

Problem areas in small business set-asides with Amanda and Alex Bresler

[00:00:00] Welcome to acquisition. Talk a podcast on the management technology and the political economy of weapons systems acquisition. I'm your host, Eric Lofgren. You can find this podcast and more information, including links, commentary, and articles on acquisition. talk.com. Thanks for listening.

[00:00:37] **Eric Lofgren:** I'm pleased to have the sibling duo Amanda Bressler and Alex Bressler back on the podcast to discuss their latest Naval postgraduate school paper on small business. Amanda is the chief strategy officer at PW communications and Alex is the chief data officer Amanda and Alex. Thanks for joining me on acquisition talk.

[00:00:56] **Amanda Bresler:** Thanks for having us always great to chat with you, Eric.

[00:00:59] **Alex Bresler:** Thanks a lot. Look forward to the discussion.

[00:01:01] **Eric Lofgren:** Okay, great. So let's just jump right into it and start out with your headline result. So small business dollars have grown 68% between 2015 and 2021, but the total number of small businesses actually fell by 23%.

[00:01:16] So what's going on?

[00:01:17] **Amanda Bresler:** Yeah, it's a head scratcher at first glance certainly was for us and the long and the short of it is what this means is that there is a small number of companies that qualify as small businesses by government standards that have grown their revenue in the defense market substantially over the last six years.

[00:01:38] That's really the only way to explain how a smaller number of companies can consume substantially more in contract dollars over that period. That's the top line finding here is fewer people at the party and everyone is getting a bigger.

[00:01:51] **Eric Lofgren:** And so does this small business program, in reality, is it actually like, achieving its stated goals? What are the goals of the small business program?

[00:02:00] **Amanda Bresler:** Great question. And that was really the impetus behind this research. So for any listeners who are need a bit of a refresher, when we talk about the small business program, what we mean is the fact that Congress mandates that a certain percentage of all contract dollars every year be set aside for small and disadvantaged business.

[00:02:24] And they justify this on the basis that it leads to job growth. It strengthens the overall defense industrial base. It creates economic opportunities for underserved communities. There's a laundry list of justifications that Congress provides on paper for why there is preferential treatment in government contracting for certain types of businesses.

[00:02:48] Now, to your question, what's happening in reality. And we were very interested in trying to answer that in part, because in spite of all of these stated objectives, the program has been measured almost exclusively by one single metric. And that is whether or not government stakeholders are in fact awarding 23% of all of their contract dollars to companies that qualify as small disadvantaged, full stop.

[00:03:19] There is no metric around assessing whether any of those other objectives are being met. And so in our research, we stopped to answer that question. And, from our findings, Eric, the answer is no, these objectives have not been met. And in fact, we feel that the small businesses, this program was designed to serve are actually worse off because of these programs.

[00:03:44] **Eric Lofgren:** Can you just uh, bring that home to me? Why are they worse off, right? Like they're getting all this money, it's set aside for them. I can understand maybe like the department of defense isn't getting what it needs out of these companies, but how has it actually like hurting the companies themselves that are getting the money?

[00:04:00] **Amanda Bresler:** It's hurting small businesses and that's an important distinction because truly small businesses, at least the way that most Americans view what it means to be a small business. They are not the ones that are winning these contracts. And this gets to an important point. So what does the government define as a small business?

[00:04:21] And that's this complicated answer of it depends on what you sell. Depends on what your NAICS code is. And it can either be based on how many employees you have or how much revenue you generate. And there are a number of categories where the government has no revenue cap on what you

can generate and still qualify as small, as long as you don't exceed 500 employees.

[00:04:48] So there are companies with hundreds of millions in defense contracts every year, and in some cases, billions of dollars in defense contracts every year that qualify as small by government standards. And. Those are the companies that consume the vast majority of set aside dollars.

[00:05:09] **Eric Lofgren:** Yeah. I remember, when the whole COVID thing struck in government was like disbursing a bunch of money to firms.

[00:05:15] Like Moderna, I like looked through them and it's whoa, Moderna, is actually a small business by the standards. I think you brought out some of these examples where like men's clothing was one size and then women's clothing. It was a completely different size for small business size standards.

[00:05:31] It seems weird to me like these inconsistencies. Yeah.

[00:05:35] **Amanda Bresler:** It certainly doesn't play into common sense. I don't think everyday Americans would believe that Moderna, I don't know what, how many millions of Americans have taken a Moderna shot in the last two years, but I don't think any of us perceive them as that kind of small business.

[00:05:49] That's the backbone of America, like the local restaurant or, your barber shop. And there are countless examples of this. Progeny it's a name that came up on the, I guess it was the Senate floor recently. They're a small business and they have a three and a half billion dollar market cap.

[00:06:06] They are only a small business in the eyes of these esoteric and arbitrary criteria that the government uses. They're not a small business in the eyes of everyday Americans.

[00:06:18] **Alex Bresler:** I would just say that like many things the system that we have in place is completely uncorrelated to logic and.

[00:06:26] The very blatantly obvious things that I think most Americans would want to have a discussion about as it relates to classifying say a small business aren't even considered, in the very opaque ways that they decided what is a small business? And again, as Amanda, we'll discuss in greater detail, there isn't even a definitive answer.

[00:06:45] But to me, you'd start off with some very obvious things. If you're a publicly traded company it's hard to argue that you should be considered a small business. If you have hundreds of millions or even in some cases near billions of dollars in revenue from the federal government, you're, you're not a small business, it doesn't matter how many employees you have.

