

SPEAKING OUT

# HOW TO SAVE A FEW BILLION DOLLARS

Defense bureaucrats could save that much by contracting with smaller companies.

By Paul J. Seidman

**G**overnment procurement officials have several good reasons for wanting to deal only with big companies. Unfortunately, what's good for the officials is often bad for the taxpayers, and official repudiation of efficient small companies costs the government billions of dollars a year. It's time for small businesspeople and their organizations to unite and demand that bureaucrats let them sell the products they're best at producing.

Say the Air Force needs spare parts, and the procurement official has a choice between a small company that nobody's ever heard of and a big one that advertises in all the glossy magazines. If he gives the contract to the big guy, nobody will blame him if the parts turn out to be bad. After all, look at the company's reputation. But if he gives it to the little one, think of the heat he'll get if the parts are defective: "Whaddya mean, buying from that bicycle shop?"

The procurement officials—especially uniformed military men who can retire at any age after 20 years' service—may also be planning on new jobs in private industry. What better way to improve your second-career prospects than by seeing to it that a major aerospace firm keeps its status as the sole source of some profitable replacement parts?

Of course, a contracting officer has to contend with bothersome laws and regulations—like competitive bidding rules. What if some tiny company he never heard of (and wouldn't think of working for) submits the low bid on a contract?

First of all, the low bidder has to be found "responsible," which means capable of performing the work in question. Who rules on responsibility? The contracting officer. So much for the

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small company.

Congress tried to protect small businesses from the tendency of contracting officers to underestimate the capability of small firms. It enacted a law that permits a small business found to be "nonresponsible" to call on the Small Business Administration for a second opinion. If the SBA says the low-bidding small firm can do the job, it gets the contract.

But innovative procurement officials at the Department of Defense have found a way around this law. If we can

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The SBA found there's a potential for billions of dollars in savings if small companies are allowed to bid freely on defense procurement.

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keep small businesses from bidding in the first place, the officials apparently reasoned, then they can't be low bidders and the SBA can't muscle in.

The procurement officials have assigned each of their aircraft spare parts a procurement method code, or PMC. One code indicates that a part requires unique manufacturing capabilities. Another covers those parts for which the government lacks sufficient data to prepare specifications for production by anyone but the original manufacturer. Yet another designates those manufactured with proprietary techniques. Using the assigned code for each replacement part, the Department of Defense makes a list of "qualified" bidders. And only those companies on the qualified bidders list can bid to make each replacement part.

Procurement officials asked the original manufacturers of parts to recommend the code that should be applied to their products, then generally fol-

lowed their recommendations. Thus, the "qualified bidders list" for many products consisted of exactly one name—that of the original manufacturer. This had the desired effect of making prime contractors the sole-source suppliers of replacement parts for their aircraft. And it kept the pesky SBA out of the way.

Of course, some upstart of a small business occasionally makes a fuss about this system. Honeycomb Co. of America, for example, a small family-owned business located in Sarasota, Fla., had an Air Force contract to supply some replacement parts for the F-4 Phantom jet fighter. The Air Force claimed some of Honeycomb's replacement parts weren't good enough and removed the firm from the list of qualified suppliers.

Unfair, said Honeycomb, and demanded a second opinion from the Small Business Administration.

You don't get one, replied the Air Force, because we never said you were "nonresponsible," we only removed you from the qualified list.

Honeycomb persisted, and took its protest to the General Accounting Office, a congressional watchdog agency that rules on the legality of procurement actions at the request of interested parties such as potential bidders or their trade associations. The Air Force got scared, fearing that its whole innovative system of discriminating against small business might be destroyed if the GAO ruled that Honeycomb had a right to a second opinion. Rather than risk total defeat, it surrendered to Honeycomb, and the GAO never rendered a decision on the merits of the case. Honeycomb got to bid on the F-4 parts, but other small companies in similar situations won't get to offer their products to the Air Force unless they're willing to run a similar gauntlet.

Moreover, the Department of Defense and its prime contractors are trying to undermine potential small business bidders in still another way. They are supporting changes to the Freedom of Information Act that would allow the Defense Department to withhold

government-owned technical data needed to manufacture spare parts from potential small business competitors.

The effect of this kind of official cuddling up to big business is increased expenses for the military—and for the taxpayer. Many smaller businesses say they can save the Pentagon one-third to two-thirds of the prices the Air Force currently pays for parts. The savings that have resulted when the SBA has cajoled the military into opening bids to smaller companies have sometimes been even greater.

The SBA recently compared prices for 181 different aircraft spare parts bought through competitive bids after SBA intervention with the prices paid before competition was allowed. It found that the Air Force saved \$6.7 million on these 181 parts over an 18-month period in 1980 and 1981. In one case, the cost reduction was 99.5% of the price the service paid in noncompetitive buys. "These are only example cases," the SBA said in a report prepared for Rep. John LaFalce (D-N.Y.), chairman of a House small business subcommittee. It noted that only 7.9%, or approximately 300,000, of the nearly 3.9 million individual spare parts listed in the Department of Defense catalog system were subject to open competitive bidding.

The SBA report shows that there's a potential for billions of dollars in savings if smaller companies are allowed to participate more widely in the defense effort.

But individual small businesses like Honeycomb can rarely take on the Defense Department and the large aerospace contractors and force open bidding on products the small businesses could efficiently produce. Any small business's first concern is staying in business, not battling unreasonable government policies. And the Defense Department and the large prime contractors can easily retaliate if they find a small business is being too successful in a struggle to force open bids.

Given the Reagan Administration's need to cut federal expenditures, one might think the White House would be interested in heightened competition and lower prices. But the Honeycomb case by itself isn't likely to get the Administration's attention.

The country needs a bunch of small companies willing to pool their resources and shout loud and long about the contribution they could make to cheaper and better defense. Without a strong small business coalition on the issue, the country will go on wasting money. □