

ARMY OFFICE OF SMALL BUSINESS PROGRAMS
FISCAL YEAR 2022 ANNUAL REPORT

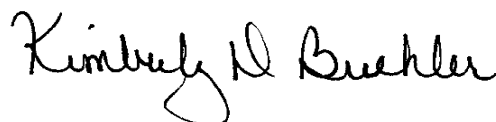


June 2023

Building the Army of 2030 requires equipping our warfighters with cutting-edge technologies that will give soldiers a decisive edge in future combat environments. Small businesses continue to be key contributors to the Army's modernization goals and a vital part of executing the National Defense Strategy. In Fiscal Year 2022 (FY22), the Army awarded fewer prime contracting dollars to small business than in FY21—\$24.5 billion in FY22 compared to \$28 billion—and achieved 95% of the overall small business goal assigned by the Department of Defense (DoD) Office of Small Business Programs (OSBP). This decline is primarily attributable to contracts for COVID-19 vaccines, which increased the total dollars factored into Army goal calculations but provided little opportunity for small business participation at the prime level. To put this in context, the Army awarded over \$112 billion in Federal Acquisition Regulation-based contracts in FY22, which included \$28 billion in contracts for COVID-19 vaccines. As discussed later in this report, with the COVID-19 obligations removed, the Army exceeded all FY22 small business goals. In addition, the Army exceeded the goal for small-disadvantaged business (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 home distribution program through the United States Postal Service. This example illustrates that small businesses are essential to building an enduring advantage no matter the enemy, and statistical goals, while important, are only one measure of success for small business programs.

As noted in the fiscal reports from FY20 and FY21, the Army has been concerned about the declining number of unique small businesses receiving prime contract awards. We conducted a detailed examination in FY22 to further our understanding of the data. Research focused on the nine (9) defense-specific categories of spend defined under the Office of Management and Budget's Category Management framework. The top-level results of the analysis are summarized in the Industrial Base Changes section of this report.

The Army OSBP recognizes the contributions across the Army enterprise that make the small business program successful, from the Senior Executives and General Officers who establish a culture of small business support, to the professionals engaged in contract planning, execution, and oversight. One thing remains clear...small business remains big business in the Department of the Army!

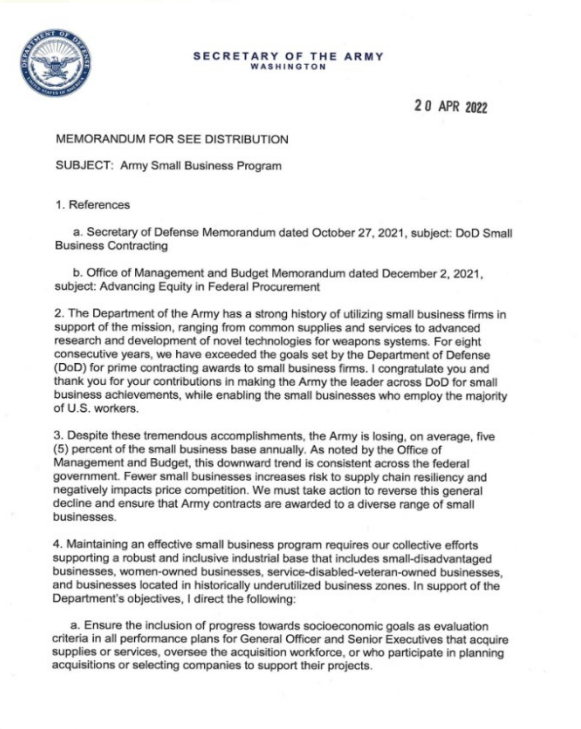


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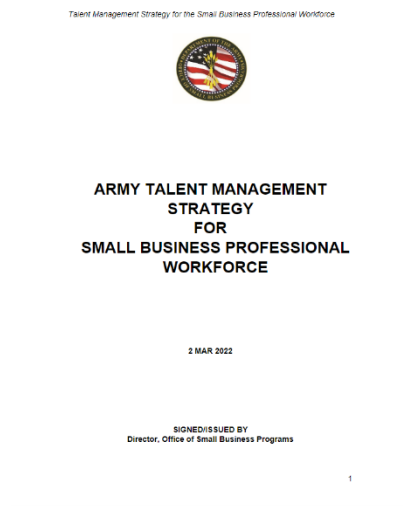
Key Achievements

The Army issued four new memorandums addressing Small Business:

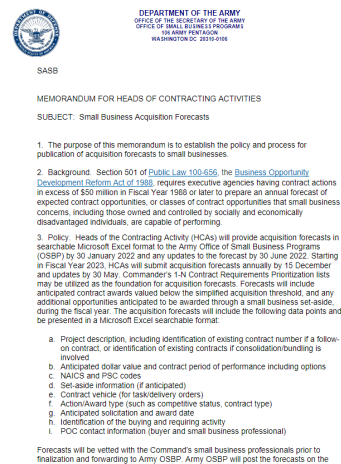
- Secretary of the Army, HON Christine Wormuth, signed memorandum “Army Small Business Programs” (20 Apr 2022)



- OSBP issued first Army Small Business Talent Management Strategy (Feb 2022)



- OSBP and DASA(P) issued memorandum implementing biannual acquisition forecasts (Dec 2021)



- OSPB issued memorandum “Myth Busting”: Addressing Misconceptions to Improve Communication with Industry During the Acquisition Process (Jul 2022)



DEPARTMENT OF THE ARMY
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OFFICE OF SMALL BUSINESS PROGRAMS
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SASB

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: “Myth-Busting”: Addressing Misconceptions to Improve Communication with Industry During the Acquisition Process

1. Reference Office of Management and Budget memorandum, February 2, 2011, subject: “Myth-Busting”: Addressing Misconceptions to Improve Communication with Industry during the Acquisition Process.