[00:07:03] And unfortunately that's just completely. Ignored in the system that we have today. So it's important to highlight

[00:07:11] that

[00:07:11] **Eric Lofgren:** yeah, some of the data you guys had was actually, a little bit shocking, but you listed out there's these small businesses, which are really big and they're getting hundreds of millions a year.

[00:07:21] In one case, Atlantic diving supply was getting well over a billion dollars a year. And they were getting like up to \$3 billion in prime contracts from the government. So it's just, all it is just like they happen to fall under the number. Like how do I have less than 500 employees or something and take in \$3 billion a year?

[00:07:40] **Amanda Bresler:** In the case of Atlantic diving supply, they're an interesting example because they have. They've come under some heat in recent years, if you Google them, you'll see. They, there were some lawsuits, some of them related to their size standard. I think they may have lost their small business sized certification for a period of time.

[00:07:55] And then they got it back. And I think their example in particular relates to these loopholes that exist in the program where if you're a redistributor of other products, there's a whole separate set of rules that apply. So I think they may in fact just take it inventory and then redistribute it.

[00:08:14] But , don't quote me on that, even though this is on here all it is to say is you bring up the fact that there are all of these loops. And special circumstances that really can only be accessed by organizations, companies that are familiar with the system. So if the purpose of these programs is to level the playing field, which is a quote that is an objective quoted from one of the websites or congressional documents that they literally say this is to level the playing field.

[00:08:44] And, the folks on the inside these big, small businesses are the only ones that know about all of these loopholes. You're missing the mark.

[00:08:53] **Eric Lofgren:** Yeah. I actually just recently saw, I think, so there had been these caps, like service companies could only outsource 50%. They had to perform 50% or more.

[00:09:04] I think the same was for manufacturing, but there's that loophole, right? There's like certain types of reselling that doesn't get included in that. So maybe they're bucketing that, but there's a new far rule from 2021 that requires companies with small business set asides to perform at least 50% of the work.

[00:09:20] So I think it closed some of those existing holes. You think that will solve some of the problems or are there just like other, there's a whole suite of other things going on in other loopholes and other things that, the insiders will always have the right,

[00:09:34] **Amanda Bresler:** attract.

[00:09:34] I also want to point something out.

[00:09:36] Unless I misunderstood my read of the far, this small business has to perform at least 50% of the work, but they can do so in conjunction with other similarly situated companies, meaning multiple small businesses can partner together and collectively perform that work. And it's, it counts as if that individual small business is doing the

[00:10:00] work.

[00:10:00] **Amanda Bresler:** And then you open up the flood gates of okay. So that means that there's 50% of the work that they can also sub out to large businesses. But if there is such a broad definition of what qualifies as small, you're making this landscape even more anti-competitive if you're allowing these frankly, large businesses that qualify as small to work together as similarly situated contractors and then, box out others that way.

[00:10:26] So I don't see that really solving this problem in less, because they don't need to sub the workout to large businesses. They are large businesses.

[00:10:34] **Eric Lofgren:** Is a revenue cap preferable. Instead you said some of them do have revenue versus like they have both or one or the other, like employment versus revenue. Should they just go straight to a revenue cap of something? I think you got. I said like the average large size small business is like 41 million or is there like a magic number or what would you recommend? Yeah.

[00:10:56] **Amanda Bresler:** First of all, we really feel strongly that it should be a revenue number and employee count should be irrelevant, especially in the age of automation.

[00:11:05] You can grow into a very large business and have a fraction of the employees today relative to what it would take to generate that revenue 30 years ago. So I think employee head count is not a meaningful statistic here. And then in terms of what that magic number is for size standards on a revenue basis, we heard an interesting suggestion from someone recently that you can actually use public data like tax records and things like that, to assess industries and define each industry.

[00:11:39] Accordingly. So, it would be dynamic, because as industries change, maybe the definition of what it means to be a small versus large player in that industry is different. We would recommend a common sense approach where you're somehow leveraging data about these industries that's publicly available.

[00:11:55] So everyone understands where the number is coming from. It's not, a fiefdom of the small business administration and people who don't understand these industries, assigning dollar figures it's real industry data. And it's some common sense thresholds.

[00:12:09] **Eric Lofgren:** , what is common sense?

[00:12:10] Because like, when you said, I think in your paper, you said there's large small business category, and then here's like this average number, but still, there's no such thing as that in the real world. There's just like a continuum of companies. it's always going to be arbitrary, right?

[00:12:24] What is non arbitrary about selecting a size for small business?

[00:12:28] **Amanda Bresler:** You bring up a good point. It's certainly a challenge and you're not going to necessarily get it perfect, but there's a lot of room for improvement between where we are today and that perfect magic number. So I think starting with data that you can access through trade associations, industry groups, tax documents, like I said, and trying to come up with, how many let's take janitorial services firms, right?

[00:12:53] Like how many are there in America and what are they doing annually in revenue, generally speaking, based on the data you can access publicly and how many of them do more or less than the average, like just coming up with some metrics and, Alex has a data person. Maybe you can give

a more detailed answer to this, about how you would actually use public data to come up with some of these numbers.

[00:13:14] But I think it's certainly possible.

[00:13:16] **Alex Bresler:** The data is there, but frankly, I don't even want to opine on these sorts of things. There needs to be Frank discussion about why these programs exist, what the purpose of it is, how much of it is just pathos driven propaganda for the government to say something that isn't true necessarily, and just adds to bureaucratic process and justifies people's jobs versus serving a justifiable purpose for the American citizens.

