THE PRESENT AND FUTURE OF E-COMMERCE FOR SMALL BUSINESSES IN THE PRIVATE SECTOR AND WITH FEDERAL GOVERNMENT AGENCIES

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT PROGRAMS AND OVERSIGHT

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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ELECTRONIC COMMERCE

TUESDAY, APRIL 11, 2000

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT
PROGRAMS AND OVERSIGHT,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:07 a.m., in room 2360, Rayburn House Office Building, Hon. Roscoe Bartlett (chairman of the subcommittee) presiding.

Chairman BARTLETT. Good morning. Let me call our subcommittee to order.

Good morning and welcome to this hearing of the Subcommittee on Government Programs and Oversight of the Committee on Small Business. A special welcome to those who have come some distance to participate.

We are here today to discuss the present progress and future potential of e-commerce and its impact on doing business in the private and public sectors. The dollar volume of business being conducted by means of e-commerce is increasing at an unprecedented rate.

An article in the Wall Street Journal last Wednesday, April 5th, quoted a source that estimated the volume of online sales as increasing by 53 percent this year to $23 billion, after doubling the previous year to $15 billion. The same article quotes a trade association that estimates that there are 30,000 or more web sites on the Internet selling merchandise to consumers.

In the midst of this electronic revolution in the way business is done, it is imperative that we explore together today, in this hearing, the present state of e-commerce in the United States and its future potential and direction.

Many businesses in the private sector are now relying upon the Internet to buy goods and services which were previously acquired through antiquated paper-based acquisition processes. The speed, efficiency, and convenience with which transactions can be completed are distinct advantages that e-commerce has over paper-based systems.

The passage of the Federal Acquisition Streamlining Act of 1994 provided an impetus to Federal agencies to use the Internet as the preferred method of procurement. The rush to the Internet by the Federal Government has spawned these headlines in a well-known Internet trade publication. The first one: "U.S. Moves to Online Procurement." A second headline: "Commerce Department to Uti-

lize E-Commerce, Go Paperless.'' Third headline: ''Defense Department Goes E-Commercial.''

There are few, if any, major Federal agencies that do not acquire a large dollar volume of goods and services through e-commerce transactions. We hope at the hearing today to examine both the commercial and Federal use of e-commerce technologies such as the creation of electronic shopping malls, in the transition to largely paperless transactions.

The hearing will also look at the training and acquisition assistance that small businesses need or are receiving to compete in e-commerce both in the commercial and Federal sectors.

We welcome your suggestions with respect to legislation or regulatory changes that may be needed to train small businesses in electronic commerce and to provide more timely and complete Federal procurement information than is presently provided in the Commerce Business Daily.

Lastly, in the hearing today we hope to have some answers to the questions: Where are we going in e-commerce? And what are the implications for doing business in the private and public sectors?

Again, thank you all for participating in this hearing, and thank you in the audience for attending this hearing.

We are very pleased to be joined by our ranking member, Mr. Danny Davis. Mr. Davis?

Mr. DAVIS. Thank you very much, Mr. Chairman.

First of all, let me just thank you for convening this hearing today, and I also want to thank the witnesses for their attendance.

As the rapid growth of the Internet increases, so does the need to conduct business on it, and, therefore, I think it is important that we find out as much as we possibly can about it.

This past year electronic commerce has grown beyond expectations. Every day more people are finding new ways to provide innovative products and services electronically. The Internet is changing the way business is doing business, from the acquisition and servicing of customers to the management of their relations with suppliers.

However, as the Internet usage increases, the demand for online services becomes increasingly important. As of today, the Government provides over 15 Internet sites dedicated to Federal procurement alone, the most popular being SBA's PRO–Net, CommerceNet, GSA's Doing Business with GSA, and NASA's Small Business Programs site. In fact, the Small Business Committee has taken the lead to help promote electronic commerce and Internet usage through the Paperwork Elimination Act of 1997. Under the Paperwork Elimination Act, Federal agencies are addressing issues regarding electronic transactions within the Federal Government and between the Federal Government and other parties through the sponsorship and use of alternative information technologies.

However, is electronic commerce getting better or is it getting worse? Well, that probably depends on who you talk to and when? While some companies are doing business quite well online, their successes could easily lead someone to assume that all small businesses are now ready to adopt electronic commerce as the new way to conduct business. On the other hand, I have heard many reports

and complaints of the complex technical and legal issues facing electronic commerce.

Today, it is my intent to try and help uncover and discuss some of the barriers that inhibit our small businesses from taking advantage of the business opportunities electronic commerce encourages, especially small businesses, sometimes businesses that are called mom-and-pop businesses, businesses that in many instances are getting started and in many instances have not had the capital to address their own electronic needs.

So I would like to, again, Mr. Chairman, thank the panel for their attendance and thank you for calling this hearing, and I look forward to their testimony.

Chairman BARTLETT. Thank you, Mr. Davis.

In a former life, I was a small business person doing Federal grant and contract work, and the difficulty of determining the opportunities available to you is absolutely enormous. I subscribed to Commerce Business Daily and plowed through that every day, recognizing that that was a fairly limited listing of all of the opportunities that were available across all of the Government agencies. So I look forward with anticipation today to the testimony. It opens up to small business people all across the country the opportunities for doing business with the Government.

We have two panels today. The first panel is the Honorable Deidre Lee, Administrator, Office of Federal Procurement Policy. Without objection, your full written testimony will be made a part of the record, and you now can proceed any way you wish. Thank you very much.

STATEMENT OF DEIDRE A. LEE, ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY, OFFICE OF MANAGEMENT AND BUDGET

Ms. LEE. Thank you very much, sir.

Chairman Bartlett, Congressman Davis, the subject of your hearing today, applications of electronic commerce—e-commerce—technologies to our buying process, is both timely and of particular interest to me. The rapid technological advance of the Internet is providing unprecedented opportunities to significantly improve how we conduct procurement transactions. The potential to improve information flow from the way vendors learn about Federal contracting opportunities, to the way Government buyers become informed about vendors and the range of goods and services they offer to meet the Government's needs, makes application of e-commerce technologies to the acquisition process a worthy priority for our procurement agenda.

Today, I would like to share with the Subcommittee the key principles we are following and steps we are taking to seize upon this potential. I would like to focus my attention, in particular, on the Government's efforts to create a single, government-wide point of entry for electronic commerce and for accessing business opportunities. This initiative will serve as an illustration of how we are striving to take advantage of electronic tools to make interactions faster, easier, and less costly for both our buyers and our trading partners, small and large alike.

Two years ago, the administration issued a strategic plan which, among other things, set forth policies to help agencies make and successfully manage investments in e-commerce. Two of the principles, in particular, lie at the heart of our approach to e-commerce acquisition initiatives.

One, follow the commercial lead: This is unusual for us in Government, because we sometimes want to create the new story. But we strongly share your belief in your letter of invitation for today that we can benefit from the private sector's e-commerce experience.

Our strategic plan emphasizes the importance of Government reliance, wherever possible and cost-effective, on commercial products and services so the Government can leverage the investment already made in the ever-growing commercial infrastructure and benefit from the market-driven economies and innovation that commercial tools offer. We do not want to develop Government-unique solutions.

Two, pursue e-commerce applications that offer opportunities to reengineer the procurement process. The rapid technological advances can create temptations to buy intriguing technology simply because it is available. We must instead ensure we are making the right investments, looking for those that can streamline and eliminate transaction steps, minimize unnecessary paperwork, and facilitate access to resource information or information that people need to know to do business with the Government. We want to improve buyer visibility into products and services, and we need to provide the sellers with quick, easy access to the contracting opportunities.

We have numerous initiatives ongoing. You are going to hear about more of them from the second panel. But let me just give you a quick list. We are, of course, maximizing the use of purchase cards. We are trying to improve the electronic payment process. We have contract writing systems. We are trying to integrate backroom processes, a form of ERP for acquisition. We have distance learning, online training. We have online reference and guidance, and we are trying to improve data collection and reporting.

But our strategic plan also reminds agencies that they must remain attuned to the needs of both the buyers and sellers. High on the list of sellers' needs—and I think you referred to it, Chairman Bartlett—including the small business community, is easy and cost-effective access to information on contracting opportunities. Where are they? What are they? When are they?

Prominent on the list of buyers' needs is the ability to gain more effective access to the marketplace. To address these needs, we are emphasizing with our e-commerce initiatives improved access to business opportunities. Our focus is on creating a government-wide point of electronic entry, the so-called single point of entry—of which we, give an acronym, SPE—for access to business opportunities on the Internet.

My written testimony outlines the progress we are making towards this single point of entry because, unfortunately, it is just not as easy as we would all like it to be. Mr. Nelson Crowther spent a day with us in January going through the issues and some

of the intricacies of how we can get there and ensure everyone is included and can fairly participate.

As technology has blossomed, we have used FACNet and CBDNet and DODBusOpps and an EPS pilot. We have GSA Advantage. We have electronic malls, web sites, and we are also looking at commercial solutions.

