held accountable for meeting B-I-C and spend under management targets.

In addition, each category has a unique set of key performance targets for fiscal years 2018 and 2019, including spend under management, savings and/or cost reductions, reduction in contract duplication, and achieving percentages of awards to small businesses. Nothing in the CM evolution detracts from the additional responsibility on agencies to achieve their individually negotiated small business contracting and subcontracting goals pursuant to the Small Business Act.

Category Management is also an important component of the March 2018 President’s Management Agenda. Cross-agency goal #7 establishes as an objective “leveraging common contracts and best practices to drive savings and efficiencies.” In addition, this cross-agency agenda sets a goal that “by the end of FY 2020, the Government will achieve \$18 billion in savings for taxpayers by applying category management principals [sic]—or smart decision-making where agencies buy the same kinds of goods and services through best value contract solutions—to 60% of common spend. In addition, the Government will reduce duplicative contracts by 50,000, potentially reducing administrative costs by hundreds of millions of dollars.”⁷

Fourth Phase: Mandatory Use “Best-in-Class” Contracts

The final phase of CM in place today is the requirement for the mandatory use of specifically designed B-I-C awards. These vehicles are the exclusive method by which agencies must purchase covered goods and services. As of February 5, 2018, six contracts across four of the ten categories have been designated as “mandatory use” for the agencies.⁸

Mandatory use of certain contracts is not new, but it remains controversial. Many may recall the so-called “Brooks Act” that required the mandatory use of the GSA schedules for what was then called automated data processing without a specific delegation of procurement authority from GSA. More recently, the government implemented mandatory use policies when OFPP prohibited agencies from issuing new solicitations for laptops and desktops and required the use

⁶ Best-In-Class & Spend Under Management, Feb. 5, 2018. Available at: https://www.gsa.gov/cdnstatic/BIC_%26_SUM_One-pager_252018.pdf

⁷ “The President’s Management Agenda: Modernizing Government for the 21st Century.” Mar. 20, 2018. Available at: <https://www.whitehouse.gov/wp-content/uploads/2018/03/Presidents-Management-Agenda.pdf>

⁸ Best-In-Class & Spend Under Management, Feb. 5, 2018. Available at: https://www.gsa.gov/cdnstatic/BIC_%26_SUM_One-pager_252018.pdf

of specific contract vehicles for any future purchase.⁹ It has also been applied more broadly to the so-called Federal Strategic Sourcing Initiative (FSSI), the precursor to CM.

Distinction between Products and Services

There is a significant difference between the way the government buys basic products versus how it buys services—particularly IT and complex knowledge-based services. For pure commodities, procurement policies can be fairly simple and straightforward; for more complex needs, particularly higher-end services, the challenges and complexities grow substantially. Commodities tend to be more widely available and the barriers to market entry are typically more modest. But such differences become far more pronounced when the services being procured are complex or highly technical, involve capabilities and skills that are in short supply across the economy, and for which opportunities outside of government are plentiful. With commodities, in many cases basic quality may be adequate and price becomes the principal driver. With services, quality and innovation are often, appropriately, of greater importance than price.

With CM's focus on lowering prices, PSC is concerned that the government may begin to purchase complex cybersecurity services in the same manner as common office supplies—which will limit value and reduce innovation. In addition, as this Committee has addressed previously, these techniques may have the effect of limiting the number of firms—small or other-than-small—able to compete for the specific goods or services provided for under these “spend under management” contracts.

Issues for Congress

Five years ago today, PSC testified before this Committee on the use of Strategic Sourcing and stated that “the government’s goal should be to foster an environment of robust competition, high performance, agility, innovation, balanced opportunities for companies of all sizes, and accountability.”¹⁰ A copy of that statement is attached as an appendix to this testimony.

PSC cautioned then, and we do so again today, that more needs to be done to prevent unintended consequences on the small and other-than-small companies that are—or that are capable of—meeting the government’s needs. Since then, and particularly as CM has transitioned from what

⁹ Category Management Policy 15-1: Improving the Acquisition and Management of Common Information Technology: Laptops and Desktops. Oct. 16, 2015. Available at:

<https://obamawhitehouse.archives.gov/sites/default/files/omb/memoranda/2016/m-16-02.pdf>

¹⁰ Testimony of PSC president Stan Soloway, June 13, 2013, before the Committee on Small Business, U.S. House of Representatives, titled “Putting the Strategy in Sourcing: Challenges and Opportunities for Small Business Contractors.” Available at:

[https://www.pscouncil.org/IssueAreas/SmallBusiness/Resources/SmallBusiness/Testimony on Small Business Impact of Strategic Sourcing.aspx](https://www.pscouncil.org/IssueAreas/SmallBusiness/Resources/SmallBusiness/Testimony%20on%20SmallBusinessImpactofStrategicSourcing.aspx)

began as a management technique into a procurement policy, there have been negative consequences for the supplier base and for the marketplace. These include:

Implementation of a One-Size-Fits-All Approach Across Government:

The goal of any procurement policy, whether established by the Executive Branch or directed by Congress, must be to foster a competitive environment where agencies can contract in a manner to meet their mission needs. Category Management, however, can potentially limit an agency's ability to do so if the agency is required to use certain acquisition vehicles, and therefore only the contractors on those vehicles, for certain goods and services. This strategy could further limit access to innovative technologies and processes from companies that are not current contract holders.

Limiting the Flexibility of Agencies to Pursue Unique Solutions:

Restricting the access to only certain contract awards—whether through the designation of “mandatory use” or through setting goals for “spend under management” —could restrict individual agencies' flexibility when pursuing agency-unique initiatives.

Narrowing Competition in the Marketplace:

The government benefits when it fosters an environment for robust competition in the federal marketplace. The mandatory use of Best-In-Class vehicles does not simply drive changes in the market; the vehicle becomes the market. As a result, companies that are not B-I-C contract holders could be excluded from certain federal contracting opportunities for the duration of the period of performance of the B-I-C contract designation.

Currently, there is a broad array of suppliers participating in the federal marketplace that can be easily accessed by any government customer. For mandatory use contracts, the number of suppliers is limited (and we should acknowledge, though we do not have to accept, that the available contracting opportunities are also limited). As this Committee has asked previously, does it meet the government's objective to have fewer small businesses receiving a higher volume of government work, or should a larger number of small businesses compete for a smaller share of the volume?

Additionally, many of the competitions and awards for what are now designated as “Best-In-Class” occurred before the B-I-C designation (and any mandatory use designation) was established. This raises two additional issues:

- The ability of small businesses (or any business) to become a B-I-C contract holder after a contract award. Are the B-I-C contracts structured in a way that provide on-ramps for companies currently not a holder of the vehicle?
- The advantage given to incumbency. When the B-I-C contracts are recompeted, will non-contract holder offerors be able to successfully compete for future opportunities?

Focuses Too Heavily on Low Price:

Small businesses—particularly those who provide knowledge-based or professional services to the federal government—are disproportionately impacted by shortsighted efforts to drive down prices. This often manifests itself in solicitation evaluations known as Lowest-Price Technically Acceptable or “LPTA.”

Focuses Too Heavily on Inputs, not Outcomes:

The B-I-C contracts are approved by OMB based on favorable terms and conditions and reporting requirements, not on the outcomes to be achieved for the agency or the past or expected performance by the vendors on those contracts. Achieving the government’s desired outcomes should be the most important objective of any acquisition strategy.

Conclusion

On behalf of PSC and our members, I thank you for your attention to this important issue. As always, PSC is available at your convenience to address any questions or concerns the committee has, now and in the future. I will try to answer any questions you may have.

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