[00:13:44] And you need to be that's the most important thing, frankly. It's not about anything quantitative. But to the extent you want to make it quantitative you need to have an explainable, across government agreement on what a small business means. And until you do that none of this stuff matters.

[00:14:01] And again, there's public data that's there that can do all that needs to be done as far as setting reasonable standards. All the procurement data is public. The majority of the subcontract and data is public, all the assistance data's public. As Amanda mentioned, there's non-public, but the government could obviously leverage this tax data for EIN numbers and things like that.

[00:14:22] So there's all sorts of things that can be done. But if you don't start with what matters first, all that's just additional waste of time.

[00:14:30] **Eric Lofgren:** Yeah. So we're, I want to circle back on the broader issues. I think like almost the philosophical issues with small business, but just to go on this thread a little bit, we're talking about the size small business versus large business.

[00:14:43] But, Ben Horwitz of course, famous venture capital guy at a 16 Z, he says innovation is not really about small versus large company. It's more like young versus old companies. Should DMV be kind of looking at businesses a business set aside program designed for companies younger than a certain number of years, or that are still founder led.

[00:15:02] Does that get to the, I guess the idea behind this thing, or is it really small versus

[00:15:07] **Amanda Bresler:** large?

[00:15:08] Look, I think there's an important distinction here. This small business set aside program is not exclusively to enable access to quote unquote innovation. , you know, it's to create opportunities for small businesses of all kinds, some of which are innovative and some of which aren't.

[00:15:24] So I think it's important to separate that out into two separate buckets and not all the small businesses that we should be worried about protecting. Fall into the category of cutting edge technology. In fact, the majority of what the government procures has little to, nothing to do with cutting edge innovation.

[00:15:44] And in particular, within this small business set aside program, we've looked at the product service codes and NAICS codes of the majority of the products and services procured through the set aside program. And this is not next generation technology. This is valves, saw, was lodging.

[00:16:04] These are commodities. This is so I think getting pigeonholed in this conversation about innovation is not accurate in the context of a small business set aside program. It's certainly an important discussion to have. The idea that you should be looking for companies that are newer or founder led, that's a worthy discussion, but it's not necessarily at the heart of the small business program.

[00:16:28] And I think a lot of people misunderstand that they think because the government says we access innovation through the small business program. That's what the program exists to do when in fact that's very far from the truth, the program exists for a lot of reasons, but a lot of the small businesses, the true small businesses, they're not innovative.

[00:16:46] **Alex Bresler:** Yeah. So I think first of all I don't disagree at all with what Ben said, but as Amanda was saying, there's a lot of different things going on here. And people like to anchor to exciting stuff, and innovation is very important and innovation can be tied as to non-innovative things. But the equal kind of question is.

[00:17:06] What is the taxpayer getting for their tax dollars and interrelated and equally as important thing what is our defense apparatus getting for each dollar spent and how much gift is going on? We spent over that time period roughly \$1.2 billion on men's outerwear. And the number of small businesses went from 172 to 108.

[00:17:28] These are all just data points that doesn't necessarily tell us whether the quality of the men's outerwear that we've purchased for the various forces

are, is better or worse. We're clearly spending more on it. Th there's a lot going on here and we need to deal with all of them but it all needs to start with what's the purpose of the set aside programs?

[00:17:47] Is it innovation I've never heard of. There's some claims about it or is it to support small businesses? Again, it gets back to that same question. And it's a very complex problem, but the data is there to explore it. And we just need, frankly, we need accountability.

[00:18:03] **Eric Lofgren** , have you guys looked into like the history of some of these programs?

[00:18:07] Cause I know like in the sixties I was reading some stuff and they're like, the great society and all that kind of stuff. They wanted to use the department of defense. Cause that's where the money was to do some of these kinds of social welfare programs and defense focused, people were complaining like that's a misuse of defense funds.

[00:18:23] Defense funds should be going towards capability. if you want social programs, do it like through social programs. Have you traced that back? Does that sound right to you or what's what do you think is the ultimate.

[00:18:35] **Amanda Bresler**: Yeah, I think you're right. I think we read some analyses of these programs that date back several decades.

[00:18:42] And what you just described, I think is the truth that these were basically social welfare programs run through the department of defense and broadly all across the government. These are not the set aside program is government wide. And I can't remember, I think that was the case from the moment it was enacted.

[00:19:01] And there is definitely a worthwhile discussion to be had as to whether the government should be using procurement as a mechanism to promote a social welfare program. We read a couple of pieces that have come out over the last, decades ago. Take that position that, wait a second, it's not appropriate, but it became very unpopular very quickly to be on that side of the equation because the, you're twisted into being anti small business, which is frankly not, the case.

[00:19:34] I, I think if you are pro small business, you cannot support the system that's currently in place. As I said, in the beginning of our conversation,

this system that's currently in place is detrimental to small businesses, but it's a bit of a complicated explanation as you're learning here in real time.

[00:19:59] So people glom onto this idea that it's the sacred cow. That was actually the title of one of the primary sources. I referenced in my paper that somebody wrote about 15 years ago that small businesses are the sacred cow. And if you. Say anything bad about these programs, your anti-American your, your big business, but that's not the truth.

[00:20:22] **Alex Bresler:** Yeah. Eric, I think you raised an incredibly important question. Maybe one of the most important ones, and I'm not an expert on this. They say, whoever doesn't know, history will forever remain a child. And the past flows like an artery of truth to the present. When you said what you said I, again, I don't know what McNamara, for example, would say, if he saw the current situation today, but I can't imagine he would be very happy about it.