But as I meet with industry representatives and we discuss the many advances in technology and the companion solutions for Government procurement, one constant remains: communication, timely information.

How can we simply and quickly, and at low cost, notify industry of opportunities and inform the buyer of trading partners' interest and availability? I continually hear from small and large businesses that they simply cannot know of and respond to each agency's individual web site, home page, and notification process.

A single face, or SPE, single point of entry, for industry is needed, a place where Federal contracting opportunities from synopsis to the solicitation, to related procurement information, can be conveniently accessed.

We are currently evaluating SPE alternatives, keeping in mind the principles of commercial lead and reengineering. Our intent is to designate a system that is sufficiently versatile to enable agency buyers to efficiently and effectively provide access at a single entry point, and to allow sellers to reach the SPE through different commercial electronic means.

One area that is of paramount importance is the inclusion of small business in the Federal procurement process. We are currently testing an SPE concept in the electronic posting system where, in conjunction with SBA, we have linked the electronic posting system to PRO–Net so that small businesses are provided instant notice when opportunities are available. They go in, they register at PRO–Net. We haven't fully rolled this out and announced it yet, but it is hooked up. And they simply register once for business opportunities, when they are interested, on this particular system, which right now contains about 30 percent of our major activities. They receive an e-mail that says there is something you might be interested in. They can then instantly go in and access the solicitation.

Our system does not want people sending them to a web site or a home page where they have to search through and find it. It goes instantly from the notice to the document itself, and it includes history, if there were comments or questions or previous discussions, so they can see a whole package of what is going on in procurement. And that is what we are testing, and we are hooking it to the small business systems so small businesses can see how that works for them.

As we are moving to use the new technologies, we also have to make some changes to fully enhance the possibilities. We have submitted proposed statutory language—it is in the DOD bill—that hopes we can recognize some changes to take advantage of the wizardry of electronic commerce, and the fact that printed copy notifications may no longer be the benchmark for transaction time frames. Instead, we propose to recognize electronic postings through the single entry point so people know where it is as an ef-

fective communication strategy and wait times for solicitation release would be keyed from electronic posting.

We hope that you will favorably act on this proposal. Having the requested framework in place will allow agencies and small and large businesses to enjoy the efficiencies that e-commerce enables, including a more immediate return on investment.

I know e-commerce offers many opportunities for improving acquisition through redesign of the buying process. I pledge to work with my colleagues at SBA to ensure we address inclusion of small business. We must continue to look for ways to use e-commerce to strengthen the Government's acquisition function so that we can make our interactions easier, faster, and less costly, for both ourselves and our trading partners. Designating the SPE in the FAR in tandem with a revised legislative framework that fully recognize the benefits of the single point of entry are important steps in this direction. I look forward to working with you to achieve this goal.

[Ms. Lee's statement may be found in appendix.]

Chairman BARTLETT. Thank you very much.

We have been joined by Mr. Hinojosa. Let me turn now to my colleagues for their questions first. Mr. Davis?

Mr. DAVIS. Well, thank you very much, Mr. Chairman.

Ms. Lee, let me just say that I certainly appreciate your testimony, and you paint a very positive picture, and it is something I think all of us have to look forward to.

Let me just ask, do you believe that removing the 15-day advance notification for solicitations will help small businesses?

Ms. LEE. Yes, I do. We have done a little research on it, and what we are proposing adjusts the time between notification and solicitation. When we go back and find where the time requirement came from, the best we can figure is it came from the mail process, the physical Postal Service. The agency would put out a notice, and then they would have to wait 15 days before they could release the solicitation. The thought process was that if you released them simultaneously, the person that lived down the street could come pick up a copy and they would have it well in advance of someone who needed it mailed to them.

So the advanced notification was all about was leveling the playing field so people would receive a notice at approximately the same time. Through electronic commerce, we think we can put the notice out there and people could access the solicitation more rapidly. Small business can immediately look at and say, "Am I interested or not ?" rather than having to request and wait and get a copy, put it in their bid pile, figure out if they are interested.

I think it is going to help small businesses, as well as large, more readily in this fast-moving world know what is out there and what their next steps are.

Mr. DAVIS. Well, what about those that might be in remote places or who may not have access to the information? Would it mean that they are suffering under an unfair disadvantage to them, that others have the information and they really don't?

Ms. LEE. Our current proposal is to continue to provide the information to the Government Printing Office so they can continue to print a CBD. But as you know, the electronic notice does go up faster than the Commerce Business Daily is printed.

What we are not proposing to shorten is the proposal preparation time, which in most cases is 30 days, in some cases it is 45 or 60 days, or for huge procurements, even longer. So we are just proposing to shorten the notice to solicitation release time.

Mr. DAVIS. All right. So there would be equity, at least in terms of the actual amount of time that companies or businesses would have to respond to the notice.

Ms. LEE. Yes.

Mr. DAVIS. Let me ask you one other question. I know that now we see computers at practically every desk within the Federal Government. Unfortunately, there are businesses, and especially small businesses, who have not caught up with that phenomenon.

Is there any way to try and make sure that there is no punishment in a sense to these businesses because they have not reached the level of sophistication that the Federal Government and other businesses might be operating at?

Ms. LEE. There are several ways for a smaller business or someone who, for whatever reason, doesn't want to be electronic. They can, and many do, hire companies who search the CBD and sort it for them and provide them information. So they could hire that resource and have someone else do the searching and provide them with the opportunities.

As the SBA is going to tell you, the resource centers in most cases have the electronic connection, and they also provide updated information. There are also a good number of trade publications, particularly in the small business arena, that search through and identify procurement opportunities.

One of the things we are working on that we need to do better is improved forecasting so that there is even more notice. Now, of course, our plans are to put the forecast online as well. But I think any of these resources could identify opportunities earlier and still provide the information.

Mr. DAVIS. So you are saying that we are going to continue to do a number of other things to try and make sure that there is adequacy of information and opportunity.

Ms. LEE. Yes.

Mr. DAVIS. I tell you, it is kind of rewarding in a sense. I just had opportunities—I was getting ready to do my income tax—to need some information relative to my own taxes and interests doing business with someone. And to my amazement, I mean, rather than having to wait for any length of time or whatever, I mean, I just accessed the information and there it was. I didn't have to get anything in the mail, didn't have to get anything back, and it was just kind of pleasant to be able to do that and have instant information, although it still raises some fears and concerns that I might ultimately have in terms of the extent to which our employment opportunities will be able to keep up with the technology that we seem to be developing.

So I thank you very much.

Ms. LEE. Congressman Davis, the small businesses that don't have access to technology can face a problem. But it is amazing, how many of the small businesses are really up to speed. In fact, a good many of them are in the IT industry and creating these very systems. So people are coming along.

Mr. DAVIS. Thank you very much.

Ms. LEE. Thank you.

Chairman BARTLETT. Thank you, Mr. Davis.

Mr. Hinojosa.

Mr. HINOJOSA. Thank you, Ms. Lee, for coming to talk to us about what the Small Business Administration is trying to do to help small business firms.

I agree with the question that Congressman Davis asked about how many small firms have a computer at the desk of those folks who work with administration and finance of a small business. And all three of us here on this panel have had experience with small businesses, and we know that that is probably one of the weaknesses of so many of the small firms, especially if they are in manufacturing and they are going to try to bid on something for the Department of Defense or some Federal agency.

We find that small businesses are started oftentimes because a man or a woman was the one doing the production or overseeing the production of a company, and they have decided to go off on their own and do it themselves. So they have a lot of experience in production and producing widgets, and they have a little bit of experience on sales, and that is why they are delving into Federal procurement opportunities. But the weakness always comes in administration and finance and business computer systems.

As a result of that weakness of the three components of a successful business, we find that as you are moving, the Federal Government is moving towards this paperless procurement, we are quickly going to be left behind unless SBA, unless Department of Commerce through MBDA steps in and fills that weakness and fills that void that I just described.

How do you feel about the women's business centers; MBDA offices throughout the country or schools of business of universities stepping in and maybe assisting these businesses, small businesses, small business firms, bring in a consultant who could be a graduate from the school of business with a bachelor's or a graduate from the school of business with a master's, and maybe work for a day with each firm and helping them, you know, hold their hand and taking them through the steps for a whole year, if necessary two years, so that they, too, can have a computer at the desk of every one of these firms and that they know how to get onto the suggestions that you all are using so that we don't have to go through, you know, the entire document to identify the opportunities that are for that company?

There seems to be a need for us to help those small business firms strengthen the third component, administration, finance, and business computer systems of every small firm.

Ms. LEE. I know when the small business comes up, they do. We can tell you they have a wide variety of services that they offer at the resource centers. I think more can always be done. Sometimes we need to reach out to those small businesses and tell them the resource center is available. How do we communicate that first step?

I agree with you that small business needs everything from training in the very fundamentals of using your system, choosing your system, getting it set up and being ready to operate, to how

does that system provide you access to Federal procurement opportunities.

Unfortunately, our system is still not simple, even though we have simplified acquisition and other initiatives. As you know, we do require certain certifications, and we do have certain unique clauses that people that trade with us need to understand what they are doing and why. So absolutely there is an incredible opportunity for more learning.