2. The purpose of this memorandum is to provide insight expressed by small businesses during Office of Small Business engagements, as well as common observations from the execution of their duties. The memorandum refreshes the Management and Budget (OMB) “myth busters” campaign misconceptions about vendor engagement that may limit use of existing regulatory flexibilities. It also provides fact acquisition professionals benefit from industry’s knowledge information provided in the original OMB memorandum to guide common sense interactions with industry.

3. This memorandum does not alter or authorize violative procurement integrity requirements, or other statutes or communications and information sharing.

4. The Federal Acquisition Regulation (FAR) authorizes for vendor communication. Agencies often do not take full flexibilities. Some agency officials are reluctant to engage protests or fear of binding the agency in an unauthorized be concerned that talking with an agency may create a preclude them from competing on future requirements.

5. Although there are rules and requirements to ensure procurements, it is also important to understand that can important to ensuring the Army understands the abilities Early, frequent, and constructive engagement with industry complex, high-risk procurements.

6. Small businesses have a history of providing innovation ensuring a strong and resilient industry base for the Unit

ENCLOSURE

“Myth-Busting”: Addressing Misconceptions to Improve Communication with Industry During the Acquisition Process

- **Myth** – We can’t meet one-on-one with a potential offeror.
- **Fact** – Government officials should meet one-on-one with potential offerors as long as no vendor receives preferential treatment. Answering general industry questions enhances the Army’s ability to address potential concerns with the requirement to conduct accurate market research.
- **Myth** – A protest is something to be avoided at all costs – even if it means the government limits conversations with industry.
- **Fact** – There isn’t a way to avoid all protests. Restricting communication will not prevent a protest, and limiting communication might actually increase the chance of a protest – in addition to depriving the government of potentially useful information.
- **Myth** – If the government meets with vendors that may cause them to submit an unsolicited proposal and that will delay the procurement process.
- **Fact** – Submission of an unsolicited proposal will not affect the procurement schedule. The unsolicited proposal process is separate from the process for a known agency requirement that can be acquired using competitive methods.
- **Myth** – When the government awards a task or delivery order using the Schedules, debriefing the offerors isn’t required so it shouldn’t be done.
- **Fact** – Providing feedback is important, both for offerors and the government agencies should provide feedback whenever possible including providing debrief when requested.
- **Myth** – Industry days and similar events attended by multiple vendors to industry and the government because industry won’t provide useful in front of competitors, and the government doesn’t release new information.
- **Fact** – Well-organized industry days, as well as pre-solicitation and pre-conferences, are valuable opportunities for the government and for both prime contractors and subcontractors, many of whom are small business.
- **Myth** – The program manager already talked to industry to develop the requirements, so the contracting officer doesn’t need to do anything else the RFP.
- **Fact** – The technical requirements are only part of the acquisition; getting terms and conditions, pricing structure, performance metrics, evaluation contract administration matters will improve the solicitation, evaluation a contract.
- **Myth** – Giving industry only a few days to respond to an RFP is OK since government has been talking to industry about this procurement for over

- **Fact** – Providing only short response times may result in the government receiving fewer proposals and the ones received may not be as well-developed – which can lead to a flawed contract. This approach may signal that the government is not sincerely interested in competition.
- **Myth** – Clarifying responses to Requests for Information (RFIs) through discussions with small businesses are not permissible because it creates the illusion of favoritism.
- **Fact** – Clarifying responses to RFIs allows a common understanding of small business availability to fulfill requirements. Discussions with vendors during market research does not require the exact same conversation with every vendor. Clarifying areas of concern with vendors should focus on areas specific to each vendor.
- **Myth** – A vendor who does not provide an answer to all RFI questions should be determined incapable of fulfilling the requirement.
- **Fact** – Failure to provide all requested information is not grounds for making such a determination. Contact the vendor individually to request additional information. Once the necessary information is obtained, the government can make an accurate assessment of available small business sources. This market research information should inform “Rule of Two” set-aside and small business reserve decisions for the acquisition strategy. As a reminder, RFIs are not offers and cannot be accepted by the Government to form a binding contract.

Army OSBP distributed key policies and guidance to shape small business related activity:

- Office of Management and Budget Memorandum (M-22-03), subject: Advancing Equity in Federal Procurement, December 2021
- Principal Director, Defense Pricing and Contracting memorandum, subject: Guidance on Inflation and Economic Price Adjustments, May 2022
- Secretary of Defense memorandum, subject: DoD Small Business Contracting, October 2021
- Office of Management and Budget Memorandum, subject: Strategies for Meeting and Exceeding the Small Disadvantaged Business Goal for Fiscal Year 2022, June 2022

Outreach Activities

The Army OSBP continued major contractor outreach activities in FY22, executed both virtually and in person. The Army OSBP conservatively engaged with over 800 small businesses in FY22 through formal outreach events. Army OSBP utilized social media platforms to provide timely and diverse information to followers and featured innovation opportunities through the @xTech and @ArmySBIRSTTR profiles. The Director, Deputy Director, and Program Managers participated in a wide variety of engagements, such as keynote speeches, panel presentations, and matchmaking sessions.

