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Strategic Sourcing with Small Business in Mind

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Preface & Acknowledgements

During his internship with the Graduate School of Business & Public Policy in June 2010, U.S. Air Force Academy Cadet Chase Lane surveyed the activities of the Naval Postgraduate School's Acquisition Research Program in its first seven years. The sheer volume of research products—almost 600 published papers (e.g., technical reports, journal articles, theses)—indicates the extent to which the depth and breadth of acquisition research has increased during these years. Over 300 authors contributed to these works, which means that the pool of those who have had significant intellectual engagement with acquisition issues has increased substantially. The broad range of research topics includes acquisition reform, defense industry, fielding, contracting, interoperability, organizational behavior, risk management, cost estimating, and many others. Approaches range from conceptual and exploratory studies to develop propositions about various aspects of acquisition, to applied and statistical analyses to test specific hypotheses. Methodologies include case studies, modeling, surveys, and experiments. On the whole, such findings make us both grateful for the ARP's progress to date, and hopeful that this progress in research will lead to substantive improvements in the DoD's acquisition outcomes.

As pragmatists, we of course recognize that such change can only occur to the extent that the potential knowledge wrapped up in these products is put to use and tested to determine its value. We take seriously the pernicious effects of the so-called "theory–practice" gap, which would separate the acquisition scholar from the acquisition practitioner, and relegate the scholar's work to mere academic "shelfware." Some design features of our program that we believe help avoid these effects include the following: connecting researchers with practitioners on specific projects; requiring researchers to brief sponsors on project findings as a condition of funding award; "pushing" potentially high-impact research reports (e.g., via overnight shipping) to selected practitioners and policy-makers; and most notably, sponsoring this symposium, which we craft intentionally as an opportunity for fruitful, lasting connections between scholars and practitioners.

A former Defense Acquisition Executive, responding to a comment that academic research was not generally useful in acquisition practice, opined, "That's not their [the academics'] problem—it's ours [the practitioners']. They can only perform research; it's up to us to use it." While we certainly agree with this sentiment, we also recognize that any research, however theoretical, must point to some termination in action; academics have a responsibility to make their work intelligible to practitioners. Thus we continue to seek projects that both comport with solid standards of scholarship, and address relevant acquisition issues. These years of experience have shown us the difficulty in attempting to balance these two objectives, but we are convinced that the attempt is absolutely essential if any real improvement is to be realized.

We gratefully acknowledge the ongoing support and leadership of our sponsors, whose foresight and vision have assured the continuing success of the Acquisition Research Program:

- Office of the Under Secretary of Defense (Acquisition, Technology & Logistics)
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- Office of the Assistant Secretary of the Air Force (Acquisition)
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- Office of Procurement and Assistance Management Headquarters, Department of Energy

We also thank the Naval Postgraduate School Foundation and acknowledge its generous contributions in support of this Symposium.

James B. Greene, Jr.
Rear Admiral, U.S. Navy (Ret.)

Keith F. Snider, PhD
Associate Professor

Panel 23 – Engaging Small Business in Defense Acquisition

Thursday, May 12, 2011	
3:30 p.m. – 5:00 p.m.	**Chair: Rear Admiral Seán F. Crean,** USN, Director, Office of Small Business Programs, Department of the Navy **Discussant: David Lamm,** Professor Emeritus, Graduate School of Business and Public Policy (GSBPP), NPS ***Strategic Sourcing with Small Business in Mind*** Lora Gross, Department of Veterans Affairs, Acquisition ***Implementation of the Department of Defense Small Business Innovation Research Commercialization Pilot Program: Be All You Can Be?*** Max Kidalov, Kevin Hettinger, and Mario Gonzalez, NPS

Rear Admiral Seán F. Crean—Director, Office of Small Business Programs, Department of the Navy. Mr. Crean serves as Chief Advisor to the Secretary on all small business matters. He is responsible for small business acquisition policy and strategic initiatives.

Mr. Crean joined the Secretary of the Navy Staff as a member of the Senior Executive Service in January 2010 and has over 30 years of federal service. Prior to receiving this appointment, he served as Deputy Assistant Secretary of the Navy for Acquisition and Logistics Management during a two-year military recall to active duty as a Rear Admiral in support of Operation Iraqi Freedom.