SBA is also trying to provide more distance learning classes and more of a resource center, just as Congressman Davis mentioned in checking on his taxes. People that are now trying to access Federal procurement opportunities can go to a resource center and ask a question: Tell me more about this clause or tell me more about this program. And we're trying to deliver that information in a more user-friendly manner, but more can always be done.

Mr. HINOJOSA. You didn't answer my question. Are you willing to try to look into how to provide, at least one day a week, one of these individuals who knows how to use the computers and know how the business computer system should be set up for these small businesses interested in doing Federal procurement to move into the paperless program that you all are outlining? There needs to be someone regularly going to that small business, once a week, at least twice a month, whatever the business firm owner wants in terms of help, even if they have to pay for it, but it would be cheaper than having to hire and pay a salary, annual salary, to someone who has this kind of knowledge.

All I am saying is: Are you willing to explore that?

Ms. LEE. Oh, I would be happy to work with SBA and say how do we do that. Where do we start? How do we test it? Where do we go?

Mr. HINOJOSA. Good. Thank you.

Chairman BARTLETT. Thank you very much.

About a year ago, I wanted to build a small log cabin, and I got the construction manual, and it said that I needed a 16-inch circular saw. Now, the usual circular saw is 7¼-inch; 16-inch is a big circular saw. And the manual said that Mikita made one. So I called the local Mikita dealer, and they searched their catalogues, and they said there was no such saw available, that Mikita did not make it.

So I went to my son, who was familiar with the Net, went on the computer, and found a 16-inch saw. They asked us for our credit card number, and there was some little delay while they said they were trying to find a secure link so that our credit card number would be secure, and they said they finally found that link. And so within, oh, less than 5 minutes from the time we started, we had ordered the saw and 2 days later it was delivered by UPS to my door. I was impressed. The local Mikita dealer said Mikita didn't even make such a saw.

My question has to do with security and privacy. What we ask of the Net is accessibility and ease of use, and these two requirements—confidentiality and security and accessibility and ease of use—those two things are in tension. What kind of attention are you paying to these security/privacy problems as these small companies are encouraged to do business by way of the Net?

Ms. LEE. Chairman Bartlett, as you know, there is a great deal of concern about computer security generically. In fact, we have a priority management objective at OMB that deals with computer security and digital signatures.

You look at that overall, all-encompassing issue. Then you go to the procurement standpoint, from this single point of entry, the information that we are posting there is public information. We want it traded. So we are just going to announce and provide information. The next step is to receive back the proposals, and there are some systems that currently do that. Right now different agencies do it a little differently.

We are moving forward with digital signatures. We certainly are going to have to accept them. And regarding your comment on security, from a procurement standpoint it is not only the security of the transmittal, but it is the validation that you did, in fact, receive the proposal from the company. So it is a validation issue.

We are actually working that in conjunction with the CIOs for a government-wide solution. What we don't want to do is step out and address a procurement-unique solution that is then going to require a different approach for other Government e-commerce issues.

So as hard as it is for us to say. We are intentionally staying kind of one step behind industry and following their lead on the technology. What is the right answer for digital signatures? What is the right answer for validation and verification? Ms. Knott will be able to tell you a little bit more about what they are doing with the Department of Defense consolidated contractor registration and the security that they have there to ensure that the information is valid from a contractor.

Once we get everyone comfortable with finding the opportunities that way, how do we take the next step and start receiving back and streamlining the process even further for all proposals. We receive some now, but not all.

Chairman BARTLETT. Thank you. As you know, this balance between accessibility and ease of use and privacy and security is one of the biggest problems facing the use of the Net today. We want the ultimate in privacy and security, and we also want the ultimate in accessibility and ease of use. And those two requirements are obviously in tension, and right now everybody is struggling with what is a reasonable accommodation between those two.

The single point of entry, we have a big, big Government and there is going to be lots of information there. Are you developing a new search engine to make sure that the user can find what he wants? Or is one of the existing search engines adequate?

Ms. LEE. I am not the technical expert, but my experts explain that we don't want to create a Government-unique anything. And the technology out there is moving so rapidly that there are currently available search engines that will do this job. But they are also very carefully structuring this single point of entry in an open architecture manner so that as new technology changes you can integrate it into that.

I have to have it explained to me very simply by my expert here, Captain Carra. The single point of entry is like a parking lot. We are going to park the data there. So it will be on some agency's dif-

ferent servers, but it will be located in one location. And that allows you to access it so that we can upgrade the architecture and the infrastructure as new things develop.

We also can put it there so that, as Mr. Hinojosa mentioned, if service providers want to come and get the data and enhance it and deliver it to the small businesses or to anyone else in the new format, they can also access it. What we are trying to do is park the data in an easily accessed, very open architecture manner that we can keep refreshing and keep current.

Chairman BARTLETT. So that any of the existing search engines could be used then to access?

Ms. LEE. I know they have one selected, and we think there are numerous ones out there. They are big engines because it is a lot of data, but we think there is a current commercial solution.

Chairman BARTLETT. Thank you.

You mentioned the electronic posting system and the single point of entry. What is the relationship between those two?

Ms. LEE. The electronic posting system is like the pilot test. NASA, GSA, Treasury and Interior have gotten together and are currently using a single-point-of-entry-like process and testing it and scaling it and learning things about it. They have learned things. They had questionnaires for small businesses who used it to reply and say how did they like it, what did they think about it. And we are learning little nuances.

Right now you can search by SIC code, standard industrial code, which we will soon change to NATE code. But you can search by SIC. One of the things we have found from the small businesses is that they would also like to have place of performance because in some cases they really only want to work on a limited geographic area. And so that might be a capability that we need to think about adding.

So, it truly is the test. Does this concept work? So far we have had quite favorable results.

Chairman BARTLETT. So electronic posting system is a limited demonstration——

Ms. LEE. Yes.

Chairman BARTLETT [continuing]. Of whether or not ultimately we can get to a single point of entry for all Government transactions.

Ms. LEE. Correct. And we learned, again, from the single point of entry, this is where the e-mailing concept came from. We heard from primarily small businesses that said, gee, it would be helpful if you pushed technology and you let me say I am interested in Western Region SIC Code 7321, and any time anything that is published in that notice, it sends an e-mail to them so they are instantly notified. We learned that from them.

Chairman BARTLETT. In your oral testimony, you said that you hoped that we would act on this proposal. It wasn't clear to me what the antecedent of "this" was when you went through your testimony.

Ms. LEE. The proposal is in the DOD proposal. It is simply the removal of the waiting period because it is statutory. It is in Title X. It is statutory that we have to have this 15-day wait. The removal of this wait would occur only when the single point of entry

is identified. It wouldn't be effective until we identify the single point of entry, which we are going to do through public notice, public comments, those kind of things. We want to make sure we get that right.

But we think that the attendant release of time period will draw more agencies and will make them want to use the system more effectively. So that is the proposed change to the statute, to decrease that wait time.

Chairman BARTLETT. Okay. Thank you very much.

My final question has to do with an issue raised by both of my colleagues. How many small businesses do you think, in terms of percentage, are not now on the Net? I am just amazed at how rapidly this technology has spread and how many people, including 11-year-olds, are conversant with it and very capable. What percent of small businesses now are not on the Net? And how quickly will this change until essentially none of them will not be there?

Ms. LEE. Chairman Bartlett, I simply don't know. SBA can certainly tell you of the people that are in PRO–NET, how many of them have an e-mail address versus how many of them don't; how many of them accept faxes versus e-mails. They can probably give you a good feel for that. But I don't know how many small businesses that want to do business with the Government are not registered with PRO–Net, and I think that would probably be the set that we are talking about.

Chairman BARTLETT. Yes, I, too, am concerned that you shouldn't be left behind as a small business person simply because you don't choose to be conversant with the Net. But I understand from your testimony that you have made adequate opportunities for these by sending out Commerce Business Daily and they have the trade journals and the small business centers and there are lots of alternative avenues that they can use until they are Net-friendly.

Ms. LEE. We have found in researching the Commerce Business Daily, because we needed to know how many were published out there, that from a high of about 55,000 copies a day, they now publish a little over 4,000. The majority of those go to libraries, and so, you know, we are just kind of putting two and two together. We think that the libraries are still—what we don't know is what the usage at the library is. Is it great or little? And as you all know, most libraries now have Internet access, and so they can also get to the onlines or a business could choose, if their library provides that capability, to use it through that method.

Chairman BARTLETT. Thank you very much. Let me ask my colleagues if they have any additional questions or comments before we excuse this panel and convene the next one.

Mr. DAVIS. Only one, Mr. Chairman. How did that log cabin? [Laughter.]

Ms. LEE. We are all waiting.

Chairman BARTLETT. Well, that was a personal and very interesting experience. I have always wanted to build a log home, and I had an opportunity to do that with this little log cabin. It is fine. It is under a roof, not completely finished but out of the elements. Thank you very much.