Outreach highlights include:

- Small Business Seminar and Matchmaking Session at the Annual Meeting of the Association of the United States Army (11-12 October 2021)
- Applied SBIR Summit (30 October 2021)
- xTransition Accelerator – Storagenergy (1 December 2021)
- AFCEA NOVA Small Business Event (25 January 2022)
- National 8(a) Association Small Business Conference, Orlando, FL (31 January to 2 February 2022)
- GOVCON Small Business Webinar (11 February 2022)
- EdentifID engagement (22 February 2022)
- TRIAD Customer Panel (22 February 2022)
- AFCEA NOVA Small Business Breakfast (23 February 2022)
- Government Contracting: Doing Business with the US Army (9 March 2022)
- Applied SBIR Transition Pathway Summit (23 March 2022)
- AFCEA Small Business Enterprise IT Day (5 May 2022)
- Missile Defense Agency Small Business Conference (10-12 May 2022)
- Housing and Urban Development Small Business Virtual Conference (19 May 2022)
- ASC-RI Advanced Planning Brief to Industry and Industry Engagement (4 August 2022)
- ChallengeHER Contract Connections, National 8a Association Women-Owned Businesses Event (25 August 2022)
- U.S. Pan-Asian American Chamber of Commerce (11 August 2022)
- National HUBZone Conference (1 September 2022)
- Navy Gold Coast (7-9 September 2022)

Training for Acquisition Professionals



Army small business professionals participated in the DoD OSBP sponsored virtual FY22 Small Business Training Week.

- Army OSBP conducted an Army focused break-out session.
- 204 small business / acquisition professionals trained from across the Army enterprise.



Town Hall Meeting

Army OSBP conducted quarterly Small Business Professional Town Halls that featured:

- Hails & Farewells
- Years of Service Recognition
- Updates on Initiatives / News You Can Use
- Open Q&A with the OSBP Director



Partnered with other Army Stakeholders to educate the broader community on small business topics:

- Army Contracting Enterprise Hot Topics – subjects included Myth Busters, Inflation Flexibilities
- Army Contracting Enterprise Community Collaboration Meeting
- Civilian Aides to the Secretary of the Army – Small Business Overview & How to do Business with the Army