Mr. Crean's previous experience includes serving as the senior procurement analyst for the U.S. Small Business Administration's Office of Government Contracting Area I (New England) for 19 years. In this role he was the principal advisor to the SBA's six regional district offices and congressional delegations on procurement issues. He provided acquisition strategy analysis for over 20 buying activities throughout the region, supporting both DoD and Civilian federal agencies. He first entered federal civilian service as the Deputy Supply Officer for Naval Air Station Brunswick, ME, where he was also appointed the activity small business specialist.

Mr. Crean's combined military and civil service careers have provided complimentary and extensive leadership responsibilities in service to the country. As a member of the reserve component, he has attained the grade of Rear Admiral (two-star) and is currently assigned as Deputy Commander, Naval Supply Systems Command. He holds a Bachelor of Science degree in business management and marine transportation from State University of New York Maritime College and a Master of Business Administration degree from New Hampshire College's graduate school of business.

He has a number of personal and command decorations, including two Legion of Merit awards. He is a member of the Defense Acquisition Corps and is DAWIA Level III Contracting certified.

David Lamm—Professor Emeritus, Graduate School of Business and Public Policy (GSBPP), NPS. Dr. Lamm served at NPS as both a military and civilian professor from 1978 through his retirement in January 2004, teaching a number of acquisition and contracting courses, as well as advising thesis and MBA project students. During his tenure, he served as the Academic Associate for the Acquisition & Contracting Management (815) MBA Curriculum, the Systems Acquisition Management (816) MBA Curriculum, the Master of Science in Contract Management (835) distance learning degree, and the Master of Science in Program Management (836) distance-learning degree. He created the latter three programs. He also created the International Defense Acquisition Resources Management (IDARM) program for the civilian acquisition workforce throughout the country. Finally, in collaboration with the GSBPP Acquisition Chair, he established and served as PI for the Acquisition

Research Program, including inauguration of an annual Acquisition Research Symposium. He also developed the Master of Science in Procurement & Contracting degree program at St. Mary's College in Moraga, CA, and served as a Professor in both the St. Mary's and The George Washington University's graduate programs.

He has researched and published numerous articles as well as written an acquisition text entitled *Contract Negotiation Cases: Government and Industry* (1993). He served on the editorial board for the *National Contract Management Journal* and was a founding member of the editorial board for the *Acquisition Review Quarterly*, now known as the *Defense Acquisition Review Journal*. He served as the NPS member of the Defense Acquisition Research Element (DARE) from 1983–1990.

Prior to NPS, he served as the Supply Officer aboard the USS *Virgo* (AE-30) and the USS *Hector* (AR-7). He also had acquisition tours of duty at the Defense Logistics Agency in Contract Administration and the Naval Air Systems Command, where he was the Deputy Director of the Missile Procurement Division.

He holds a BA from the University of Minnesota and an MBA and DBA both from The George Washington University. He is Fellow of the National Contract Management Association and received that association's Charles A. Dana Distinguished Service Award and the Blanche Witte Award for Contracting Excellence. He created the NCMA's Certified Professional Contracts Manager (CPCM) Examination Board and served as its Director from 1975–1990. He is the 1988 NPS winner of the RADM John J. Schieffelin Award for Teaching Excellence.

Strategic Sourcing with Small Business in Mind

Lora Gross—Acquisition Fellow, Department of Veterans Affairs Acquisition Academy. Ms. Gross is a member of the National Contract Management Association (NCMA). Prior to joining the Department of Veterans Affairs (VA), she wrote commercial contracts for the Bureau of National Affairs, Inc. (BNA), where she was the lead Contract Specialist, primarily working with law schools to better promote BNA brand usage throughout the law school community. Prior to working at BNA, Ms. Gross spent several years in retail management. She has a bachelor's degree in psychology from Towson University and is currently pursuing her MBA at the University of Maryland. [Lora.gross@va.gov]

Abstract

In 2005, the Office of Management and Budget (OMB) issued a memorandum to federal agencies to identify three routinely purchased commodities that could be more effectively and efficiently acquired through the use of an acquisition approach called Strategic Sourcing. The memorandum requires agencies to implement Strategic Sourcing efforts to save the government money and improve performance on the more than $500 billion spent through contracting each year.