Mr. DAVIS. You are a man of many talents.

Mr. HINOJOSA. I have no questions.

Chairman BARTLETT. Thank you.

Ms. LEE. Thank you.

Chairman BARTLETT. Thank you very much, and we will excuse this panel and convene the next one.

We welcome the members of our second panel. Again, your written testimony, without objection, will be made a part of the record. We would encourage you to summarize your testimony. There will be adequate time for expansion during the question and answer period that follows.

Mr. Max Summers, State Director, Missouri Small Business Centers, who is here today, I understand, representing all of the Small Business Development Centers. Ms. Scottie Knott, Director, JECPO, Defense Logistics Agency. Thank you for joining us. Mr. Major Clark, Assistant Advocate, Office of Advocacy, who is here representing the Office of Advocacy and my good friend Jere Glover. Thank you for joining us. And Mr. Tony Bansal, president and CEO, Digital Commerce Corporation.

Welcome to all of you to our Committee, and we will begin with Mr. Summers.

STATEMENT OF MAX E. SUMMERS, STATE DIRECTOR, MISSOURI SMALL BUSINESS DEVELOPMENT CENTERS

Mr. SUMMERS. Thank you, Chairman Bartlett, and members of this distinguished Committee. I am Max Summers, State Director of the Missouri Small Business Development Centers, and I am here today on behalf of the Association of Small Business Development Centers. My focus is on the training and acquisition assistance that businesses should receive or are receiving to compete not only in the Federal procurement arena but in the whole arena of Internet commerce.

The rules are changing in today's small businesses. Buyers and sellers can find one another without an intermediary. That is bringing challenges to the role of the traditional middleman. The retailer, wholesaler, banking, insurance, and publishing industries, in addition to many others, are being affected.

Navigation, especially the ability to reach buyers and sellers, is where the battle for competitive advantage will be won or lost. Boundaries between many businesses are being weakened or eliminated, and price will take on a much higher value in consumer decisions because of the customer's ability to compare compatible products quickly via the online marketplace.

The majority of our Nation's businesses, small businesses, have not learned to effectively use the electronic arena to sell goods and services via e-commerce. Today, the vast majority of businesses use the Internet to find information or simply post a website. Many small businesses are in a weaker position to embrace these new technologies, but the real challenge is the education of the small business owners regarding the huge structural shift we will experience in the global economy.

We must sound the alarm to small business owners regarding these changes and provide assistance to them to adapt these rapidly changing conditions in our environment.

Although we cannot change the market forces, we can help these businesses understand e-commerce and that it is likely to bring

huge shifts in our economic structure, both in the U.S. and in the global economy.

We must educate these companies to understand that e-commerce is poised to pull significant dollars from the traditional economy. It is expected that business-to-business trade will grow disproportionately, which is likely to displace many existing traditional small businesses. We cannot save their traditional business, but we can help them understand what is on the horizon, we can show them options, and we can help them adapt to this change.

Small businesses will require a support structure to help them address these fundamental changes in the new world economy, especially in rural and hub zone areas. These rapid changes will require that businesses and their personnel redevelop skills through systematic and focused learning. Technology is in the process of revolutionizing business. We must now do the same thing for business learning.

This educational programming could include help for small businesses to deal with the major barriers to their success by developing and delivering: first, focused information and knowledge regarding what e-commerce is and how it impacts the business structure; second, developing and delivering processes for assessing e-commerce competitiveness and the associated business processes; third, identify what is needed technically to implement e-commerce and how implementation is likely to restructure that existing business; and, finally, how to perform transactions business-to-business or business-to-Government.

Targeting clusters of relatively similar businesses with this programming would be most effective and would allow small businesses to make intelligent decisions about the suitability of e-commerce for their business. It would also enable many companies to become better informed about electronic purchasing. This is especially true in the case of business-to-business transactions and Government contracting opportunities.

Through the SBDCs and the Procurement Assistance Centers program, we could assist many of these thousands of businesses that are unprepared to deal with e-commerce and Government procurement by the delivery of offerings via their programs and the ASBDC Internet-based training program. In addition, both are well positioned to customize that training through one-on-one assistance.

Together these programs have the procurement and the management expertise to facilitate positive outcomes for the Nation's small business, and we would encourage this Subcommittee and the entire House Small Business Committee to consider this a priority in identifying and supporting mechanisms of assistance to the Nation's small businesses.

[Mr. Summers' statement may be found in appendix.]

Chairman BARTLETT. Thank you very much.

Ms. Scottie Knott.

STATEMENT OF CLAUDIA S. KNOTT, DIRECTOR, JOINT ELECTRONIC COMMERCE PROGRAM OFFICE, U.S. DEPARTMENT OF DEFENSE

Ms. KNOTT. Good morning, Chairman Bartlett and Congressman Hinojosa. I appreciate the opportunity to appear before this Subcommittee and discuss the present and future of e-commerce and its impact on small businesses doing business with the Department of Defense. I believe the DoD story is a positive one and clearly demonstrates the commitment of senior management within DoD to its revolution in business affairs.

The Joint Electronic Commerce Program Office, or JECPO, serves as the DoD executive agent for accelerating the application of electronic business practices and associated information technologies to improve DoD acquisition processes and other Department business operations. Our efforts unit three communities that benefit from the use of electronic commerce: first, the DoD warfighter—the sailor, soldier, airman, and marine—that uses the products and services of commercial industries; second, the thousands of large, small, and medium-size businesses that conduct business with DoD; and, third, the DoD acquisition community.

The progress that DoD has made in fielding, actually using our electronic business initiatives is in stark contrast with the old way that we did business. The old way was serial processed, paper-based, extremely labor-intensive, and very time-consuming, and generally resulted in frustrated trading partners, both industry and Government. Today, DoD is pursuing paperless processing—keeping pace with industry in the use of Internet-based commercial technologies while ensuring secure transactions and authorized access based on, again, commercially available security solutions.

All of the initiatives that I will discuss today can be accessed by any authorized user, Government or industry, large or small, through commercial Internet access. The ease of entry into the DoD market space is really equivalent to an annual subscription service on the Internet.

The first initiative I would like to address is the Central Contractor Registry (CCR). It provides vendors with an unprecedented method of marketing themselves and their products to all potential buyers within the Department of Defense. Now any business can register in one easy place on the Internet, and their information is available to all 800 contracting offices as well as their supporting finance centers.

Contractors register in the database one time, with subsequent annual renewals, and their information is available to all of these contracting and payment offices. As a result of the information available in the CCR, 80 percent of the contract payments within DoD are able to be done using electronic funds transfer.

The second initiative is the DoD Business Opportunities Website, developed specifically to easily interface within a Federal single point of entry. It provides a single search mechanism for vendors to locate and access DoD online solicitations. Through the DoD Business Opportunities Website, users can also link to the appropriate DoD components—the Army, Navy, Air Force, Marine Corps, and defense agency sites—to actually make offers on these specific solicitations. This centralized and coordinated approach allows a

single view of all DoD business opportunities while maintaining flexibility at the local level within all of our components within DoD to their initiatives and the increasing use of electronic commerce and paperless operations.

The next initiative is Wide Area Workflow, which has made it easier for industry to get paid for the work performed or for goods delivered through the use of what we call a virtual payment folder.

In DoD, we require that three key documents line up together before a vendor can get paid: the original contract, the invoice, and the receiving report, or the document that demonstrates that the goods and services were actually received and accepted.

The process of contract award and payment involves some 800 geographically dispersed Government offices, and then many more locations that receive the products and services. Without new initiatives using electronic commerce, this process of trying to get together these three documents for all of the myriad of transactions that we do within the Department of Defense could take up to 6 weeks.

At one of our payment centers, this process alone had created 15 linear miles of files. So you can see the administrative burden associated with this paper-based process.

In response to this, DoD has developed an Internet application that allows the Government to process these three documents online. By storing these documents on the Web, we have begun to turn the paper off that is actually going to some of our finance centers to decrease that 15 linear miles of files that we created.

Another initiative, the DoD EMALL, also demonstrates our commitment to making it easier and faster to find and acquire commercial items of supply that are needed by DoD. The DoD EMALL provides "point, click, and ship" shopping for over 3 million commercially available items. It is comparable to Amazon.com, CD Now, and multiple other types of commercial electronic catalogues for online shopping.

But what the DoD EMALL additionally does, it also provides assurance of buying against long-term Government contracts in which all of the Federal procurement rules and regulations have already been addressed as part of the award process before coming on to the mall. The DoD EMALL also facilitates the use of the Government Purchase Card, allowing our vendors to be paid in the same way as their commercial credit card payments. Additionally, there are no unique programming requirements necessary to be a vendor on the DoD EMALL.

In all of the electronic business initiatives that I have presented, we have worked to use commercial technology to establish a single view or access to processes within the Department of Defense. This has made it easier to do business with DoD and allows DoD to take advantage of the best commercial business practices used by our industry partners. With electronic business, we have created a seamless business process where the flow of electrons allows streamlined interface between DoD and industry to expedite the delivery of the right information, to the right place, at the right time.