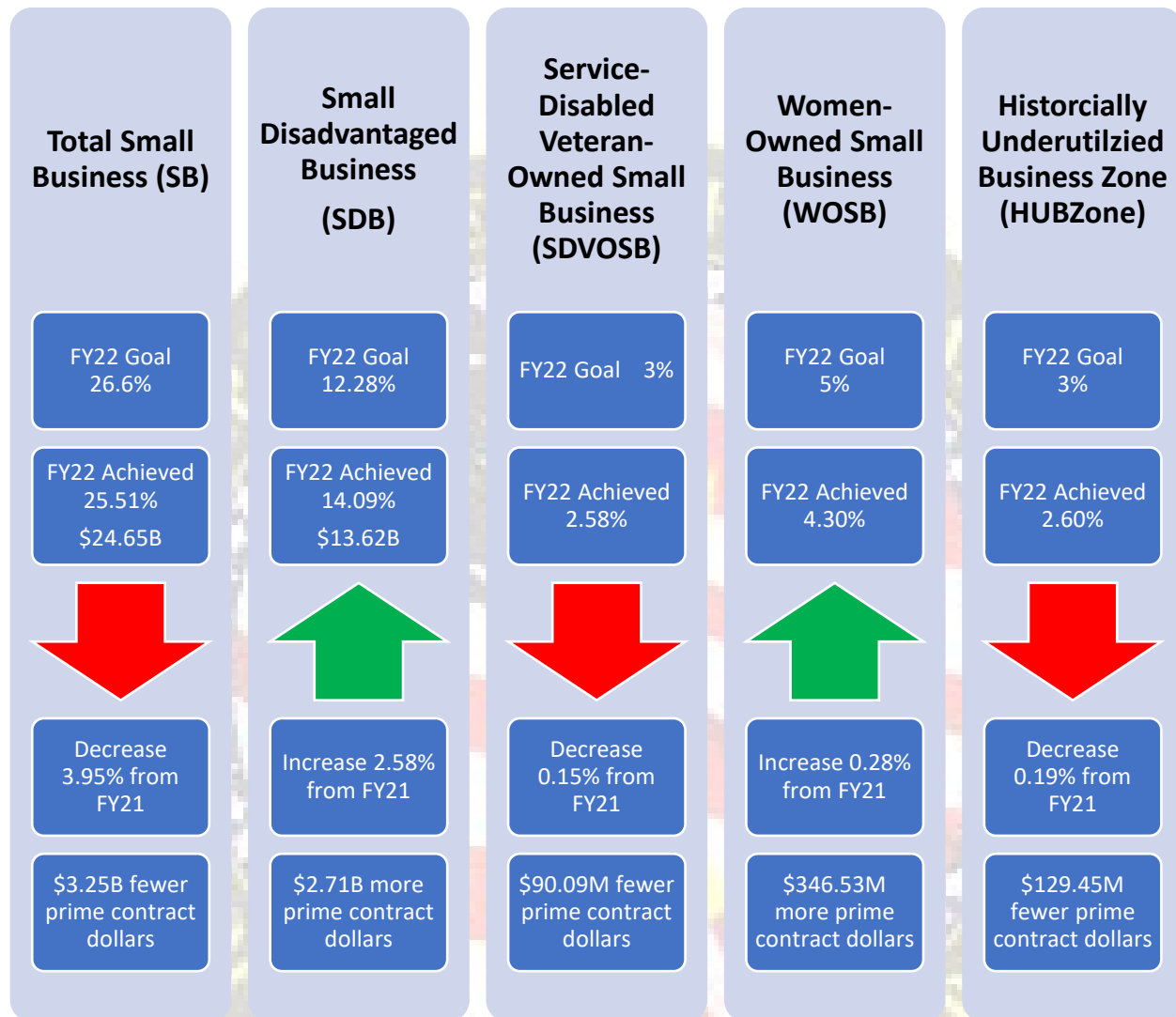
Integrator Initiatives

In Oct 2022, the Under Secretary of the Army launched a series of five initiatives that emphasize the important partnership between the prime integrators who synthesize the efforts of a diverse ecosystem of manufacturers, suppliers, and service providers to deliver capability into soldiers' hands and the small businesses who can provide cutting-edge solutions that drive the most innovative and decisive capabilities. Speaking at the Small Business Seminar conducted during the Annual Meeting of the Association of the United States Army, the Under Secretary recognized that integrators and small businesses are essential partners in building the Army of 2030. The five initiatives are:

- 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. Firms participating in Catalyst will receive prototype awards with an estimated value of \$15 million each, 10 times larger than typical SBIR awards.
- Project VISTA (Valuing Innovation with a Source Selection Technical Advantage) will allow integrators to potentially receive a higher technical rating during source selection if they draw on innovative technologies cultivated through Army or DoD investment (such as SBIR/STTR) and transition them into the proposed technical solution. This will encourage integrators to open supply chains to new small businesses and help the Army realize return on Army investments.
- Intellectual Property (IP) Cell of Experts at Army Headquarters will provide advice, assistance, and resources to the acquisition workforce and small businesses on IP matters. Small businesses 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 the small businesses, the Army R&D community, and program offices to develop balanced IP acquisition and management approaches.
- Army R&D Marketplace will connect small businesses 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 technology at the right time.
- PRIME Competition will leverage the Army's flagship prize competition—xTech—to enable innovative small businesses 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 drive down transition risk by incentivizing collaboration and prototyping during the early stages of competition. Winners will be eligible for a follow-on contract for prototype development and deployment.

ARMY SMALL BUSINESS ACHIEVEMENTS BY THE NUMBERS

OVERALL FY22 SMALL BUSINESS ACHIEVEMENTS—PRIME CONTRACTS



The Small Business Administration and DoD negotiated the FY22 small business prime contracting goal at 22.50%. In January 2021, DoD assigned goals to the Services and Other Defense Agencies. DoD assigned the Army a small business goal of 26.60% for prime contracting performance for FY22 and a small-disadvantaged business goal of 12.28%.

The Army awarded an additional \$82 million to small businesses through cooperative agreements, grants, and other forms of financial assistance.

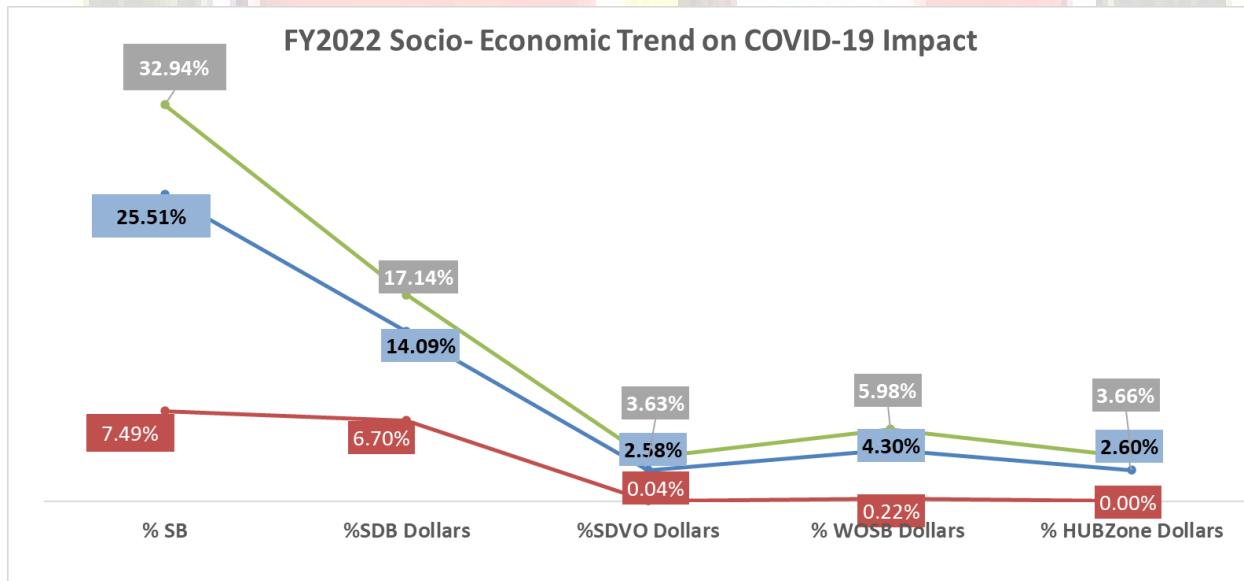
All data in this report was pulled from the Army's Virtual Contracting Enterprise on January 30, 2023, which is the date DoD "locks" the data for reporting purposes.