In an effort to save millions of dollars of agency funds, concern has been raised by small business advocates that Strategic Sourcing efforts may narrow their opportunities and create bundled requirements which they are not able to meet. Strategic Sourcing concepts generally require national coverage for product or service provisions that may fall beyond a small businesses capability. Additionally, the Obama administration has called for a reduction of contracts awarded non-competitively; however, single award requirements are still within federal acquisition guidelines. If these requirements are procured under a single award effort, Strategic Sourcing can limit competition at the task and delivery order levels without incentivizing vendors to further reduce prices.

This paper discusses ideas for how the government acquisition workforce can leverage small business participation through the use of subcontracting goals.

Introduction

In 2005, the Office of Management and Budget (OMB) issued a memorandum to federal agencies to identify three routinely purchased commodities that could be more effectively and efficiently acquired through the use of an acquisition approach called Strategic Sourcing. The memorandum requires agencies to implement and report annually to the OMB on their Strategic Sourcing efforts to save the government money and improve performance on the more than $500 billion spent through contracting each year. Under the Strategic Sourcing approach, agencies consolidate requirements to leverage their buying power to take advantage of quantity discounts/lower pricing and obtain "best customer" status in terms of higher quality performance.

Strategic Sourcing is defined as a "collaborative and structured process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently" (Johnson, 2005). Its use requires standardization of procurement processes and fosters a reduction of overhead expenses. Further, Strategic Sourcing is meant to "[help] agencies optimize performance, minimize price, increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each dollar spent" (Johnson, 2005).

To illustrate the power of Strategic Sourcing, the United States (U.S.) Air Force has implemented a Strategic Sourcing initiative for information technology (IT). According to an article appearing in the Acquisition Solutions Advisory, the Air Force's Information Technology Commodity Council program successfully reduced 1,000 IT contracts to seven. This program alone has yielded dollar savings of $65.1 million and a "cost avoidance of more than $155 million between fiscal year (FY) 2004 and FY 2008" (Mather & Costello, 2009). Additionally, leveraging buying power for this effort improved the quality of performance in the following ways:

1. Decrease the workload of their contracting departments,
2. "Influence suppliers to include security offerings in software licenses,
3. Increase spending toward small businesses, and
4. Ensure compliance with the network and increase enterprise security" (Mather & Costello, 2009).

The OMB memorandum states that this process would not only enhance the performance and costs, thereby increasing the value of each dollar spent, but also notes the "increased achievement of socio-economic acquisition goals [and] improved vendor access to business opportunities"(Johnson, 2005). However, recent data shows that Strategic Sourcing may actually be limiting contracting opportunities for the small business community.

Small business performance is considered an indicator of the strength of the U.S. economy. According to the U.S. Department of Commerce (DoC), in 2007 small business accounted for little more than half of the U.S.'s private sector workforce and paid "44 percent of the total U.S. private payroll" (Kobe, 2007). Small businesses further support the U.S. economy through job creation. The DOC's report details that small businesses "generated 64 percent of new jobs over the past 15 years" (Kobe, 2007). Additionally, small businesses out-produce large businesses in terms of innovation. For commodities and services small businesses apply for patents 13 times more per employee than large firms (Kobe, 2007).

Because Strategic Sourcing initiatives are usually large in scope or volume with geographically dispersed customers and high in dollar value, small businesses may not have the capacity and capability to satisfy all of the government's requirements. So, how does a Contracting Officer balance Strategic Sourcing practices (that make really good business sense) with the competing demands of small business public policy objectives? This paper discusses the importance of small businesses to our national economy and innovative spirit while examining the challenges of balancing Strategic Sourcing with the achievement of socioeconomic goals. This paper also presents innovative ideas for how the entire government acquisition workforce can leverage small business participation through subcontracting goals by (1) incorporating agencies' small business subcontracting goals into the contract; (2) using past performance as an evaluation factor; (3) using performance-based incentives; and (4) leveraging contract option clauses contingent on compliance with subcontracting goals; and, separate from subcontracting compliance, (5) through the use of 100% Set-Aside Government-wide Acquisition Contracts (GWACs).