Thank you very much.

[Ms. Knott's statement may be found in appendix.]

Chairman BARTLETT. Thank you.

Mr. Clark.

STATEMENT OF MAJOR CLARK, ASSISTANT ADVOCATE, OFFICE OF ADVOCACY, U.S. SMALL BUSINESS ADMINISTRATION

Mr. CLARK. Good morning, Mr. Chairman and members of the Subcommittee. As you stated earlier, Mr. Glover, who is chief counsel for the Office of Advocacy, is unable to be here today. He sends his regrets. But you know quite well his commitment to small business. He has asked that I present part of his testimony. The full testimony will be, as you stated, submitted for the record.

If I appear to be a little bit nervous, it is probably because I am, seeing that some few years ago I had I guess what is considered to be the pleasure to be chief of staff of this very Committee, and many times looked out from where Mr. Crowther is looking now at the audience and the witnesses and wanted to know why were they so nervous. Now I understand why they were nervous, so please bear with me. [Laughter.]

The views expressed here are the views of Mr. Glover and do not necessarily reflect the views of the Administration or the SBA Administrator.

Congress has struggled for years to determine how to address the problem of regulatory burdens on small business, how to make agencies consider the value of small businesses to the economy.

Government procurement has been a particularly challenging issue. Congress has been rightly concerned that the Federal tax dollars be used to get the best buy, that Government manage the procurement process efficiently—meaning at the lowest possible operating cost—and that at the same time be assured that tax dollars do not promote industrial concentration, that they do, in fact, promote competition to ensure lowest costs in the long run. And safeguards were instituted to ensure against abuse such as favoritism in the award of contracts, failure on the part of contracting officers to shop the marketplace, et cetera. Mandates were also established to ensure that small businesses would have some viable access to Federal contracting opportunities.

Congressional reforms created a single acquisition regulation, what is called the Federal Acquisition Regulation. Other legislation—the Prompt Payment Act, the Equal Access to Justice Act, and the Competition in Contracting Act—were all enacted in the name of reform, with a view toward ensuring fairness and small business access to Government contracting.

I guess as a sidebar, many of these initiatives were enacted during the period of the 1980s in which I served as chief of staff, so to some extent, they are very dear to me. But at the same time, with the passing of the decade, we recognize that the entire procurement process has come under criticism for being inefficient, too bureaucratic, too costly from an agency operating cost perspective. And in response, Congress has rightly enacted the Federal Streamlining Act, the Federal Acquisition Reform Act, and other reforms.

However, in pushing for streamlining, which Advocacy largely supported, Advocacy nevertheless remained concerned that enough safeguards were not built into the reforms. The safeguards we be-

lieved were needed were those that would ensure the Government continuously shop for the best buy—found most often in the small business sector.

We remained concerned that reforms advanced in the name of efficiency would result in more bundling of contracts into larger contracts on which small businesses could not bid. We were also concerned that contracting officers, being given more discretion in selecting contractors at the same time that the number of contracting positions was being reduced, would not have the right incentives to reach out to small businesses on contracts and purchases where small businesses were truly competitive.

Computer technology and the Internet provided an option to help implement operating efficiencies while providing important information on small business capabilities. To reduce search costs, contracting officers needed a service, properly designed, that would make it easy for them to find qualified small businesses. Thus, PRO–Net was developed by the Office of Advocacy. It is a database that profiles small businesses, providing information on what services and products they offer, their history, and other conditions related to their ability to perform. It has as its long-term goal to be a one-stop information portal on small business which all contracting officers, public and private, could consult to find qualified small business vendors. It was a major step toward making it easy for small businesses to do business with all Federal agencies and to have the database linked to other Federal programs then under development to increase the efficiency of contract management.

But this new Internet-based service could not and was never intended to address all the concerns Advocacy had about the most recent reforms. Mr. Chairman, more than 5 years has now elapsed since the 1994 Federal Acquisition Streamlining Act. We are now beginning to document what has happened. Advocacy has contracted for several studies: one on contract bundling, one on credit card purchasing, and one on Federal Procurement Center data. Some of these studies have already been presented to the committee, and I will not go into them in detail. But what is important is that the contract bundling report indicates that between fiscal years 1989 and 1997, only 8.9 percent of all Federal procurement contracts were bundled, and that seems like a small number, except when one considers that the dollar value of those contracts represented 56.6 percent of all Federal prime contracts. The small business share of all Federal contracts shrank 1.43 percent between 1996 and 1998.

In the area of credit cards, we have contracted with Eagle Eye Publishers to examine data from the Federal Procurement Data Center to see if determinations can be made as to the number and amount of credit card purchases made with small firms. Preliminary data does show that credit card purchases have increased dramatically, as expected. The total value of purchases made by credit card in fiscal year 1999 was $10 billion. If small business' share remained constant, that would mean $4 billion would have been spent with small business. Whether or not this is happening is what remains to be documented.

You are familiar with the Federal Procurement Data Center study that was done in fiscal year 1999, which basically docu-

mented the amount of contracts being spent with small businesses by each Federal Procurement Center, approximately 2,000 Federal Procurement Centers.

Mr. Chairman, the data does tell us that something is wrong. It does not, however, tell us how to fix the problems. Advocacy makes no claim to hands-on experience with procurement processes. Nor does it have working knowledge of the day-to-day management of Federal contracting. Thus, as is our practice, we convened a meeting of private sector individuals who are conversant with the procurement processes and with the world of small businesses trying to do business with the Government. This meeting included such individuals of distinction as Dr. Steven Kelman, the former Administrator of the Office of Management and Budget Office of Federal Procurement Policy, who, as you know, has returned to Harvard University after his stint with OFPP.

Several areas were found to be wrong with the Federal procurement system as it relates to small business. Streamlining rules that give contracting officers significant discretion to deal with large firms, without any built-in small business safeguards and Government-Wide Agency Contracts that bundle for ease of contract administration were just two of the areas that this informal group looked at.

They came out with corrective steps: developing GWACs, Government-Wide Agency Contracts, on which only small businesses can bid and establish such vehicles for small business goals for each agency.

This group also had a recommendation of making PRO–Net the central registration for small business, expand mandatory use of and reliance on PRO–Net to overcome contracting officer inertia in searching for small business.

These recommendations have been forwarded to the Office of Federal Procurement Policy and SBA, and I am pleased to report, as Ms. Lee stated earlier, some steps have been taken to bring this more into light of reality. But more needs to be done.

Now, what does all this have to do with e-commerce and small business? Let me share with you what we do know. Procurement reforms have led to Federal agencies posting business opportunities on the Internet. All Federal contractors are now required to transmit invoices electronically. Many Federal contractors are also being required to accept contract payments by credit card. The question these changes pose is: How is this affecting small business?

An Advocacy study published in 1999 showed that over 4.5 million small employers used computer equipment in their business in 1998. The percentage of small businesses with access to the Internet nearly doubled from 1996 to 1998 from 21.5 percent to 41.2 percent, respectively. However—and this is significant—only 1.4 percent of Internet use among small businesses is directed to e-commerce sales.

In addition, this report identified several obstacles facing small business and e-commerce. Costs, security concerns, technical expertise, and customer service were the major roadblocks to greater small business participation in e-commerce. Cost was singled out as the most common and greatest impediment to expanding e-commerce.

The three basic concerns identified by respondents were: lack of funds for up-front implementation costs; lack of monthly cash flow to maintain their sites; and the probability that there would not be a real return on their investment.

All of these taken together leads us to the conclusion that without managerial systems in place, or accountability measures that provide incentives for agencies to do business with small business, or services that make it easy for contracting officers to find small business, the benefits of e-commerce as used by the Federal procurement system will not redound to small business. Moreover, without such changes, small businesses will not have the incentive to increase its use of the Internet. There will grow and remain a digital divide—a divide that will be caused in large part by the failure of Federal policies to ensure small business access to Federal procurement opportunities. E-commerce and the Internet are but tools that without the right building blocks can be used to bypass small business.

The building blocks on which the use of technology is ground are what concerns us. Ensuring that the Government does business with small business is not dependent on technology, but it is dependent on policies and mandates. And it is important to remember that doing business with small business is not social welfare. It is good Government and good business. To prove this point, I defy anyone to find a $700 toilet seat sold by a small business.

Mr. Chairman, e-commerce is at the center of efficiency reforms in the Federal Government. It requires businesses to be computer oriented. But none of this addresses the rules by which contracting officers are to make decisions. Without such rules, small business' share of Federal procurement dollars will continue to decline. Mr. Chairman, in conclusion, that is our concern.

Thank you.

[Ms. Clark's statement may be found in appendix.]

Mr. BARTLETT. Thank you very much.

Now, Mr. Bansal.

STATEMENT OF TONY BANSAL, PRESIDENT AND CEO, DIGITAL COMMERCE CORPORATION

Mr. BANSAL. Good morning, Chairman Bartlett and Congressman Hinojosa. My name is Tony Bansal, and I am the president and CEO of a privately held small business in Reston, Virginia. Our flagship product, FedCenter.com, is a Government-focused electronic commerce-enabled mall with over 5 million line items and over 600 Government vendors.