IMPACT OF COVID-19 ON ARMY ACHIEVEMENTS

The Army’s procurements supporting the federal response to the COVID-19 pandemic depressed the Army’s small business prime contracting goal achievement in FY22. Of the \$28.19 billion obligated for the COVID-19 response in FY22, over 92 percent of that amount was awarded to “Other Than Small Business” firms. This stands in stark contrast to the prior two fiscal years impacted by COVID-19 largely due to changes for Army requirements supporting the pandemic response.

Fiscal Year	COVID-19 SMALL BUSINESS Eligible Dollars	COVID-19 SMALL BUSINESS Awarded Dollars	COVID-19 SMALL BUSINESS %
2020	\$3.89B	\$2.12B	54.62%
2021	\$30.06B	\$7.16B	23.81%
2022	\$28.19B	\$2.11B	7.49%

With the COVID-19 obligations removed, the Army exceeded all small business goals in FY22.



CATEGORY MANAGEMENT

Army OSBP continues to track and evaluate the impact of category management efforts on small business. This chart displays the highest small business Category Management achievements by obligated dollars and overall percent of eligible dollars in FY22. Except for Category 10-Medical, which declined due to Army's changing requirements supporting the pandemic response, the Categories remained relatively stable from FY21 to FY22.

OMB Level 1 Category	FY22			Change from Prior Fiscal Year	
	SB Eligible Dollars	SB Obligated Dollars	% SB Obligated Dollars	% Achieved	\$ Achieved
1-IT	\$4.92B	\$1.85B	37.67%	0.03%	\$91.59M
2-Professional Services	\$9.82B	\$3.91B	39.80%	0.02%	\$88.50M
4-Facilities & Construction	\$24.34B	\$10.4B	42.73%	0.25%	\$1.24B
10-Medical	\$28.91B	\$2.64B	9.12%	15.75%	\$4.91B
17-Research & Development	\$4.22B	\$1.71B	40.59%	3.21%	\$244.3M

When compared to FY21, the percentage of contract dollars awarded to small businesses in FY22 increased in 11 of the 19 categories, one of which was a Defense-specific Category 18 Equipment Related Services. Four categories with decreased eligible small business dollars increased awarded small business dollars. The increase small business dollars with decreasing eligible spend may show the impact of policy changes. Army implemented the small business tenets contained in Executive Order 13985 "Advancing Racial Equity and Support for Underserved Communities through the Federal Government" (Jan 2021) in the Secretary of the Army memorandum "Army Small Business Programs" (20 Apr 2022). This combined with changes to Army's Category Management policy from Jun 2021 and additional change stemming from OMB M-22-03 "Advancing Equity in Federal Procurement" (Dec 2021) showed how the category management infrastructure can be used to support small business opportunity.

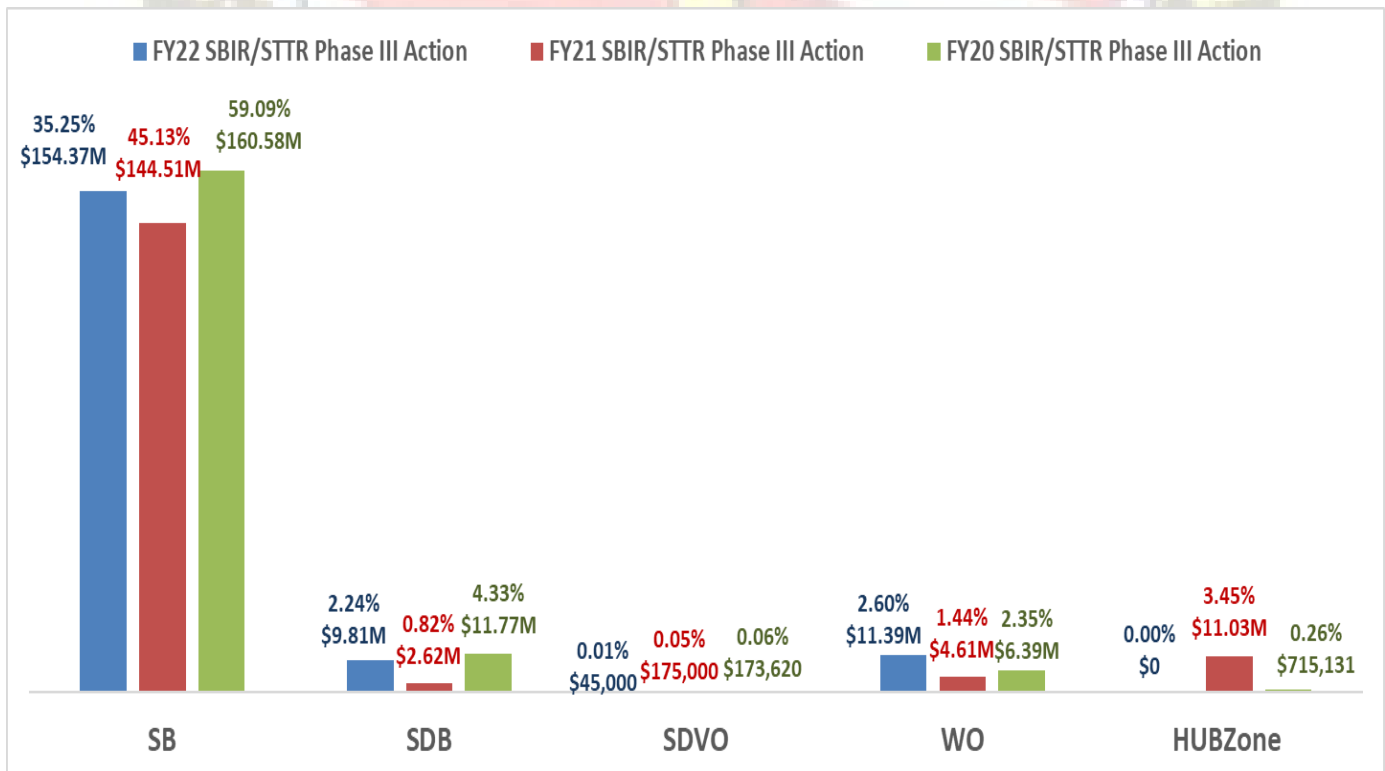
OMB Level 1 Category	FY22			Change from Prior Fiscal Year	
	SB Eligible Dollars	SB Obligated Dollars	% SB Obligated Dollars	% Achieved	\$ Achieved
3- Security & Protection	\$987.61M	\$171.47M	17.36%	5.87%	\$32.96M
5-Industrial Products & Services	\$1.04B	\$544.75M	52.2%	5.54%	\$31.89M
8-Travel & Lodging	\$165M	\$131.85M	79.91%	46.61%	\$34.82M
18-Equipment Related Services	\$2.67B	\$358.2M	13.41%	2.5%	\$63.90M

