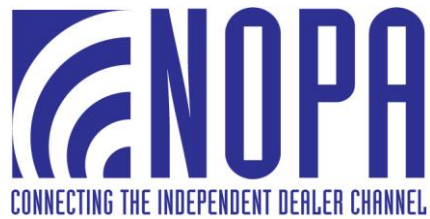


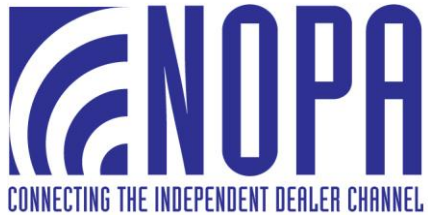
Testimony of the National Office Products Alliance

**Committee on the Budget
United States Senate**

Hearing on Responsible Government Contracting



Thursday, July 15, 2010



July 15, 2010

The Honorable Mark Warner
United States Senate
Committee on the Budget
Government Performance Task Force

Dear Chairman Warner:

On behalf of the National Office Products Alliance (NOPA), I want to thank you for the opportunity to submit testimony during today's critical hearing on *Responsible Government Contracting*. We believe there are untapped opportunities to accomplish these goals in the office products market and hope the recommendations submitted as part of this letter will provide the Committee with opportunities to change how the government currently procures goods and services.

Over the past several years our industry has seen a disturbing shift away from agencies supporting small businesses to a more limited competition model that gives preference to large businesses. Independent dealers have found it more difficult to do business with the Federal government because of new, more complex – and in quite a few instances – overlapping and redundant procurement methods that are reducing small businesses participation in major contract awards.

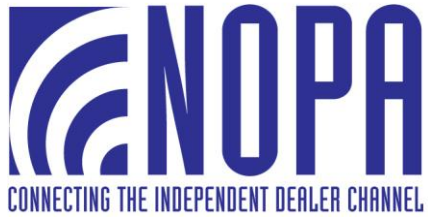
We have heard directly from agency personnel who have been told to use fewer and fewer vendors, which generally means use of a single large business and/or “pass through” businesses working in concert with one of the three large office product vendors. The belief in some agencies is that the larger corporate players alone can provide national contract support and competitive pricing. Nothing could be farther from the truth.

We wish to share with you some changes that NOPA believes Congress should consider if it plans to meet the goals the President has set out recently for federal contracting and small businesses. These are outlined in the attachment to this letter.

On behalf of NOPA and our members, thank you for your time and attention to these matters. These issues are the most pressing ones facing independent dealers. Without prompt, meaningful changes to the regulatory structure for federal procurement, the damage may become irreversible. We hope to work with you to enhance small business participation.

Sincerely,

Chris Bates, President



NOPA Recommendations for Small Business Contracting Reform

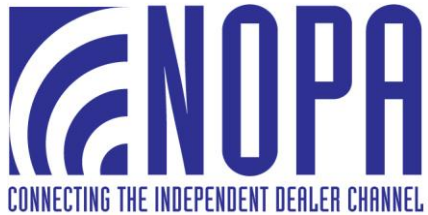
Solution 1: Amend current SBA Small Business Affiliation rules. The office product industry is highly competitive and is comprised of the three “Big Box” companies and over 3,000 independent dealers, with over 400 on GSA Schedule that actively and successfully compete for Federal contracts. The structure and makeup of the industry lacks any real subcontracting opportunities, due to the contentious relationship between the “Big Box” players and the independent channel, which has led to abuses of SBA’s small business affiliation rules as the large companies seek to meet the government’s 8(a), HUBZone, SDVOSB and other socio-economic program goals. Specifically, this situation has led to an increase in “Pass-Through” relationships, whereby large corporations “partner” with independent dealers in order to gain greater access to the Federal Marketplace.

Over the past several years, independent dealers in our industry have seen a major loss in opportunities because “pass-through” companies are allowed to serve as prime contractors with large national companies performing virtually all of the contract work. The loss of revenue for legitimate independent dealers will continue to grow as dealers lose access to more and more multi-year federal contracts. GAO has recently reported on the serious abuses and misrepresentations occurring in the 8(a), HUBZone and SDVOSB programs.

In addition to legitimate independent dealers being hurt by the allowance of “pass-through” companies, the Federal government is also harmed. As more and more legitimate independent dealers stop pursuing new government contracts, there is a loss of competition in the market and thus the Federal government does not get the “best value” competition or results it seeks and that the President is trying to achieve. The economic losses – particularly in today’s weak business environment – have been particularly damaging.