I thank you for giving me this opportunity to present my views here. Like all of the other esteemed witnesses here, I, too, am engaged in the process of bringing efficiency to Government e-procurement. But unlike them, I have invested personal savings to this end. Like my grandfather once remarked over a breakfast of bacon and eggs, he said, "Son, it is important to be committed. Look at this breakfast here. We all know that the chicken is involved, but the pig is committed." [Laughter.]

"And that is why it is called bacon and eggs."

Well, I am here to tell you that Digital Commerce is committed to this process. We are a local small business. We have invested

millions of dollars in creating a Government-focused procurement utility, an electronic mall, if you will, in which Federal Government buyers can come and compare products from several different vendors and make best-value decisions.

We thought that if the law of the land, look at the Federal Acquisition Streamlining Act, you look at the Paperwork Reduction Act, you look at all of the other executive orders, if the law of the land requires that the Government must sell electronically, it just makes sense that the vendors must be able to sell electronically. So by creating a clearinghouse, if you will, in which Government buyers can come buy electronically and sellers can sell electronically, we believe we have created an efficient way of meeting legislative mandates without the use of taxpayers' money, and we have leveled the playing field for small businesses.

Small businesses need help in this new Internet economy. The Web is now an essential cost of doing business. In addition to bricks and mortar, small businesses must understand and invest in Web-enabled machines and networks. Small businesses need to migrate to the Web, but do they have the resources to evolve, market and maintain a Web presence. In my opinion, they do not have the resources to create the technical infrastructure or have the marketing muscle to be able to sell to the Government effectively.

FedCenter.com helps by providing small businesses with their own website on fast servers. It helps them with hosting and maintaining their Government catalogues, their pricing; it helps them with making them e-commerce-enabled; it helps them with education, training and outreach; it helps them with marketing; it helps them with access to not only Federal contracts, but State and local contracts.

I know Congressman Hinojosa, you had earlier made a comment with the previous panel that these businesses do not have the wherewithal sometimes to either have the e-commerce capability or just understand how the process works. We provide that. And so essentially all of the basic infrastructure that a small business needs to transact and work with the Government, we provide. And above all, this entire infrastructure, FedCenter.com, was built without any taxpayers' dollars and is provided free to the Government.

And the Government has several other advantages that arise from here; one, it makes it unnecessary for the Government to spend money in building this infrastructure, which will allow the Government to allocate their taxpayers' dollars and other Federal resources not on establishing capabilities that are already in the private sector. It also allows the Government to focus on functions that I believe are more inherently governance; i.e., creating rules, and guidance, and certifications on how to do business in these malls. It also allows the Government to focus on meeting the purchasing needs from small businesses.

How can the Federal agencies help? I believe the Federal agencies can help by not allocating their dollars in building these systems, these malls. They are already built in the private sector. An analogy that comes to mind, which may not be very perfect, but is close, which is, should the SEC be building stock exchanges? They don't. They guide and go on and set the rules of how the stock ex-

changes work. I think that is what Government needs. It does not need to build these malls. They exist.

All of these resources that are being spent on building these malls should be spent on helping small businesses settle in these malls, help them with things they need to take advantage. The Government is doing a tremendous job, in terms of letting out these contracts, the multiple awards schedules, the GWACs and others. That is what they should be focusing on.

Some of the things that Ms. Knott, here, presented earlier in terms of the initiatives that the Government is taking, in terms of helping the businesses with the electronic invoicing and quicker payment, those are the things that the Government must be involved with. That is where you can help the Government.

If I had a dollar to spend and if I were the Government, would I spend that dollar on building a mall or would I spend that dollar on helping a small business? My vote every time would be to use that dollar in helping a small business go to malls, Government malls, that already exist. The Government should focus on, I believe, Governmentwide guidelines on how these malls should operate and certifications, if necessary, helping small business settle in. I don't think the Government should be a mall builder, but should be a subscriber of these malls. Private capital is efficient. Private capital goes to places where the risk reward is inequitable. I don't think that the Government should use taxpayers' dollars to take risks that are in the private sector.

I encourage all of you to log onto FedCenter.com today and see for yourself what we have built. And thank you, once again, for giving me this opportunity.

[Mr. Bansal's statement may be found in appendix.]

Chairman BARTLETT. Thank you very much for your testimony. I want to thank all of the witnesses for their testimony. Some of the questions and concerns raised in the first panel have been addressed by this second panel. Thank you very much.

Let me turn now to Mr. Hinojosa for his comments and questions.

Mr. HINOJOSA. Thank you, Chairman Bartlett.

It was interesting to hear each one of you because I could identify with your presentation, and I don't know that I have questions for each one of you, but I will say that the comments that Mr. Bansal made at the end, that if you had the money, you would invest it in training the small business firms instead of building the malls has a lot of merit.

The comments that Major Clark made at the end of his presentation that talk about how e-commerce in the Federal procurement program will continue to decline with small businesses because of what we don't have, and that is the infrastructure and the know-how to be able to use it, addresses the concerns that I posed to the first presenter. Scottie, the presentation you made gives me a lot of encouragement that there are a lot of opportunities for the small businesses to be able to identify contracts where they could sell to the Federal Government. I happen to come from the era of the 1980s, where we started selling to the Federal Government as an 8A contractor. And the first year we were able to sell about $300,000 of hamburger meat to the Department of Agriculture

under the National Lunch Program. It was very difficult. We couldn't understand the specifications. We really needed someone to hold our hand and take us through this land mine.

I was able to get a technical assistance grant, under the 7J program of SBA, and they sent me to a Swift plant in Dallas that was making a product, a ham, for the Department of Defense to supply our troops. The gentleman who owned that plant told me that it was very difficult, that he was the first 8A contractor to ever get a meat contract, and he went on to explain how difficult it was to understand specifications and all that was required.

Well, now, with what is being done here under e-commerce, it just continues, and bundling, which was addressed also by Major Clark, is just a continuation of making it more difficult and putting more obstacles for women and minorities to get into these contracts. I have been out of the food processing business now for 4 years. And the number of family-owned businesses that used to be in that industry have diminished by more than half.

And where we used to have approximately 38 little business firms competing under the 8A program for meat products, you are down to one-third; and under the bundling, you have probably lost 80 percent. I think that we need to sort of put the brakes on this fast technology that we are doing under e-commerce, and as we pause, that possibly Mr. Summers, through your association, could come up with something that would be quick to bring all of these small firms under all industries and occupations, under all of the SIC codes, up to par to be able to utilize this paperless procurement program that the Federal Government is wanting to do. There is no doubt, there is no doubt in my mind, that the big, large firms are the ones who are benefitting from this. And I have had constituents come to talk to me and say how we, as Small Business Administration or Small Business Committee members are turning a blind eye to what is occurring to them.

Mr. Summers, I heard somebody say you had the answer to a question that I was asking the first presenter.

Mr. SUMMERS. Well, I don't know whether that was accurate.

You asked the question about the possibility of using students to the first presenter?

Mr. HINOJOSA. Graduates.

Mr. SUMMERS. Graduate students?

Mr. HINOJOSA. Not a student, but somebody who has graduated with a bachelor's degree out of the School of Business, to team up with some of our small business firms to help them set up and use the equipment and participate.

Mr. SUMMERS. This could be done without a great deal of difficulty. Many SBDCs are housed on university campuses. I don't know the exact number of campuses we are on, but we have a thousand centers. Probably that represents 5 or 600 universities across this country, and that enables us to be a good facilitator to identify students who would be qualified to assist and match that assistance to the local business. DLA's Procurement Assistance Centers can bring the procurement expertise that is needed with that.

So if you link those together, we could quickly and simply solve the one problem that you are addressing. Just a thought.

Mr. HINOJOSA. Chairman Bartlett, I can't help but think that that is a good idea for the consideration of our committee, and see how we could work with the agencies that are responsible for funding those small business components, either through SBA or Department of Commerce. I know that both of them have them under the MBDC and SBA agencies.

But, again, how fast can this be done?

Mr. SUMMERS. The charge of SBDCs is to provide management assistance. This is a component. Assisting with issues of administration, finance and computer systems are all under the umbrella that we would see as our charge today. How quickly can we facilitate the students? That is the hard part of the equation. But we are well positioned to do that.

I don't know that I can put a time frame to it today, but we are positioned to make this happen fairly quickly. If we could get the components and figure out how to really approach this, we would like to have more student involvement. And if this were a mandate for us, I think that is something we would take on. I can't speak for the DLA Procurement Assistance Program, but they have a representative on this panel, so they can speak for themselves.

Mr. HINOJOSA. Major, I want to say that your studies that you identified are very accurate and that as a member of this committee, I would like very much to somehow get more communication and dialogue with your component of the SBA and see how we could maybe think this out as to how we can utilize Mr. Summer's recommendation and move in that direction because this booming economy is leaving out some of our small business firms if we don't respond.