SMALL BUSINESS INNOVATION RESEARCH (SBIR) AND SMALL BUSINESS TECHNOLOGY TRANSFER (STTR) PROGRAM ACHIEVEMENTS

“We’ve been working to put innovation back into the SBIR program—not just from a technology standpoint, but from a business policy standpoint as well,” said Dr. Matt Willis, Director, Director of Army Prize Competitions and Army Applied SBIR Program, in the Office of the Assistant Secretary of the Army for Acquisition, Logistics, and Technology (ASA(ALT)). “The primary focus of our program is to develop, deliver and transition technology to benefit the Army, as well as small businesses, so we’re excited to see these companies move from Phase I to Phase II in their technology development.”

The Army continues to utilize the SBIR and STTR program to advance research and development aligned to the Army’s most critical technology needs. The reimagined Army SBIR Program instituted its new Transition Broker Team (TBT) structure, which facilitates the transfer of disruptive technology into the Army and the hands of the Soldier. The program is organized around select technology ecosystems, within

which the Army SBIR Program analyzed and identified five technology verticals for creation of TBTs — Artificial Intelligence/Machine Learning, Sensors, Climate and Clean Tech, Autonomy, and Immersive and Wearables. As a result, in FY22, the Army awarded 159 SBIR Phase III contracts with a cumulative funding amount of more than \$318.6M and issued 27 new solicitation opportunities that received over 1000 proposals from cutting-edge small businesses in one of the five primary areas of focus.

