

FIELD HEARING - April 5, 2016 2:00 P.M.

Committee on Small Business Subcommittee on Contracting and the Workforce

Hearing: Challenges for Small Defense Contractors

Witness: Donald C. Rhea, Vice President, ClancyJG International

Thank you, Chairman Hanna and Members of this Subcommittee for the opportunity to testify.

I'd like to open today by expressing my appreciation for the small business specialists within the Department of Defense who tirelessly search and evaluate opportunities for small businesses to participate in Government contracts. These individuals engage in active dialog with the small business community on a regular basis through industry days, outreach events, and regular office visits by small businesses, and we have benefited greatly from their support.

I acknowledge that opportunities for small business participation in Department of Defense acquisitions are present. Many opportunities result from the small business developing and submitting capability statements in response to sources sought solicitations and market surveys. Small businesses spend many hours traveling to customer facilities and networking to identify opportunities where our talents and expertise can contribute to the mission. With this approach ClancyJG International has succeeded in building a business base with approximately 80% of our fiscal year 2015 revenues self-performing as the prime contractor, with customers from Alaska to Washington, DC., and a committed and dedicated staff of talented individuals.

I have direct experience working with small businesses that range from startups to more sizeable small businesses with more than \$30M in annual sales. As a services company, ClancyJG International targets technical support service opportunities within selected North American Industry Classification System (NAICS) Codes, also referred to as size standards. These size standards define the small business criteria in terms of annual revenues and/or number of employees. For example, one of many NAICS Codes we perform services under is 488190, Other Support Activities for Air Transportation with a size standard of \$32.5M. To pursue opportunities under this NAICS Code a company must have an average revenue over the most recent three fiscal years under \$32.5M. A company with revenues approaching the \$32.5M average is much larger, has more resources, and enjoys a significant competitive advantage over companies of our size, that is companies with revenues of less than \$5M. It is very difficult for a \$5M small business to compete against a \$32.5M small business as a prime contractor, but we try and as you see have had some success.

To overcome this challenge, a small business would typically search for opportunities to provide subcontract support, thus increasing revenues and developing a corporate past performance portfolio which is needed to be a credible prime contractor. Small businesses awarded contracts under any small business set-aside, regardless of the NAICS Code and associated size standard, do not provide subcontracting opportunities. However, if the contract was a full and open competition with a small business subcontracting requirement then opportunities for small business exist, assuming they have the correct technical skill set to contribute. We have seen prime contracts with as much as one third of the work designated for small business. These contracts provide opportunities for several small businesses to participate.

Over the past decade there has been significant momentum toward contract consolidation, small business contracts absorbed into a large contract and multiple small business contracts

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consolidated into a sizeable small business contract. Over my career I have been a party to both of these scenarios. In the case of the large contract, a follow-on subcontract effort was available. However, the opportunity for a small business to pursue the next step in becoming a prime contractor was eliminated. In order for small businesses to grow as a prime contractor they must have the ability to bid a prime contractor. While contract consolidation still exists and is limiting small business opportunities, there have been recent instances within the Department of Defense where tasks were removed from a large contract and set-aside as a small business prime, a great opportunity for entry into the market by a small business.

Finally, Government regulations are causing significant challenges for small business. The Affordable Care Act (ACA) is driving up the cost of health care. We have witnessed far greater increases in health insurance premiums than what we saw in the years prior to the ACA implementation, with reduced coverage and much higher deductibles. The challenge is in bidding a multi-year firm fixed price contract where indirect cost control is vital. Other challenges are associated with access to capital. Since the financial collapse of 2008 financial regulations prevented small business access to capital through the typical borrowing route. As such small businesses are faced with utilizing the services of a receivables financing companies to fund expenses while waiting for invoices to be paid, an expensive proposition.

As small business leaders we understand that these challenges exist. Small business leaders are typically entrepreneurs and adept at solving problems and thriving. Addressing these challenges is becoming more difficult in the recent years and deter many small businesses from pursuing Department of Defense contract opportunities. I appreciate the opportunity to testify and provide my real world insight as to the challenges that face small defense contractors.

Thanks You.