

RECORD VERSION

STATEMENT BY

**MS. KIMBERLY BUEHLER
DIRECTOR ARMY SMALL BUSINESS PROGRAMS
UNITED STATES ARMY**

BEFORE THE

**SUBCOMMITTEE ON READINESS AND MANAGEMENT SUPPORT
COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE**

FIRST SESSION, 118TH CONGRESS

**ON DEPARTMENT OF DEFENSE (DOD) SMALL BUSINESS TOOLS FOR
ENHANCING THE INDUSTRIAL BASE**

MARCH 22, 2023

**NOT FOR PUBLICATION UNTIL RELEASED BY THE
COMMITTEE ON ARMED SERVICES**

Army Small Business Program

Chairperson Hirono, Ranking Member Sullivan, and distinguished members of the subcommittee, thank you for your continued support and commitment to our soldiers, our civilians, and the small business (SB) community. On behalf of the Army senior leadership, I thank you for the invitation to appear before you today to discuss SB.

SBs are key to the Army's modernization goals and a vital part of executing the National Defense Strategy. Building the Army of 2030 requires equipping our warfighters with cutting-edge technologies that will give soldiers a decisive edge in future combat environments. SBs are engines of innovation that fill knowledge and capability gaps, help us maintain readiness, and enable modernization.

The Army-wide commitment to working with SBs shows up in our long tradition of meeting and exceeding government-wide goals for SB. The Army met SB goals for seven consecutive fiscal years (FY), FY 2014-2020. Starting in FY 2021, the COVID-19 vaccine contracts awarded by the Army impacted SB goal achievements. In FY 2021, the Army met the overall SB goal and the goal for Small Disadvantaged Businesses (SDB), awarding over \$24 billion in SB prime contracts, but did not meet goals for contracts to Service-Disabled Veteran-Owned SB, Women-Owned SB, or SB in Historically Underutilized Business Zones (HUBZone). In FY 2022, the Army awarded more prime contracting dollars to SB—\$24.5 billion—but achieved 95% of the overall SB goal. To put this into context, the Army awarded \$28 billion in contracts for COVID-19 vaccines in FY 2022, significantly increasing the total amount of dollars included in the formula for goal calculation with no opportunity for SB participation at the prime level. This depressed FY 2022 goal achievement. The Army did, however, exceed the goal for SDB due in large part to the award of a \$1.77 billion contract to iHealth Labs Inc. iHealth Labs is an SDB who in 2022 delivered more than 357 million rapid antigen test kits in support of the government's COVID-19 test kits to home distribution program through the United States Postal Service. This illustrates goals are only one measure of success, and SBs are essential to building an enduring advantage no matter the enemy.

Army Research and Development Initiatives

As a leader for SB achievement, the Army understands the importance of having a diversified, resilient industrial base. Multiple executive orders and policy directives from the Office of Management and Budget (OMB) bolster the power of government procurement to diversify and increase the number of individual SBs receiving contract awards. The Army has been tracking the downward trend in the number of SBs with Army contracts. We conducted a detailed examination of data in 2022, including a deep dive by the Rand Arroyo Center into the number of SBs in the research and development (R&D) portfolio crucial to our modernization efforts. Since 2013, the Army has contracted with approximately 800 SBs for R&D efforts annually; one quarter of these businesses were new to the Army each year. Most entered through the Small Business Innovation Research/Small Business Technology Transfer (SBIR/STTR) program and supported early and mid-stage research. The Rand analysis determined that the number of SBs supporting Army R&D remained relatively stable since 2013. This indicated that the overall declining number of individual small businesses did not interject higher level of risk to the Army for early and mid-stage research. These results were consistent with prior Rand research (early 2000s) assessing the Department of Defense (DoD) SBIR program. Moreover, Rand's research showed that increasing and decreasing numbers of R&D small business contractors correlates with R&D budget increases and decreases.

Despite these positive results, the Army knows that SBs face significant challenges moving their technology from early-stage research into production. The acquisition system is complex and many of its processes are optimized for full scale integrated solutions, which can create barriers for small innovative companies trying to do business with the Army. Alternatively, SBs can seek to develop partnerships with larger contractors, who often serve as integrators. Integrators are essential partners in building the Army of 2030 because they synthesize the efforts of a diverse ecosystem of manufacturers, suppliers, and service providers to deliver capability into soldiers' hands.

Innovative SBs can help these integrators with cutting-edge solutions as they build and produce larger systems. In recognition of this important partnership, the Under Secretary of the Army launched a series of five initiatives in October 2022 to help SBs better collaborate with integrators and ensure soldiers receive the most innovative and decisive capabilities. These programs will encourage partnerships and drive accelerated adoption of technologies cultivated through Army and DoD investments.

First, the Army Catalyst Program will establish a pilot program in which the Secretary of the Army reserves up to 15% of annual SBIR funding to invest in technologies essential to enabling technologies and key capabilities for Army modernization. The program was approved by the DoD and the Small Business Administration in January 2023. Potential focus areas include smart sensors to improve detection sensitivity while maintaining low signature, climate-adaptive technologies that make soldiers resilient in the field, and artificial intelligence and machine learning for contested environments. Nearly 80 current Army SBIR companies were identified as candidates for the Army Catalyst Program; up to five firms will be selected by April 2023 for prototype awards with an estimated value of \$15 million each, 10 times larger than typical SBIR awards.

Second, Project Valuing Innovation with a Source Selection Technical Advantage, or Project VISTA, will allow integrators to potentially receive a higher technical rating during source selection if they draw on SBs' innovative technologies. This should encourage integrators to bring in new SBs, help them transition, and realize return on Army investments in research, prototyping, and testing investments. The Army is currently identifying programs to pilot this innovative source selection technique. Once finalized, stakeholders from the program, contracting, small business, and legal offices will develop customized evaluation criteria that will be included in the request for proposal. The Army will closely track progress of the contract competition(s) and assess feasibility of expanding the pilot in FY 2024.