A practice once done quietly has now become a blatant act that many agency procurement officers are fully aware of and in some cases promote. In some cases, you can visit a “pass-through” company’s website, click on the link labeled “government” and you are automatically redirected to one of the large national chain store’s website. We have had contracting officers tell our members to go out and find a “pass-through” partner, so that they would be in a position to award them the contract. This hurts all small businesses, the Federal government and tax-payers.

We have an easy solution to this problem. We ask that Congress and the President urge the Small Business Administration to close the loopholes in their current Affiliation Rules. For nearly two years, SBA has shifted its stance from accepting our petition for rulemaking to advising that it does not have the resources to undertake such rulemaking. We believe that by closing the loopholes in this rule that we can sharply curtail the practice of “pass-throughs.”



Solution 2: Expanded Use of the GSA Schedule Program. When it comes to the purchase of office products, one of most successful purchasing vehicles has been the GSA Schedules Program. By expanding use of GSA Schedules as a major purchasing vehicle for office products, the Federal government can ensure continued small business participation.

As an industry we are concerned with the direction federal procurement is taking within the General Services Administration (GSA). NOPA supports GSA's goal of "buying smarter," and we do not believe it is in conflict with more effective inclusion of small businesses. We are concerned about the frequent creation of new procurement vehicles for office products, which often erode the volume opportunities for small business under existing programs.

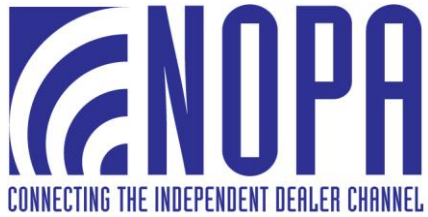
Currently, GSA has as many as seven buying vehicles (or proposed buying vehicles) for purchasing office products, all competing with one another. Not only do these multiple buying programs make it hard for small businesses to find value in receiving an award, but it adds layers upon layers of administrative complexity. This saps the productivity of both federal buyers and small business bidders and contractors, and creates unnecessary complexity and new hurdles that undermine small businesses' ability to compete for this business.

We are constantly finding that the agencies are not using all of these buying vehicles as GSA thought. The perfect example is the initial 2006 Federal Strategic Sourcing Initiative (FSSI) program that was implemented in 2007. If you ask small businesses in our industry who were awarded FSSI BPA's, they will tell you that the actual sales fell far short of the level "advertised" by GSA in the RFP.

The reason is simple: there are too many other buying vehicles being created by GSA or federal agencies themselves and these vehicles are not mandatory. Unless these types of programs are mandatory, the government will not achieve the buying power it hopes to achieve through these vehicles and small businesses will not see the sales the agencies predict or advertise.

Going forward, instead of creating new procurement vehicles, NOPA feels there are simpler ways for federal customers to achieve "best value" when buying office products and at the same time expand the opportunities for qualified small business participation in the Federal Marketplace. One way to accomplish this would be through encouraging expanded use of the GSA Multiple Award Schedule Program.

By expanding the use of the GSA Multiple Award Schedule Program, the federal government will preserve ongoing competition among a larger number of competitive small business vendors, while meeting the diverse needs of federal agencies that can only be achieved using the 'best value' calculation in buying office products. Through such increased competition the



government also would significantly reduce the amount of misrepresentation of small business status and pricing abuses that are likely to result from single-source or limited multiple-source contract awards in our industry.

Solution 3: Allow agencies to receive appropriate credit for the socioeconomic status of members of small business teaming arrangements/consortia. While such teams are recognized as small businesses when federal agencies award contracts to small business “teams,” they do not receive credits for the socioeconomic status of legitimate 8(a), women-owned, HUBZone and SDVOSB small businesses that bid on federal contracts principally or solely as participants in small business consortia.

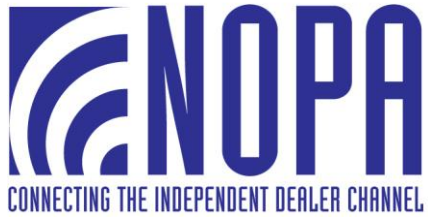
Because the GSA Schedule is held by one team member (in our industry it has been larger dealer groups like Independent Stationers, George W. Allen Co. on behalf of the TriMega Purchasing Association and the American Office Products Distributors), they can only use their general status as small businesses even though a substantial majority of their teaming partners hold one or more recognized socioeconomic statuses.