Relationship Between Consolidation and Bundling

Strategic Sourcing maximizes opportunities for consolidation and is a program that if not managed properly can bring about challenges with small business goals and bundling that could increase the risk of reduced contracting prospects for small business. Consolidating requirements takes previously performed actions by either large or small businesses under two or more separate contracts and combines them into one contract or order. Consolidating reduces the number of available contract opportunities by narrowing the potential pool of vendors from hundreds to dozens or less. The benefits to consolidating must be documented, justified, and approved prior to being implemented.

Consolidation should not be confused with bundling. Per the Federal Acquisition Regulation (FAR) Part 2.101, bundling consolidates

> two or more procurement requirements for goods or services previously provided or performed under separate, small contracts into a solicitation of offers for a single contract that is unlikely to be suitable for award to a small business concern due to (1) the diversity, size, or specialized nature of the elements of the performance specified; (2) the aggregate dollar value of the anticipated award; (3) the geographical dispersion of the contract performance sites; or (4) any combination of the factors described herein. (FAR, 2009)

The FAR does not exclude Contract Officers (COs) from bundling; however, bundling requirements do make it hard for small business participation on any acquisition because of the demand for multiple specialties or the resulting dollar amount.

There are multiple and conflicting statistics on contract bundling in the federal government. While most of all reports about contract bundling were published between FY 1992 and FY 2001, it continues to be of concern for small businesses. Articles published in 2008 reference these reports and state that bundling is one issue preventing small businesses from receiving new contract awards. An article by Aaserund (2008), reports that new contract awards to small businesses experienced a 56% decline between 1991 and 2000. Similarly, an article by Murphy (2000) reports a statistic from the Small Business Administration (SBA) noting that during FY 1992 through FY 2001, for every 100 bundled contracts, 60 individual contracts are no longer available to small businesses. Further, for every $100 awarded on a bundled contract, there is a $12 decrease to small businesses (Murphy, 2000). In searching for statistics on contract bundling, more current information shows that bundled actions actually decreased between FY 2005 and FY 2006 by 6%; however, the total dollars under these bundled actions increased by almost 42% for this period ("National Association of Small Business," 2008). This data clearly reflects the adverse impact of bundling, and perhaps Strategic Sourcing, if not properly implemented, to the small business community.

The FAR addresses multiple requirements for COs to take prior to beginning an acquisition effort that involves bundling. Regulations at FAR 7.107 state that the bundling action must have measurable substantial benefits that include (1) improved quality, (2) cost savings, or (3) better terms and conditions and provide written justification of such. Specific to cost savings, for contracts valued at less than $86 million, the benefits of bundling must be equivalent to 10% of the contract value, including options. For those greater than $86 million, the benefits must be equal to 5% of the contract value, including options, or $8.6 million, whichever is greater.

In addition to these requirements, agencies considering a bundled procurement must provide 30 days notice to the affected small business community. The FAR provides that agencies must consult with a representative of the Small Business Administration (SBA) on their acquisition strategies prior to the start of procurement under a bundled effort to protect the interests of the small business community.

Impact on Small Businesses

According to Elizabeth Newell (personal communication, December 17, 2009), a reporter for the *Government Executive*, the White House and the OMB will continue to issue directives to find other opportunities for Strategic Sourcing during President Barack Obama's administration. In choosing the top commodities to consider for Strategic Sourcing, agencies are focusing on high dollar requirements to realize immediate, impactful cost savings. Services such as wireless devices and commodities like office supplies for which the government spends millions of dollars annually are being awarded to businesses that can prove capability, reliability, and dependability. This brings one to question if any small businesses can perform requirements worth $100 million or more per year? Further, if a small business were deemed capable of performing the requirement and produced earnings in excess of the small business dollar threshold set by SBA's North American Industry Classification Systems Codes, they would no longer be considered a small business for future government business. Is this a goal of the SBA and would similar future needs of the government have to be awarded to other small businesses to help them continue to meet their requirements?