[00:20:49] Or if you brought back anyone from George Marshall, anyone who really was in charge the last time we truly want a war and mobilize our economy, it would be incredible to think what they would say about the system we have right now. We'll never know the answer to that.

[00:21:03] But to your point about it from there, just manifesting into the situation. I think that's completely accurate. And if we want to make this a politically motivated jobs program, so be it, but the, one of the main problems is, they hide that and I think whatever ends up happening, we need more transparency.

[00:21:22] And the political class needs to be held to account, to funding, budgets that are motivated by. Right now they get, irrespective of Democrat, Republican, they get away with doing this and they don't have to tell the average citizen this is what we're really doing. And, hopefully that will begin to change.

[00:21:40] **Eric Lofgren:** So let me, say your argument back to you guys. So first the small business program, the small business program is not really about innovation, right? It's about this kind of other welfare or just political ends kind of goal. But then even when you're saying, does this program help small businesses?

[00:22:00] You're saying no, the program to help small businesses, regardless of defense outcomes for the department of defense, regardless of those outcomes, like it's not actually helping small businesses try to enter. It's actually, serving

the needs of the small, large businesses. I have tons of experience in the game and they can keep winning.

[00:22:20] And that seems to have this effect where you guys have already shown that the overarching industrial base has been declining rapidly over the past decade. And that's a continuing trend, but even within small business, and we're trying to target small business, that consolidation is still happening, right?

[00:22:36] **Amanda Bresler:** Yeah. It's also, there's another really important point. And that's the existence of this set aside program also provides cover for Congress and government stakeholders. If it's a distraction and they're also putting policies into place that make it even harder for new entrance, even harder for the truly small companies to survive.

[00:22:58] So they've got this cover. They can point to see how great we're doing. We're hitting our 23% procurement goals. We've achieved our goals. Raw. And meanwhile, they're implementing new cybersecurity requirements that, increase costs to the small businesses by orders of magnitude. They're implementing, contract bundling policies that favor large primes.

[00:23:22] They're doing all of these other things while nobody is looking that make the market even less hospitable for small companies.

[00:23:31] **Alex Bresler:** I just think you tend to know you're on the target with things when people resort to name calling, hyper defensiveness, and an unwillingness to even discuss data. And Amanda mentioned some of this a bit earlier, and that's exactly what goes on here. And unfortunately that's what goes on with just about any issue politically, but, it's very prevalent within this small business space. And I think that's part of the way, that's something that they're not really willing to acknowledge is actually going on, which we've somewhat been able to quantify at least.

[00:24:04] **Eric Lofgren:** Yeah. Here's a good stat from you guys that the number of small businesses getting a hundred million or more in prime contracts from the government grew from 26 to 84, over the 2015 to 2021 timeframe. So there's quite a bit right. That you guys found the top 20 firms had 10% of all small business dollars and then 93,000 other firms, shared the remainder.

[00:24:27] So you guys had some good data on here more dollars are going to fewer firms, that seems to be coming out clearly. But you guys said, you know,

you were getting name called and all this kind of stuff. What has been the reaction to your findings?

[00:24:39] I guess both. Like the positive side and also the negative side.

[00:24:43] **Amanda Bresler:** We were shocked that this particular piece of research has taken on a kind of life of its own only because, it's the fourth in a series of papers we've written and none of the, you we thought the other ones were great too, but this one seems to have struck a chord and gain a lot of momentum.

[00:25:00] And for the most part, what I'm hearing is from companies that are saying, oh my gosh, thank you for articulating what we're going through. We always knew this was going on, right. but you've really laid it out in a way that finally makes people see it. So the majority of the feedback has really been positive and grateful, and we've even heard some very positive feedback from folks on the hill.

[00:25:25] I had a meeting with some Senate staffers last week. They're all fighting their fights. Both in the Senate and the house on a number of issues that I think touch on what we report in this paper, some of them directly, and some of them indirectly. So the SBR program, we don't reference it by name in this paper, but it's we explore it in depth in earlier research and by virtue of the fact that the small business innovation research program is specifically set aside for small businesses, it's related to the data that we present in this paper.

[00:26:00] So there are some folks who would like to challenge. Our conclusions on the basis that, oh, you're being, you're being myopic because you don't really see the importance of these very large, small businesses without them. We wouldn't be able to do X, Y, and Z. So we're not suggesting that these businesses be closed down.

[00:26:22] We're just suggesting that they don't be afforded preferential treatment and government contracting as if they were small. And I think that that's definitely a third rail issue because, look the small business program it's a king making program, much like full and open.

[00:26:37] There's a handful of companies. Everyone can name them that do a lot of the work for the government, right? The major defense contractors, there is the same phenomenon happening inside the small business ecosystem. And just there are folks on the inside who have a lot at stake in terms of maintaining contracts with the large government contractors.

[00:26:57] There's a lot of folks who have a lot at stake in terms of enabling large, small businesses to keep their set aside status. So that's a circuitous way without naming people in particular. This is a very hot button issue. There's a lot of jobs at stake, even though these employee thresholds are below 500 people.

[00:27:15] This is for certain representatives, some of these very large, small businesses are important to them. They're big job creators in their state and they don't want to see the boat get right.

[00:27:27] **Eric Lofgren:** I was just thinking, are there a lot of firms that are like right up against that, I guess that barrier between small and large, just so they stay a small, cause you can look in that, discontinuity between large and small and see is there just an inordinate amount of firms are like limiting their employment size or whatever to stay within that bounds because they don't want to bridge into the medium size and then compete against the big guys.