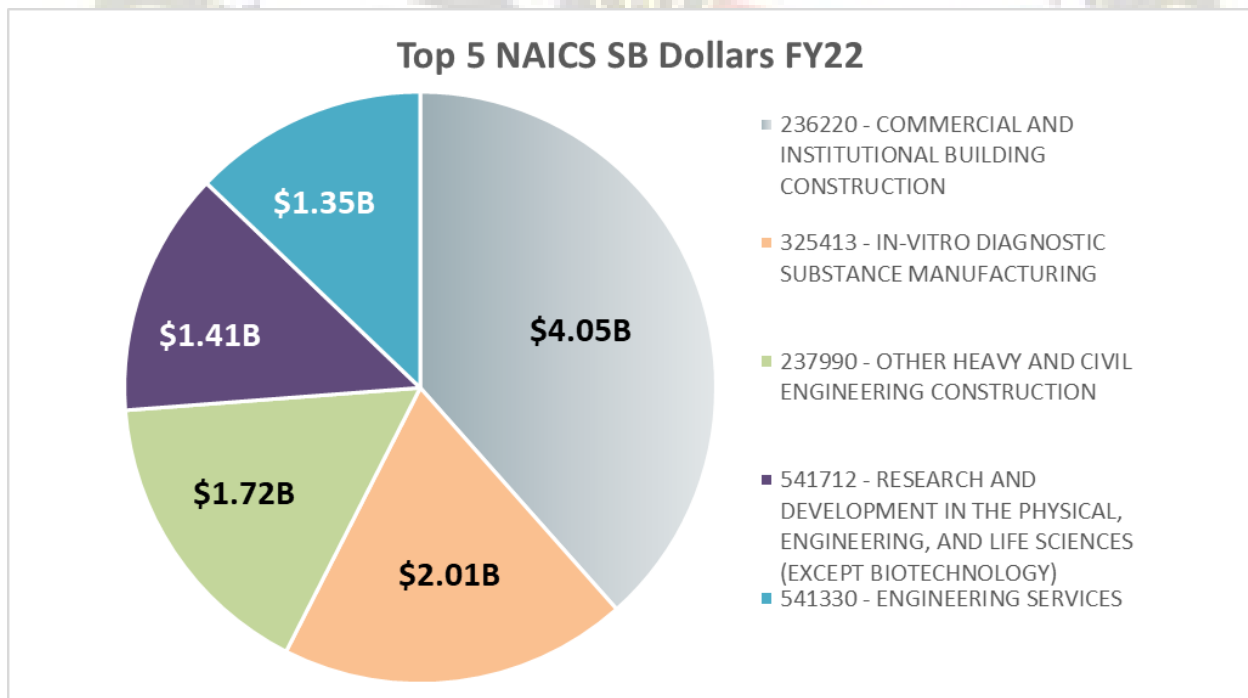


Army Top Five North American Industry Classification System (NAICS)

The North American Industry Classification System (NAICS) is the standard used by federal statistical agencies to classify businesses for purposes of collecting, analyzing, and publishing statistics related to the U.S. business economy. NAICS groups businesses into industries according to similarity in the processes used to produce goods and services and assigns a corresponding numeric code. The SBA publishes small business size standards matched to NAICS. Size standards include both revenue-based and employee-based size standards.

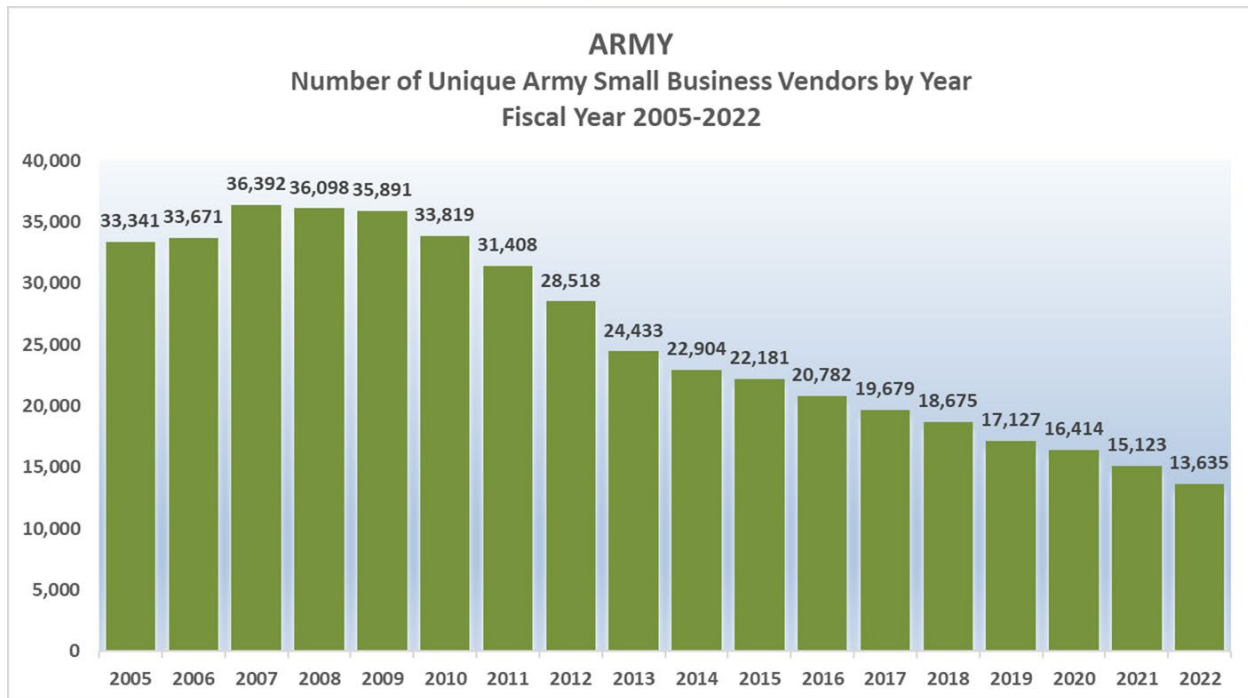
The Army's Top Five NAICS in FY22 remained consistent with those identified in FY21 except NAICS 325412 - Pharmaceutical Preparation Manufacturing was replaced by NAICS 325413 – In-Vitro Diagnostic Substance Manufacturing. Overall, the amount of small business dollars captured by the top five NAICS decreased from FY21 to FY22, primarily associated with the decrease in small business obligations that supported COVID-19 requirements.

The below charts display the obligated dollars to small business in the top five NAICS by socio-economic category in FY22.



Industrial Base Changes

As noted in the FY21 annual report, the Army lost on average 5% of small business vendors annually between 2007-2021. As the below chart illustrates, this downward trend continued in FY22.