An article appearing in *Contract Management* reports that an end goal of Strategic Sourcing is to "limit the number of vendors and … [offer] exclusivity of contract as a means of aggregating volume in return for lower prices" (Fox, 2006). This process essentially narrows the pool of awardees to a finite number of vendors considered "best value" through evaluation and pricing comparison. Vendors proving that they are responsive and responsible will be awarded the contracts.

This method will exclude all other businesses, including locally owned small businesses that may have been performing the requirement prior to award. An article in the *Washington Report* supports this by stating,

> Strategic Sourcing is nothing more than an effort to limit the number of sellers of goods and services to a very select few, none of which, if present trends continue, will be small, independent office products dealers. In essence, it's simply a more severe version of contract bundling and that's bad news. (Miller, 2007)

This type of relationship tends to see prices gradually increase over time as the agency becomes dependent on the vendor to continue supplying their needs.

Single Award Sourcing

In its contracting form, Strategic Sourcing often resembles an Indefinite Delivery/Indefinite Quantity (IDIQ) contract method that allows agencies to define a minimal quantity of the needed commodity or service without knowing or committing the government to a maximum order beyond such. Under this contracting method, agencies may make multiple awards to vendors who can provide best value to their need and to maintain competition throughout the period of need; however, single awardees can be justified.

Though there are negative aspects to doing so, Strategic Sourcing initiatives can currently be justified for sole source and single awardees. Congress imposed a statute in 2008 requiring the award of multiple awardees where the aggregate contract value of an

IDIQ contract will exceed $100 million. This was enacted to ensure that there will be adequate competition in awarding the task and delivery orders for large IDIQ contracts (Jensen & Herzfeld, 2008). Agencies still must notify Congress of a decision to make a single award IDIQ contract within 30 days of the determination. Per FAR 16.504(c)(1)(ii)(D), the following exemptions apply:

- the tasks under the contract are so integrated that only a single source can perform them;
- only one contractor is qualified;
- the contract provides for award of only firm-fixed priced orders; or
- exceptional circumstances justify an exception in the public interest.

Some examples of negative aspects of single award sourcing includes limited competition at the task and delivery order levels, this process is not in alignment with President Obama's agenda towards competition and limited potential for innovative solutions.

Perhaps most important, single award sourcing limits competition at the task and delivery order level and does not promote incentives for further price reductions from the vendor. The General Services Administration (GSA) and the National Aeronautics and Space Administration's Solutions for Enterprise Wide Procurement (NASA SEWP) contracting programs are both examples of a Government-wide Acquisition Contract (GWAC) vehicle with multiple awardees enabling agencies to seek further competition at the task and delivery order levels. This not only benefits the agencies to make a better determination of price reasonableness, but also assists COs to write a best value determination based on competition. Further, having multiple awardees under a Strategic Sourcing vehicle encourages competition over the life of the contract. Contractors will be less likely to force price increases and non-scheduled delays onto agencies with other vendors appearing on the contract. This level of competition will ensure continuous delivery of best value to the government.

Second, single award sourcing is not in alignment with President Obama's acquisition agenda toward competition. In his memo dated March 4, 2009, Obama notes that "noncompetitive contracts place agencies in the position of having to negotiate contracts without the benefit of a direct market mechanism to help establish pricing" (Field, 2009). Further, a memo dated July 29, 2009, from the Executive Office of the President Office of Management and Budget (OMB) calls for a 10% reduction of dollars obligated through new contracts in FY 2010 that are awarded non-competitively and authorizes OMB oversight on any non-competitive contract awards (Orszag, 2009). The remainder of the March 4 memo is dedicated to providing guidance from the Office of Federal Procurement Policy (OFPP) to agencies in order to promote maximum competition and best value, further emphasizing the importance of this issue.

A third issue created by single awardees under a Strategic Sourcing initiative concerns the lack of innovation a single source can provide. With several vendors offering solutions for an agency's need, there is a greater likelihood to find a better way to achieve government objectives. Also, variety will be available to customers within the agency. Perhaps one vendor's idea of solving an issue would be ideal for one customer within the agency, but another customer in a different location would benefit from a totally different solution with a different vendor. Several ideas would be lost to the government under a static relationship from a single award Strategic Source contract.