[00:27:54] Like they're not willing to go that far. So do they limit their growth or like they grow to a size and then they limit themselves. And now we have a whole bunch right on that teetering edge.

[00:28:03] **Amanda Bresler:** So you do hear about that about outgrowing your set aside. Now, what is interesting per our earlier point is there's a lot of industries where you're not subject to anything other than a revenue.

[00:28:15] I mean anything other than employee cap, rather not revenue. So you can keep your employee count artificially low and by doing a number of things, partnerships and so on. So I think companies that operate in those kinds of NAICS codes are probably at less of a risk of graduating from the program. And so they don't have to worry about these things.

[00:28:34] They have no revenue caps, so they can, they have basically free reign. You do hear about challenges. That's other kinds of businesses that operate in spaces that have a revenue cap. They graduate out. I hear it a lot with eight, a in particular less so on the standard small business world, but more on these sub categories, these extra special groups, because I think they are held to different standards, it does suppress the economy in a lot of ways, including what you just described.

[00:29:01] You're gonna always have. Non-free market things going on when you have arbitrary standards for qualifying, to be a member of a certain group.

[00:29:10] **Eric Lofgren:** Yeah. Maybe let's let's take a step back. And can you just talk about what are the various categories of small businesses? It's not just one monolithic small business program, right?

[00:29:21] Like you have stages of small businesses and then you also have within that, like you mentioned and there's like women owns, small disadvantage, what are all of these different types?

[00:29:31] **Amanda Bresler:** So it's such a great question. And I wish there was a straight forward answer. So there's, a variety of different set aside categories, some of which actually.

[00:29:43] You don't have to be a small business. So Alaskan and native American certified companies, they're not small in the same way. You need to be quote small if you're not an Alaskan or native American company. So it's not always just size related. It has to do with the demography of your founder or owner or operator.

[00:30:05] And it's a moving target. And it was one of the reasons that just in the introduction of our research paper, you'll see, it was really complicated for us to even define the DUNS numbers. When you take the dataset of all the companies that worked with the department, From 2015 to 2021, there was no straightforward way in which, you know, whether a company, a DUNS number is associated with being small or not, because there's this kind of like cadre of different types of set aside companies, and you can register for multiple, you can self-certify the contract action associated with your DUNS number can sometimes reference a set aside group.

[00:30:47] And sometimes it doesn't. So we also make a very strong recommendation in the paper that there needs to be a single source of truth where this data is maintained. So you can better understand what the composition of the supplier base is against these various groups. Woman owned minority owned hub zone.

[00:31:04] So hub zone relates to where you operate your business and where, employees of your business live. And I won't go down that rabbit hole too much, but as you may imagine, These hubs zone like district lines. They're not updated very regularly. So it's, I remember when I lived in New York city, my apartment in Chelsea was actually in a hub zone.

[00:31:25] Again, just like no, , everyday American would think a company with a three and a half billion dollar market cap is small. No, everyday

American who's been to Manhattan would think that my apartment in the neighborhood, it was in, in Chelsea qualifies as a historically underutilized business zone.

[00:31:42] But these, these criteria are very arbitrary and very murky. And what. Concerning to us is that there's a host of new set aside groups being discussed currently in this administration, they have yet to be codified. The way that woman owned small business is codified. You can register for that.

[00:32:05] And Sam, , it's not quite the same yet with things like LGBT or black owned or other groups that are emerging. But the problems that we describe in the paper will only magnify the more special interest groups you insert into the equation. And we have reason to believe that the programs themselves will fail to benefit the groups that they are claiming to serve in the same way as they failed to benefit small businesses.

[00:32:33] know, You'll just have it's a king making program. So you'll have a couple that emerge, that know how to game the system, but none of that wealth is transferred back to these committee.

[00:32:42] **Eric Lofgren:** And is that just because you just have a CEO or someone incorporate it that's disadvantaged or part of this demographics, but really the company is just looks like a regular gov con company or something like that.

[00:32:54] **Amanda Bresler:** Yeah. Yeah. I I, there, I don't really know of any examples off the top of my head that where that's not the case where there isn't an industry insider deeply involved in, the actual management and operation of that business. And the other thing is, and we mentioned this at length in the paper as well.

[00:33:11] What these set asides failed to do is address the underlying problems that keep companies from breaking into the defense market and navigating it successfully, regardless of the demography of their founders. Outsiders can't break in. And these set aside programs don't change that reality.

[00:33:32] **Eric Lofgren:** So you're saying they have a, the bind administration, they were talking about increasing the small disadvantaged businesses, government wide from 10 to 15% by 25.

[00:33:43] Is this going to come at the expense of other small businesses? It's cutting into that 23%. And so you just are changing the winners and losers or, what do you have to say about this kind of change?

[00:33:53] **Amanda Bresler:** Look I say, th that kind of change in the absence of addressing the underlying issues that we describe in the paper that are critical issues in the absence of addressing those, it will only magnify the problem.

[00:34:07] It will only increase the market share of the largest small businesses.

[00:34:12] **Alex Bresler:** Yeah, I think there's an important truth that needs to be uttered. You can't throw money in programs at a system of dysfunctional incentives. And they're talking about exponentially increasing the level of dysfunction when you're talking about very abstract kind of purely identity driven, hard to enforce new set of sides.