As a result, federal agencies are unable to meet their specific socio-economic procurement goals and often cannot award contracts to highly competitive small business teams. Hundreds of small businesses in our industry lose access to major federal opportunities every year as a result of this policy. At the same time, the Federal Government does not meet its socioeconomic procurement targets.

With these dealer teaming arrangements small businesses are able to come together and work under one contract and administrative management umbrella to provide office products to one or more federal agencies. Procurement rules are ever changing and if we want and expect agencies to meet their small business goals, we need to ensure the rules change to help them do so in a legitimate manner.

One way to accomplish that would be to allow agencies to claim the socioeconomic status of the individual small businesses they are buying from under a contract with a teaming arrangement/dealer consortium. Alternatively, each fiscal year, agencies purchasing from such consortia could receive an overall credit in proportion to the percentage of dealers with socioeconomic status within a given consortium based on total annual purchases of each agency from that dealer group.

Dealer teams have worked well for both small businesses and for the Federal government. These new, evolved methods of team competition provide both small businesses and the federal buyer with an opportunity for success in office product procurements. The Federal



government should amend its current rules in this area to encourage increased use of dealer teams while meeting its goals to assist small firms with documented socio-economic status.

Solution 4: Contract “Equality.” We continually hear how small businesses are the engine of the economy, but we have not seen a concerted effort to provide small businesses with the leverage they need in the Federal Marketplace. Many of the set-aside programs are ineffective for our industry. To overcome that problem, NOPA recommends that the federal government adopt a new approach that could be termed “contract equality.”

NOPA asks Congress to consider requiring that at least 50% of every future contract be awarded to multiple small businesses. By doing so, you are not only encouraging small businesses to participate in the process, but are also guaranteeing more ongoing competition throughout the life of federal contracts. Such an approach would benefit the government buyer at all agencies and federal locations through ensured competitive pricing and improved delivery and overall customer service performance.

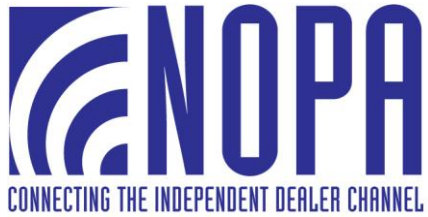
The current system is forcing more and more independent dealers out of the market. Many of these same small businesses are seeing contracts they once held awarded to the large corporate players or to their affiliated small “pass-through” dealers. Unless some important adjustments are made in federal contracting practices used for our industry, independent dealers will not be in a position to justify the high costs of bidding competitively on federal contracts given their complexity and variability in structure, their IDIQ terms and conditions, and overlap with other procurement vehicles that erodes the total volume of business available to small business when they are awarded a contract.

We emphasize that this does not mean there should be fewer, larger office products contract opportunities. Instead, federal contracts should be more standardized and new types of procurement vehicles should only be put in place when a federal agency or agencies are verifiably underserved by those contract vehicles already in place.

Solution 5: Increase the Simplified Acquisition Threshold for Small Business Set-Asides to \$500,000.

We believe that by increasing the simplified acquisition threshold to \$500,000 the government will be ensuring that small businesses gain greater access and larger percentage of the total federal spending by the Federal government. The current thresholds are too low to have a significant impact.

We urge Congress to consider raising the threshold so that small businesses have greater opportunities to do business with the Federal government. Increasing the threshold will



increase real opportunities for small businesses and mean more total spending on federal contracts will go directly to small businesses.

Conclusion

Small entrepreneurial businesses in our industry and others have overcome and will continue to overcome huge obstacles when it comes to competing in the Federal government market. While they are still attempting to compete, the current trend of complex procurement and federal toleration of unfair business practices among large company bidders inevitably will force many highly competitive small businesses to scale back their participation in the Federal Marketplace.

NOPA would like to take this opportunity to offer to serve as a resource to you, Mr. Chairman, and to your staff on procurement issues. Thank you again for this opportunity to share on views on critical procurement issues. If you or your staff would like additional information on these recommendations, please do not hesitate to call on us. We can be reached directly at (703) 549-9040 x100 or via e-mail at cbates@nopanet.org.