A Better Way

While small businesses experienced a record setting increase of 12% in prime contract awards from FY 2007 to FY 2008, only eight of the 15 cabinet-level agencies met the government-wide goal of 23% of total contracted dollars going to small business (Hubler, 2009). While there are challenges in meeting small business goals with existing approaches to Strategic Sourcing, there are innovative ideas being used to ensure continued small business participation. Strategic Sourcing can be better utilized by leveraging small business subcontracting goals with large businesses and through continued use of 100% set-aside IDIQ contract vehicles.

Leveraging Small Business Participation in Strategic Sourcing Effort Through Subcontracting Goals

As previously stated, the goal of Strategic Sourcing is to leverage government purchases by consolidating existing procurements into a larger requirement. This concept typically will push the total cost of performance for a contractor into the multi-millions of dollars and will include all of the geographical areas that fall within the agency. This total cost of business with the government may hamper a small business from being qualified as a responsible bidder whose annual income must be below a certain dollar threshold in order to qualify for small business status. Similarly, small businesses are not geographically dispersed across the country and therefore wouldn't be considered as responsible bidders in that regard. From the standpoint of capacity and capability, large businesses would have to be considered when using a Strategic Sourcing procurement strategy.

Small businesses will have a difficult time meeting government Strategic Sourcing requirements. So, how do we balance these competing priorities and how can we ensure that small businesses are truly given the opportunity for this work? Four approaches are as follows:

1. **Incorporate the agency's small business subcontracting goals into contract.**

According to FAR 19.702, for any purchase over the simplified acquisition threshold, contractors must agree to include small businesses[1] to the maximum extent practicable. The Small Business Subcontracting Plan clause found at FAR 52.219–9 further instructs contractors to submit contracting plans that clearly define the percentage and total dollars they are planning to set aside for subcontracting with a small business. This is important for COs to understand because if these statements are not specifically made in their proposal, the government has nothing to hold them to for compliance and they technically do not have to give any work to small businesses.

Several agencies are taking their own initiatives to provide small business concerns with more subcontracting opportunities. The Department of Veterans Affairs (VA) published a Final Rule in the December 8, 2009, edition of the *Federal Register* to better leverage their ability to ensure service-disabled veteran-owned small business (SDVOSB) and veteran-owned small business (VOSB) participation in subcontracting opportunities. In it the VA authorizes extra evaluation credits for those contractors providing subcontracting plans that incorporate the use of an SDVOSB or VOSB concern. Further, if procurements are not set

[1] This reference of small businesses includes veteran-owned small business, service-disabled veteran-owned small business, HUBZone small business, small disadvantaged business, and woman-owned small business concerns.

aside for SDVOSB and VOSB's, including those using the Federal Supply Schedule, the VA Acquisition Regulation (VAAR) clause 852.215–70 for SDVOSB and VOSB Evaluation Factors must be used authorizing VA CO's to evaluate the status of the offerors, providing them with the following merits during proposal evaluation:

a) full credit for SDVOSB status,

b) partial credit for VOSB status, and

c) some credit for offerors proposing to use SDOVSB or VOSB businesses as subcontractors.

Additionally, VAAR 819.704 states that subcontracting plans incorporating SDVOSB and VOSB's must have a goal that is at least commensurate with the annual VA SDVOSB prime contracting goal for the total value of planned subcontracts.

The Department of Treasury is another agency that is promoting small business participation through subcontracting. Their FAR supplement, Department of Treasury Acquisition Regulation (DTAR), provides for an incentive to offerors of a bonus score, not to exceed 5% of the relative importance assigned to the technical or management factors when proposals include a mentor-protégé arrangement with a small business (Department of Treasury, 2010).

2. Leverage past performance as an evaluation factor relative to the prime contractor's ability to comply with its proposed small business subcontracting goals on prior contracts similar in size, scope, and complexity.