And I, Mr. Chairman, would like to say that I would love the opportunity to work with you in finding a solution to leapfrog, not go at a turtle's pace to make it happen. That is why I was asking the question how soon can we get it done so that we can help our small business firms be a part of this e-commerce business-to-business boom that is before us.

Mr. BARTLETT. I thank the gentleman very much for his concerns and his questions.

Several members of the Small Business Committee were small business people before we came here. And you can tell by Mr. Hinojosa's questions that he is very familiar with the concerns of small business. What we need, Mr. Hinojosa, I think is the equivalent of SCORE. SCORE are retired executives, probably not as familiar with computers and the Net as younger people, but we need the equivalent of that made up of younger people who are available too. SCORE does a fantastic job of interfacing with small business in the management business plan aspect of it. We need that kind of capability at this technical front now to help our small businesses become more familiar and more expert in using the Net.

Consistent with your concerns, let me ask Scottie Knott, what percentage of the businesses in your DoD EMALL, which I gather Mr. Bansal says you don't need to make because he has already done it.

Ms. KNOTT. He is a participant on the EMALL.

Chairman BARTLETT. Oh, he is a participant. What percentage of your businesses in your DoD EMALL are small businesses?

Ms. KNOTT. Right now, of the vendor catalogues, I would say about 40 percent of them are small businesses.

Let me just comment, though, on what my colleague had to say about that. One of the things that you mentioned, in terms of looking for solicitation and the small business vendor not wanting to go to multiple websites, and having to look here, and then look here, and then look here in different website, in the same way our DoD customers, the people that need these commercial goods and services, don't want to have to go to multiple different websites in order to find all of the different chain saws, for example, that may be out there in the marketplace.

So what the DoD EMALL does is uses available commercial catalogues, as the FedCenter, and brings them together for a single view of all of those commercial sites, as well as DoD inventory to our DoD customers. So we are not building a unique capability for—we are not building our own malls. All we are doing is we are bringing together all of the different catalogues and malls that are available from commercial industry, as well as our Government, visibility of our products in the warehouses, and providing that to our DoD customers. So I just wanted to make that distinction in that regard.

But the DoD EMALL is available to any vendor within DoD who has a Government contract. We want to put on the mall contracts that are available for ordering because what we are doing is we are presenting this information to the person who is the orderer, not the person who is the procurement professional putting together the procurement. That has already been done for them. So we are going directly to the customer who is ordering this product.

Chairman BARTLETT. Forty percent of your businesses in your mall are small businesses. What percent of the dollar awards are small business?

Ms. KNOTT. In the mall?

Chairman BARTLETT. Just what percentage of the money spent by DoD is spent on small business? If 40 percent of your potential contractors are small business, what percent of the dollars do they get?

Ms. KNOTT. I don't know what the total percentage is for all of DoD in terms of all of DoD procurement. I am not specifically in that particular business. But there is no distinction made between the vendor who is a large business or a vendor who is a small business in any of our e-commerce initiatives. They are available to all on the same playing field.

Chairman BARTLETT. Thank you.

Several of you have mentioned legislative actions that might be desirable for the Committee to make. One of the first of those——

Mr. HINOJOSA. May I interrupt you, Mr. Chairman?

Chairman BARTLETT. Yes, sir. Please do.

Mr. HINOJOSA. Before you get off of the percentages, you said 40 percent were using computers. In the study that was presented by Major Clark on page 9, there is a paragraph that is alarming and should be alarming to us in our Committee, which says, "However—and this is significant—only 1.4 percent of Internet use among small businesses is directed to e-commerce sales." That is alarming.

And there is no doubt that what Scottie is talking about, the opportunities and all of that, are tremendous. But unless we address the reasons, it says, "The three basic cost concerns identified were lack of funds for up-front implementation costs; number two, lack of monthly cash flows to maintain their site; and, three, the probability that there would not be a return on their investment," at least that is the perception.

Unless we address this, I don't think we are going to see a big improvement in small business firms taking advantage of business-to-business e-commerce. I think the Government is just going to be patted on the back by the big companies and thanked for getting rid of all of the small business firms that used to compete with them so that they can up the prices so that we can have the $700 toilets.

Mr. BANSAL. Can I make a comment?

Mr. HINOJOSA. Sure.

Mr. BANSAL. We have addressed at least two of those three concerns that was in that report you just read out. We do, for small businesses, we do bring them into an e-commerce world, so we do do a set-up for them. We do maintain it monthly for them, and we do get them transactions, so they can bill electronically.

I think the point that I did not make very emphatically is, really, the Government can help by encouraging the use of these solutions to send business to small businesses. And I think the e-mall has taken the lead in the sense that we are in partnership with them so that they have the ability, if they want it today, to do that. And we are free to the Government. We don't charge the Government for use, but we do charge businesses. But what we charge to small businesses is so low, so compelling, that we have not had problems from getting them to participate. And in some cases, we have even waived that fee because we truly believe that there are hundreds of thousands of vendors that have prenegotiated contracts with the Government that most of them need to be in malls like this for the Government to succeed.

Mr. HINOJOSA. Mr. Chairman, I agree with Mr. Bansal that what his company and his group have is applicable to the solution that I am looking for. But before we commit to the legislation changes that you were about to talk about when I interrupted, I hope that we would make that conditional on the Federal agencies who can help implement the solution that I am asking for, that if we are to make legislative changes like removing the 15–day waiting period and other things that were requested earlier, that all of that be conditional on there being, I guess, a huge effort in human resources and monies for technical assistance to address what I want, and that is that small businesses have a human being who can help them utilize this opportunity of business-to-business e-commerce.

Chairman BARTLETT. Thank you. Thank you very much. Your concerns I think are the concerns of the Office of Advocacy. And I would hope that in any legislation that we are working on that we would work closely with them because they are out there every day working with small businesses and know the problems and the concerns that they have.

I was mentioning the suggestions that you all have made for committee action. Mr. Summers made one of those first suggestions. And what I would like you to do is to make sure that our staff has those because we will be looking at them. This is such a rapidly changing field that a 4-year-old bill is probably now obsolete, isn't it, for many of the needs and concerns of small business. So we do need to update this, and I appreciate your suggestions for changes.

And, Mr. Summers, if you would make sure that the committee actions that you would like to see us make are clearly spelled out for our staff people.

Scottie Knott, you mentioned the virtual payment folder.

Ms. KNOTT. Yes, sir.

Chairman BARTLETT. Government has a great reputation for being a very poor payer, slow. By poor, I mean slow payer. Does this new technology help us move a little faster, so that we won't continue to have that reputation?

Ms. KNOTT. Yes, sir. I believe so. The vendor can actually submit their invoice electronically. And built into that process are some validations so that the invoice that they submit is correct; in other words, it has all of the required information.

As you know, under the Prompt Payment Act, and we have some cash management requirements associated with paying vendors. And in order for the clock to start ticking on the payment, you have to be in receipt of a valid invoice, and it has to be correct. So this helps the business entity submit the invoice and make sure that all of that information is correct.

Additionally, it marries up those other two documents that I told you are necessary, the receiving report, as well as the contract, and it makes it available to any payment official within the DoD community online, so they don't have to wait for the mail, they don't have to wait for somebody to file it and put it in the right folder, they don't have to wait for that to actually appear on their desk. So it is instantaneous access to information the minute it is available or actually created, when all three of these documents are created. So it should speed that particular process up.

Chairman BARTLETT. We hope so. One of the major complaints of people doing business with the Government is that they are so slow paying. As a matter of fact, I know of some small businesses that do not contract with the Government simply because they do not have the financial resources to wait 90 or more days for payment.

Ms. KNOTT. Yes, sir.

Chairman BARTLETT. So, hopefully, this new technology will speed that up, which I think will be very beneficial to the taxpayer because we are going to have small businesses, who will be even more competitive, becoming involved when they have finally learned that they will get paid on some timely basis.

Major Clark, you mentioned that Mr. Glover's views are not necessarily the views of the administration. Jere Glover is typical of a number of people, not enough, but a number of people in the Government who when they tell the person they are conversing with that, "I am from the Government and I am here to help you," the person doesn't start laughing, which is the usual response when

somebody from the Government says, "I am from the Government and I am here to help you."

Your organization, particularly Jere Glover, really is there to help, and I am pleased that an increasing number of people, particularly those who are interfacing with the small business community, have the kind of attitude that Mr. Glover has. When he gives a talk and he says, "us," he is talking about small business, and when he says "them," he is talking about the Government bureaucrats. And we need more of our people to use that kind of vocabulary when they are interfacing with the public, particularly with the small business community.

You mentioned the $700 toilet seat. Whose fault is that? We have $200 hammers and $700 toilet seats. Whose fault is that? How much of that fault is the fault of Government procurement policies and how much of it is the fault of the business? You said that small business was never there, that when that sort of thing came up it was always large business. Whose fault is that? How much of that fault is our procurement policy and how much of that fault is the business?