Third, the Army is building an Intellectual Property (IP) Cell of Experts at Army Headquarters to provide advice, assistance, and resources to SBs and the acquisition

workforce on IP matters. SBs often hesitate to participate in Army contracting for fear of losing their IP due to perceived overreach by the government. The Cell of Experts will work directly with SB, the Army R&D community, and program offices to develop balanced IP acquisition and management approaches that incentivize SB participation while safeguarding Army sustainment—helping the Army access critical technologies more quickly. The Army anticipates achieving Initial Operating Capability by the end of FY 2023.

Fourth, the Army R&D Marketplace will connect SBs and other technology developers with integrators and Research, Development, Test, and Evaluation funding and resource opportunities. Artificial Intelligence and data-fusion tools will ensure programs and integrators can find and employ the right SB technology at the right time. The marketplace is on track to open this calendar year.

Finally, the Army is adding a PRIME Competition to xTech, the Army's flagship prize competition. Innovative SBs compete at xTech to showcase their technologies and get the attention and resources they need to transition into the Army contracting space. Since 2018, the Army has held over 20 competitions, resulting in \$15 million in cash prizes and more than \$80 million in follow-on R&D contracts. The PRIME Competition will flip the script and require an Army Integrator and one or more non-traditional SBs to team up and compete. The competition will drive down transition risk by incentivizing collaboration and prototyping up front. Winners will be eligible for a follow-on contract for prototype development and deployment. The competition kicks off in March 2023, with plans to announce the winner at the annual meeting of the Association of the United States Army (AUSA) in October 2023.

Army Initiatives to Increase SB Participation

The number of SBs receiving Army prime contracts awards overall continued to decline in 2022. The Army is actively working to reverse the decline by implementing Executive Orders 13985 and 14091, OMB Memorandums 22-03, M-23-1, and M-23-11, DoD

policy, and the DoD SB Strategy. In April 2022, the Secretary of the Army issued a memorandum, titled “Army Small Business Program,” that directed eight specific actions that hold senior officials accountable for SB achievements, afford accessibility to leaders, reduce supply chain vulnerability and barriers to entry, and provide maximum opportunity for SBs.

Barriers to entry exist at multiple levels. One of the most fundamental barriers is ineffective communication from government officials. While acquisition regulations authorize a broad range of opportunities for vendor communication, acquisition officials often do not take full advantage of existing flexibilities out of concern for protests or fear of binding the agency in an unauthorized manner. The Army Office of Small Business Programs (OSBP) addressed this by issuing a memorandum in July 2022 that refreshes the OMB “myth busters” campaign from 2011. The Army memorandum identifies common misconceptions about vendor engagement that may unnecessarily hinder the appropriate use of existing regulatory flexibilities and provides facts and strategies to help acquisition professionals benefit from industry’s knowledge and insight. The concepts inherent in the memorandum served as the basis for training provided to contracting officials in 2022.

The Army has also established a Contracting Center of Excellence (CCoE) that manages and executes all Army SBIR awards. The SBIR CCoE provides distilled, streamlined, and transparent processes that leverage many of the acquisition authorities provided for SB acquisition, particularly focusing on SB operational realities. The CCoE reduced contracting award times from greater than 250 days for a standard R&D contract to less than 20 days in many instances.

Outreach serves as an essential mechanism to educate the SB community on how to do business with the Army. Outreach, whether through speaking engagements, matchmaking sessions, or one-on-one capability briefs, helps demystify the acquisition process, connect businesses with acquisition officials, and identify opportunities for participation. The Army OSBP conservatively engaged with over 800 SBs in FY 2022

through formal outreach events. In addition, we utilized social media platforms to provide timely and diverse information to followers, successfully doubling our LinkedIn following for @Armysmallbiz to over 10,000 from October 2022 to March 2023. We also feature innovation opportunities through the @xTech and @ArmySBIRSTTR profiles. One of the most popular resources is the acquisition forecasts of small business opportunities. The acquisition forecasts follow the best practices identified by the Professional Services Council and are published in January and June of each fiscal year. The forecasts provide SBs with insight into what the Army plans to buy, when it plans to buy it, and who will issue the procurement. SB can utilize this information to guide their outreach to the government, influence acquisition strategy development, and prepare for contract opportunities.

The Army is also participating in a first of its kind “reverse training with industry” experience through the DoD Public-Private Talent Exchange (PPTe) program. Generally, DoD acquisition professionals in the PPTe participate in developmental assignments with contractors. However, the program also enables contractors to work in DoD acquisition organizations to gain a deeper understanding of how the DoD operates. In August 2022, the Army OSBP sought a small business who would participate in the exchange program. The Chief Operating Officer/Vice President from a woman-owned SB located in a Historically Underutilized Business Zone volunteered and is now serving in a six-month developmental assignment. This innovative exchange facilitates open, transparent communication between the Army and SBs. Key learning points from this experience will be used to augment training and outreach, enhancing mutual understanding of the motives that drive behavior and the opportunities that emerge through partnership.

Finally, the Army stands ready to work with the DoD to implement the recently updated DoD SB Strategy. We are refreshing the Army SB Strategy to align with the DoD SB Strategy, the National Defense Strategy, and the Secretary of the Army’s objectives. The Army’s refreshed strategy will be published this fiscal year.

Conclusion

I would like to thank Congress for supporting SB programs that drive our economy, create government contract opportunities for American entrepreneurs, and deliver capabilities to our soldiers. Working together, we can continue to ensure that we fulfill our statutory obligations to provide maximum contracting opportunity for SB prime contracting.