One of the many challenges of a subcontracting requirement for large business is with regard to their efforts to follow through on their commitments. Another way of ensuring that prime contractors reach their subcontracting goals is by requesting and evaluating certified letters from previous contracts as part of their past performance evaluation. Agencies can require this as evidence to enhance the contractor's rating for any past performance evaluation factors.

According to Melissa Starinsky, former Vice-Chancellor of the VA Acquisition Academy, by giving more weight to this evaluation factor, the government can also significantly increase contractors' compliance with small business subcontracting goals. If agencies take this approach government-wide and meaningfully weigh this evaluation factor, large prime contractors will start taking the importance of small business programs more seriously. Historically, the government has approached this issue as merely a pass/fail test by incorporating the small business subcontracting plan requirement into the solicitation. All that is required in the award selection decision is that the contractors make a good faith effort with presenting its plan to satisfy the government's small business subcontracting plan goals. In reality, what actually happens during contract administration is that the government doesn't have the resources to appropriately monitor compliance with these goals and loses leverage in getting the large contractor to comply. A lack of contract administration on the part of the agency often leads to poor oversight of the prime contractor's efforts to fulfill these obligations. Alternatively, given the current shortage and workload of 1,102 series professionals, agencies should consider hiring a contractor to evaluate and audit the actual performance of subcontractors as provided in the primes' proposal.

Leveraging small business subcontracting plan compliance through past performance as a meaningful evaluation factor will go a long way in attaining compliance from the prime contractor. But, all agencies across the government need to do this for the full benefits to take effect. Also, the agency should require the contractor to certify and submit, as an annual deliverable (possibly with certification from their small businesses) that they have lived up to the goals (personal communication, M. Starinksy, January 7, 2010).

3. **Use performance-based contracting and performance incentives.**

Contract Officers can further be proactive with subcontracting accountability by withholding a small percentage (as much as 1%) of the total subcontracting dollars (versus total contract) from the contractor until they provide evidence of their subcontracting efforts. Certified letters from subcontractors can be submitted as proof that the goals were met at the end of the initial period of performance. CO's will have to ensure that this amount can be funded at the end of the period of performance in order to avoid anti-deficiency act issues.

4. **Leverage contract option clauses contingent on compliance with small business subcontracting goals.**

Similar to withholding final payment from the prime contractor, COs could decide to withhold the exercise of options until the contractor submits certified evidence that they met their subcontracting goals for the preceding period of performance as stated in their proposals. This places the onus on the contractor for reporting and deliverables because it is a challenge for COs to monitor their performance. This requirement should be built into the solicitation along with a clearly defined time period by which the government will accept evidence to support their outcome. Perhaps as part of the deliverables, the contractor could be held to an annual presentation to demonstrate their results for subcontracting goals.

100% Set-Aside Government-Wide Acquisition Contracts

While small businesses set a record in earning prime federal contracts in 2008, collectively, agencies are not reaching their combined goal of 23% (Hubler, 2009). In an effort to reach small business goals, several agencies have successfully launched Government-wide Acquisition Contracts (GWAC's) that are 100% set aside for small businesses. GWAC's are similar to Strategic Sourcing contract vehicles in that they are competitively awarded multiple award contracts that take the form of an IDIQ contract method and permit ordering from other agencies.

In 2006, the SBA published a report stating that these contract vehicles are increasing the total percentage of contracting with small businesses. As GWAC spending increases amongst all federal agencies, the percent of small business participation has been 32% between FY 1995 and FY 2004. Further, the SBA determined that "in FY 2004, approximately one out of every three GWAC dollars was spent through small firms" ("Impact of Government-Wide", 2009).

Conclusion

In conclusion, the Obama administration continues to look for ways to decrease the baseline contract spending for existing contracts and acquisition practices by 7% by the end of FY 2011 (Orszag, 2009). While Strategic Sourcing was formally introduced in 2005, trends are pointing toward further spending analyses in order for agencies to further reduce contract costs, yet continue to procure needed commodities and services more efficiently and effectively. In striving to become the "best customer," the federal government can consolidate requirements to leverage their buying power in order to negotiate better pricing and performance. If managed appropriately, agencies can meet their socioeconomic goals and avoid contract bundling, all the while maximizing competition to its fullest extent possible.

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