[00:34:35] And again, just common sense will dictate what will happen. And we've already been able to document what has already happened. It'd be hard to bet against just additional massive benefits to very connected existing players that are in all likelihood, very politically connected. That are experts at gaming the system.

[00:34:57] And it'll again, it'll just be at the expense of the taxpayer.

[00:35:01] **Eric Lofgren:** Yeah, it does. Cause one to wonder, like when the Biden administration made this announcement, were there, hundreds or thousands of young entrepreneurs that are part of this demographic that were just like, I'm going to start a gov con company, or cause like we're are all these companies coming from

[00:35:17] **Amanda Bresler:** yeah. You bring up a good point and it's just it's rifle because if you're not entrenched in the government market, you literally don't even know how to find out who's interested in buying what you're selling.

[00:35:30] You don't even know where to go to find, an open requirement and it like, you don't know any of that stuff. So the idea that people inside the government think that the solution to this problem is just increasing spend with certified small businesses and not addressing the fact that no one even knows how to work with the government.

[00:35:50] It, it doesn't even pass the sniff test.

[00:35:52] **Eric Lofgren:** Yeah. And you guys had a recent one of your previous papers, you were looking at solicitations and the solicitations that come out require like these really high education levels, like I've read , through some of them. And I don't understand what's going on.

[00:36:06] So like these outsiders, it's hard for an outsider to come into this space. And you guys you guys are of course, a small business yourself dealing with government. So I want to get a little bit more into some of these issues that you guys have been talking about. What are the foundational issues that stop small businesses from being able to enter and then really scale cause the point of small business, isn't just to be a small business, right?

[00:36:26] Who wants to, there's some people who want to say I'll do this little niche thing, I'll do it well, and I'll stay a small business my whole life, you know, a lot of people want to scale up in that. So did you just want to talk about some of the things that you've heard about and then, or you've actually experienced yourself that have felt like that barrier, that small business set asides aren't really helping you with?

[00:36:45] **Amanda Bresler:** Yeah, sure. So to my earlier point, in terms of trying to understand, who's interested in buying what you're selling. If you're a small business and you haven't sold to the department of defense before, say let's for the sake of example, say you're a drone company. You've been in the commercial market.

[00:36:58] You, maybe you saw an article in the wall street journal that says army seeks drones. Maybe you have some abstract notion that the army is interested in drones. On a practical level, you have no idea where to begin. So then, this is the first set of barriers is okay, I want to try to figure out how I would break into the government market.

[00:37:17] You're then inundated with just so much information that you really don't know how to assess . You start to Google things and wait, okay. There's all these accelerator programs, there's the silver program. I think I've heard of DARPA. Okay. What's the Marine Corps war fighting lab, like there's dozens and dozens of these programs that have the same stated objectives.

[00:37:40] And you're like, okay, maybe I go down one of these paths. How do I even work with them? Where does the government put out needs to industry there's so say you managed to figure out that sam.gov is a place that the government goes to, solicit information from industry. This is a lot of ifs because quite honestly, nine times out of 10, in order to even get to that point,

you need industry insight, which means you're paying, a consulting firm or someone for information and access.

[00:38:09] You're basically pay to play by this point, but let's take that off the table for a second and say you're not doing that. You're going to Sam. Then you encounter what exactly what you said. That if you manage to find an opportunity and figure out where the search bar is on Sam beta and their archaic Boolean search process that doesn't search for related terms, like all of these, what ifs the stars have to align.

[00:38:33] And it's basically impossible for all that to happen. That's what the long and the short of that is. So to even connect with a prospective customer means that you are making a concerted effort as a company, and you're committing to spending. Probably tens of thousands of dollars in some way, shape or form, be it for a subscription service to tailored opportunities through say something like gov shop gov, wind Bloomberg gov, or through a lobbying firm consulting firm.

[00:39:00] That promises to help you understand how to navigate the government market, or maybe you pay to hire someone who's been on the inside. And that's a role that you're hiring for it's, five or six figure investment. So right there you've established this just incredibly anti-competitive ecosystem where suddenly the innovativeness of your capability is not as relevant to that end user as your ability to navigate the system.

[00:39:32] You could have the best drone and you could be very willing to sell that to the army. You can't even get in the door unless you're willing to essentially pay to play. Which means that you might say no, in which case, the end user from the army may never see or have access to the best and brightest capability that needs, it's very corrosive, not just to the businesses, but also to the war fighter.

[00:39:56] **Eric Lofgren:** So the pay to play companies, it's like a self-selecting process almost right. And who are the types that do pay to play?

[00:40:03] **Amanda Bresler:** Yeah. And it's it's such a dirty term pay to play, but it's not necessarily even a bad thing because there are appropriate times and places where you want to weed out the, you want serious companies, but certainly in its most democratic open opportunities calls for market research, the government should.

[00:40:22] Create a process whereby companies can participate without the burdens currently levied on them in this existing system. Like you should be able to at least get your idea, product or service in a basic format in front of someone inside the government, without having to pay to play.

[00:40:42] **Eric Lofgren:** And you guys are pretty, I would say, experienced in this realm.

[00:40:47] Even you coming in with your small business, did you, do you feel like you had that knowledge and that background to take it on yourself? Or did you have to like still have, building out these cybersecurity systems, cost accounting systems, hiring consultants, all this kind of stuff.

[00:41:02] Did you also have to do that?

[00:41:03] **Amanda Bresler:** Oh yeah. I naively thought that we would be. Somehow impervious to all of these challenges. You know, I just, I think probably a lot of small businesses that are excited about supporting the government, have that mentality. Like I'm going to do everything I can to avoid making the same mistakes.