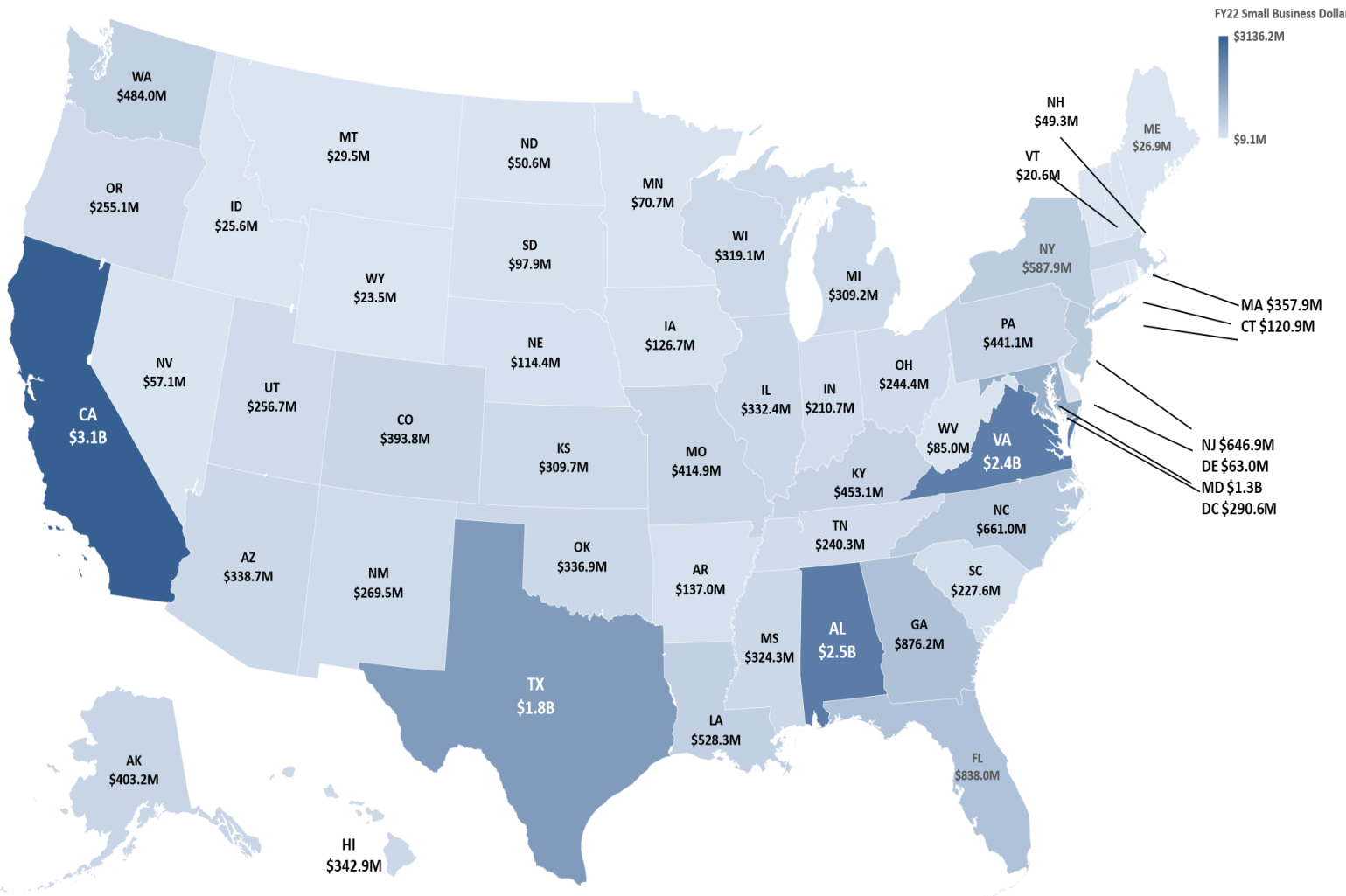
In FY22 the Army conducted deeper analysis on the decline in the number of small businesses receiving prime contracts. Since there is no “good” number of unique small business vendors, the study set out to identify the risk to the Army resulting from the decline. The Army focused on the nine (9) Defense-specific areas of spend for FY2008-2017.

Results highlight several key take-aways:

- 58% of the vendors no longer had Army contracts but remained in business
- The further back in time, the higher the attrition/likelihood of being closed
- The categories with the statistically significant levels of attrition have higher levels of businesses still receiving contracts
- Army attrition was higher than for the DoD and other federal agencies, likely the result of higher levels of wartime contracting
- Data should be focused on 2013 forward to adjust for the post wartime surge (Iraq/Afghanistan)
- The declining number of vendors correlates with declines in the budget

State by State

The below map depicts total small business obligations by state for FY22 equating to more than \$24.65 billion in prime contracts. As indicated, the heaviest concentration of spend is in four states: California, Alabama, Virginia, and Texas.



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FY23 – Looking Ahead

“Despite the many other things the Army does, the Army exists to fight and win the nation’s wars. We cannot lose sight of that fundamental purpose. And to make sure we remain the dominant land force on the battlefields of 2030, the Army is undergoing a once-in-a-generation transformation that will position the Army to deter and defeat future threats. Transforming into the Army of 2030 means adopting new operational concepts, reorganizing our forces, and developing new capabilities so that we maintain superiority over any future adversary. And we are well on our way there.” Remarks by the 25th Secretary of the Army Christine Wormuth at the 2022 AUSA Opening Ceremony (10 Oct 2022)



FY23 will bring new challenges and opportunities to advance the Army’s small business programs. The Army OSBP remains committed to helping the Army fulfill its mission to fight and win the nation’s wars through small business utilization and maximizing opportunity for small businesses to participate on Army contracts at both prime and subcontract levels.