[00:41:18] So many others make, and we're going to get through this somehow because we just really care and we want to do right by the customer. But the truth of the matter is we're suffering the same way that every small business suffers. We've had massive delays and you know, what we thought were done deal contracts.

[00:41:34] We've been subject to audits. We didn't know existed. We had to invest in cybersecurity compliance solutions for some subcontractor work that we have that have increased our costs as a company by five figures. And this is an important point we make in the paper that, only those companies that can afford to do these kinds of things will survive.

[00:41:58] And those are not necessarily the companies with the best and brightest capabilities. And it's scary to think about that.

[00:42:05] **Eric Lofgren:** Just talking to you guys, it always, it just reminds me that, government often does, they'll do one thing on the one hand and then try to counteract that with something the opposite on the other hand. And they're just like these conflicting policies and actions, but one that you guys pointed to. There's also, so we have this big, small business set aside program.

[00:42:23] But then we also have these big pushes towards bundling contract requirements, and of course, the general services administration, they have their category management where they try to lump a bunch of buys together. You mentioned this practice called captains of industry. Can you just talk a little bit?

[00:42:40] First what's the difference between captains of industry and category management, and then, what is the downstream effect on small business?

[00:42:47] **Amanda Bresler:** Truth be told. I can't speak to the differences between category management and captains of industry. We stumbled on this captains of industry phenomenon accidentally.

[00:42:58] And so we didn't go about this research with a clear understanding of what it was and what other similar phenomenon exist, but it was brought to our attention by a gentleman who runs , an industry group for small. Aerospace manufacturing and services companies. And he had seen some of our earlier research and his member companies for the most part they're out on the west coast, they have been suffering tremendously as a result of these contract bundling policies, specifically ones that are adopted by DLA, which was the customer that many of them served.

[00:43:31] So he brought to my attention, this captains of industry phenomenon in the context of his type of member company, which is companies with under 20 million in annual revenue that had been in some cases, serving the DOD for decades, doing critical work, both in components, manufacturing, training really critical work and.

[00:43:51] The downstream effects to your question or that something like 60% of small businesses in this category of have ceased to serve DOD where they've done this captains of industry program, and they had these grand promises of, oh, we're going to preserve small business participation through sub contracting and teaming arrangements we believe these prawns are going to keep these small businesses engaged as subs and teaming partners.

[00:44:15] The inspector general and this industry group I'm referencing SBAC. They both conducted analysis and both of them were unequivocal and that small businesses are not seeing their fair share of the pie that, that 60% have disappeared from these ecosystems. Many are going out of business altogether, which is frightening.

[00:44:36] When you talk about our disappearing industrial base, a lot of people , Think of offshoring and our reliance on, overseas manufacturers, but there's

something else going on here. And that's this kind of conglomeration effect domestically that you've got these major companies that are absorbing all of this business.

[00:44:53] And these IgE reports have also indicated that on-time delivery and price they're suffering. It's not as if these major contractors are doing a better job. Because I don't want to get in the middle of that. I don't necessarily believe in propping up any kind of business, smaller, large for the sake of it, at the expense of quality or innovativeness or price, so this is problematic because quality and delivery and things like that are degrading as a result of these captains of industry phenomenal.

[00:45:25] **Alex Bresler:** To piggyback off of Amanda's point we need to. Think about second order consequences. And there's a lot that we've ignored for a long time. You're not going to retire from only fans and become a proprietor of one of the dying aircraft, rotary wing suppliers that we need to sustain an air force that are being subjected to what Amanda just described.

[00:45:49] Th there's a big in-between from your failed only fans or whatever social media experiment, or, pick your 21st century job to doing something that we actually need. And I wish that we could talk about this more with all sorts of different things, because there were major second and even third or fourth degree order concept.

[00:46:08] That are of the utmost importance. And that's not ever something you hear about, which I hope changes.

[00:46:15] **Amanda Bresler:** You know, The other thing that's scary about these captains of industry programs. We want to step back a little bit and look at another macro trend that's concerning. I remember bringing this up to a four-star who was an early mentor of mine.

[00:46:27] And I said, with all due respect, Admiral, I graduated from Georgetown university, not a single one of my friends went to work for a major integrator. I don't know, a single person from my kind of academic circles that works for a major integrator. So they're not attracting this kind of talent pool that you would need if you were going to even attempt to justify the consolidation that's occurred.

[00:46:53] There's a lot of problems.

[00:46:54] **Eric Lofgren:** Yeah, it seems if innovation was really the kind of key thing or driving costs down capabilities up, then why would small businesses, need this protection, I guess the question here is is small business actually like a unique problem or is it part of a larger government acquisition problem?

[00:47:11] **Amanda Bresler:** I think it's certainly part of a larger government acquisition problem. You can't possibly assess the small business set aside program and all the problems that come with aim to solve that without running into all of the acquisitions issues that you know Eric, there's just the system has a lot of problems.

[00:47:29] This is among them. It relates to them. And I think I'd love to emphasize your point here. I think you're brave for bringing this up that shouldn't, we just let the best win, like where's merit in all of this. And I think it's just so critical that we bring merit back into the equation that innovation should Rue the day, that your ability to navigate a system, the fact that , you have a membership in a particular group, be it as a woman, as a small business, none of that should outweigh.

[00:48:03] Technical merit.

[00:48:05] **Alex Bresler:** And if I couldn't agree more and again, if you're going to, if you're going to subsidize something or pay for something, have second order consequences in mind when you're doing that. And we're living through and we're going to continue to live through the consequences of very bad decisions relating to supply chain and in sort of energy decisions of specific administrations.

[00:48:27] And in some cases, multiple administrations where over time we should have probably been held to account, to buy onshore versions of specific products and to sustain that industrial base to ensure that there's a labor supply of people. That will take it through to the next generation. These are things that we unfortunately didn't consider that they're going to have continued massive negative consequences on our society.

[00:48:52] That outweigh whatever additional costs would have been there. Had we done the smart kind of longterm thing over the course of the last couple of decades.

[00:49:02] **Eric Lofgren:** You guys didn't really talk about this in the paper, but you think like by American, where they're trying to onshore a lot of, productive capacity for the department of defense.

[00:49:11] Is that kind of like a similar issue or is there something unique about by American?

[00:49:15] **Alex Bresler:** I'm not an expert on this and I'll let Amanda talk in a second, but it's got as many holes as wheel of Swiss cheese from everything I've seen. There's too many exceptions again, it's it mirrors almost everything you see where , it's a marketing thing.

[00:49:29] That sounds great. And we should do it in my opinion, but the system we've set up is completely illogical.

[00:49:36] **Eric Lofgren:** just talking about like the small businesses and innovation, it seems like to some degree we might want less small businesses. I was, I've been tracking this newer kind of like manufacturing from Hadrian, which is software defined.

[00:49:50] And they've been talking about, there's thousands and thousands of mom and pop manufacturers from like the sixties building like these aerospace parts very small scale and they stay small. And they don't have any like incentive to. Invest and tool up and modernize.

[00:50:05] And so we almost want the most efficient from, and sometimes the most efficient firms or big firms. Totally. Yeah. But they're also not the old firms. So I still come back to this do we need to like incentivize new firms or is there like a small business program or a cost program or what have you type of program like silver, but really aimed for, newer and innovative firms.

[00:50:26] So I fence off that money because they're not going to have the time or the money or the skills to put together those, massive proposal solicitation stuff and with the, all the volumes.

[00:50:38] **Amanda Bresler:** Yeah. think so. I agree. Yes. And we've brought that up in a number of our early research papers.

[00:50:44] It's that. If you're going to assess programs, you need a number of variables with which to assess them. And we have always suggested that the CIBER program, for instance, that one measure of success should be the extent to which it's attracted companies with no prior government experience.

[00:51:01] We've also floated the idea that the year that affirm was founded should matter whether it should be a qualifier or a disqualifier. I can't say because let's be real. Your. PW communications, our parent company was founded in 1996 and our core business is very different than what Alex and I are building out.

[00:51:23] So there is such a thing as a company kind of changing course. And just because we were established 26 years ago, doesn't mean we can't be innovative. So I hesitate to put, these kind of strict rules around certain things that really should be treated with nuance, but certainly. To your point.

[00:51:43] Things like company age should be factored in, they are a data point that can help you understand whether you're doing a good job of attracting innovation into a system or

[00:51:56] **Eric Lofgren:** not. Yeah. So we're coming up on time here. Was there anything you wanted to address quickly on subcontract data and then anything you'd like to end on?

[00:52:05] Yeah,

[00:52:05] **Amanda Bresler:** I guess for those of you who may have read the paper, dedicated a section to the subcontracting findings and it's something that probably needs a little bit more attention than we were able to give it in the paper. But the long and the short of it is aside from the challenges that we've discussed today, you're also seeing how these small business programs are literally enabling large companies, not large businesses, that are qualified small, but actual large businesses to expand their market.

[00:52:32] Because they perform as subcontractors to small businesses. There's there, there are some legitimate reasons for that on occasion, but at the very least, we feel that dollars earmark for small businesses, to the extent that this program is going to exist, you should not be able to funnel them through to large companies and then have that count towards your 23% procurement goals.

[00:52:56] If the money went to north of Grumman, it shouldn't count as money spent on small business,

[00:53:02] **Eric Lofgren:** You would need a whole bunch of like infrastructure for supply chain insight. You said that there's all tier one suppliers over 30,000 have to actually submit to FPDS that data.

[00:53:14] It was your finding that it was. That wasn't actually a reliable source of what's actually

[00:53:18] **Amanda Bresler:** going on. Th the subcontracting data is generally less reliable than what you can find on prime data, but it's there. And, we've we're on a marching battle, cry to improve the quality of that data and some other work and folks that we've connected with that agree.

[00:53:33] And we're trying to push for that more, accurate and more comprehensive subcontracting data, but even with what you have, you could start to chip away at this problem. We did it on an unfunded research paper to some extent, it's not that big of an infrastructure that it took to, to begin to connect the dots here.

[00:53:51] And look, we're not saying you shouldn't be allowed to subcontract to a large business. We're just saying that shouldn't count towards your procurement set aside.

[00:54:00] **Eric Lofgren:** . I think the community really appreciates, Amanda and Alex, all of your research that you put in these unfunded papers that you're putting into Naval, postgraduate research symposiums.

[00:54:10] Those have been really helpful to me and others. So we really thank you and appreciate you coming back onto the acquisition talk podcast. It's been really great, Alex. Amanda, thanks for joining me. Thank you

[00:54:22] **Amanda Bresler:** so much, Eric. Thanks a lot.

[00:54:24] This concludes another episode of acquisition. Talk, if you have comments, interview recommendations, or just want to chat, please contact us@acquisitiontalk.com. Thanks again. And until next time.