Mr. CLARK. Mr. Chairman, if I may go back in time just a little bit, the toilet seat issue came up, at least came to our attention back in the 1980s, and at that time it was at least the belief of staff, looking at various documents, that fault, if there is fault to be placed, was part placed on the system itself, in terms of how it encouraged, how it allowed for this type of situation to occur. And in many situations, and in most situations, small businesses simply were not available to participate at that level of play and, therefore, small businesses were not selling the $700 toilet seat to Defense or the $250 hammer, whatever the case may be.

But in many situations because of the system, while we saw the $700 toilet seat as being ridiculous, the system itself saw the $700 toilet seat as being just a very small part of a larger mission that had to be accomplished, and that mission was to make sure the fighters were able to fight, and we were able to conduct the type of war that was necessary.

So, to a very large extent, the procurement regulations at that point in time allowed for this to occur, and that is, to some extent, why we, at least the staff level, recommended to the members, and they took the recommendations and moved forward with legislation, in terms of correcting some of those deficiencies.

Chairman BARTLETT. I appreciate your answer.

Most frequently when this is mentioned, it is mentioned in the context of greedy, inept businesses who are just finding opportunities to gouge the Government and the taxpayer. I appreciate your answer very much because I think that most of the blame there lay at the regulations, which didn't only permit, but in some ways of looking at them, almost required this kind of thing. And I appreciate your concern about changing these so that that wouldn't happen again. There is no big business that wants this kind of a thing to come out in the press about their contract with the Government. That doesn't help anybody, the Government or the business.

You also mentioned contract bundling. Relevant to that, there is another concern that a number of small businesses have come to us with, and that is bid shopping. Is that problem finally corrected?

Bid shopping is where a prime goes out and gets a bunch of subs to team with them in bidding. And then the prime gets the contract, and he comes back to the subs, and he says, "Well, now I have got the contract. I am going to rebid these subs. How much lower can you make your bid cost on that?"

And frequently the subs that were a part of the bid and maybe part of the reason that the award was made to the prime are not involved at all in the performance of the contract because the prime has now gone out and done what is called bid shopping. They have shopped it around. They have gotten other small bidders who would do it for lesser dollars. Had they been on the team, originally, they might not even have gotten the contract because the Government buyer might not have seen that as a responsible team.

The difference in dollars is just put in the pocket of the prime. It is called "bid shopping." Have we found a way to correct that abuse?

Mr. CLARK. Mr. Chairman, we have not looked at bid shopping as a study, at this particular point. We do, however, know that from anecdotal information that has been brought to our attention, that it is occurring. So, therefore, we have not moved forward with any type of recommendation as to how to curtail it simply because we have not studied the problem in its totality.

It does exist, and it is unfortunate that the small business owner is, in most situations, the victim of this particular process. It is something that we will be looking at in the very near future, but we have not yet been able to fully document the magnitude of it.

Again, bid shopping, in past legislation, there has been attempts to correct this. There are some laws in place now which can address this if they are properly implemented.

Chairman BARTLETT. I think in terms of fairness, almost everybody would like to see the team that won the contract be the team that performs on the contract. And if legislation is needed to make that happen, please let us know. If administratively, the Government procuring agencies can make that happen, that is okay. But if you need legislative support to do that, please let us know.

Mr. Bansal mentioned the relationship of the chicken and the pig to your breakfast ham and eggs. For the chicken, that's a one-day effort, for the pig, that is pretty much a total commitment, isn't it.

Mr. BANSAL. Sure.

Chairman BARTLETT. And there are many small businesses who feel more like the pig than the chicken——

Mr. BANSAL. Absolutely.

Chairman BARTLETT. When they are dealing with the Government.

I want to thank all of you very much for your testimony. This is a rapidly growing technology. It is very difficult to keep up with it, particularly difficult for our small businesses. The most relevant legislation is now 4 years old. And I think very clearly since it is 3 or 4 years old, that we need a new look at legislation. Appreciate your suggestions for what this legislation might include.

And, again, thank you very much for your participation in today's hearing.

Our Subcommittee is now adjourned.

[Whereupon, at 11:55 a.m., the Subcommittee was adjourned.]

ROSCOE BARTLETT, MARYLAND
CHAIRMAN

DANNY K. DAVIS, ILLINOIS
RANKING MINORITY MEMBER

Congress of the United States
House of Representatives
106th Congress
Committee on Small Business
Subcommittee on Government Programs and Oversight
B-363 Rayburn House Office Building
Washington, DC 20515-6316

April 11, 2000

OPENING STATEMENT

CHAIRMAN ROSCOE G. BARTLETT
SUBCOMMITTEE ON GOVERNMENT PROGRAMS AND OVERSIGHT
HOUSE COMMITTEE ON SMALL BUSINESS

Good morning and welcome to this hearing of the Subcommittee on Government Programs and Oversight of the Committee on Small Business. A special welcome to those who have come some distance to participate.

We are here today to discuss the present progress and future potential of e-commerce and its impact on doing business in the private and public sectors. The dollar volume of business being conducted by means of e-commerce is increasing at an unprecedented rate.

An article in the *Wall Street Journal* last Wednesday, April 5th, quoted a source that estimated the volume of online sales as increasing by 53 percent this year to $23 billion, after doubling the previous year to $15 billion. The same article quotes a trade association that estimates that there were 30,000 or more web sites on the Internet selling merchandise to consumers.

In the midst of this electronic revolution in the way business is done, it is imperative that we explore together today, in this hearing, the present state of e-commerce in the United States and its future potential and direction.

Many businesses in the private sector are now relying upon the Internet to buy goods and services which were previously acquired through antiquated paper-based acquisition processes. The speed, efficiency, and convenience with which transactions can be completed are distinct advantages that e-commerce has over paper-based systems.

The passage of the Federal Acquisition Streamlining Act of 1994 provided an impetus to Federal agencies to use the Internet as the preferred method of procurement. The rush to the Internet by the Federal Government has spawned these headlines in a well known Internet trade publication:

"U.S. MOVES TO ONLINE PROCUREMENT

COMMERCE DEPARTMENT TO UTILIZE E-COMMERCE, GO PAPERLESS

DEFENCE DEPARTMENT GOES E-COMMERCIAL"

There are few, if any, major Federal agencies that do not acquire a large dollar volume of goods and services through e-commerce transactions. We hope at the hearing today to examine both the commercial and Federal use of e-commerce technologies such as the creation of electronic shopping malls, in the transition to largely paperless transactions.

The hearing will also look at the training and acquisition assistance that small businesses need or are receiving to compete in E-commerce both in the commercial and Federal sectors.

We welcome your suggestions with respect to legislation or regulatory changes that may be needed to train small businesses in electronic commerce and to provide more timely and complete Federal procurement information than is presently provided in the Commerce Business Daily.

Lastly, in the hearing to today we hope to have some answers to the questions:

Where are we going in E-commerce?
and
What are the implications for doing business in the private and public sectors?

Again thank you all for participating in this hearing. And thank you in the audience for attending this hearing.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

STATEMENT OF DEIDRE A. LEE

ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT PROGRAMS AND OVERSIGHT

COMMITTEE ON SMALL BUSINESS

UNITED STATES HOUSE OF REPRESENTATIVES

April 11, 2000

Chairman Bartlett, Congressman Davis, and members of the Subcommittee, the subject of your hearing today, the application of electronic commerce (e-commerce) technologies to our buying processes, is both timely and of particular interest to me. The rapid technological advance of the Internet is providing unprecedented opportunities to significantly improve how we conduct procurement transactions. The potential to improve information flow alone – from the way vendors learn about Federal contracting opportunities, to the way government buyers become informed about vendors and the range of goods and services they offer to meet the government's needs – makes application of e-commerce technologies to the acquisition process a worthy priority for our procurement agenda.

Today, I would like to share with the Subcommittee the key principles we are following and steps we are taking to seize upon this potential. I would like to focus, in particular, on the government's efforts to create a single, government-wide point of electronic entry for accessing notices of solicitation, solicitations, and related procurement information. This initiative serves

as an illustration of how we are striving to take advantage of electronic tools to make interactions faster, easier, and less costly for both our buyers and our trading partners, both small and large.

Principles for Electronic Federal Purchasing

Two years ago, the Administration issued a strategic plan that, among other things, sets forth policy principles to help agencies make and successfully manage investments in e-commerce. Two of the principles, in particular, lie at the heart of our approach to e-commerce acquisition initiatives.

1. **Follow the commercial lead.** The Administration strongly shares the belief reflected in your letter of invitation for today's hearing that we can benefit from the private sector's e-commerce experience. It has been a fundamental part of this Administration's efforts in promoting e-commerce to recognize that the pace of change both in the technology and the marketplace frequently is faster than can be accommodated by the government's policy-making and decision-making processes. Rather than seek to interfere or compete with this rapid commercial development, the government has looked to the private sector to lead the transformation to electronic business processes.

The strategic plan emphasizes the importance of government reliance -- whenever possible and cost-effective -- on commercial products and service. This will allow the government to leverage the investment already made in the ever-growing commercial infrastructure and benefit from the market-driven economies and innovation that commercial tools offer. Just recently, in a memorandum addressing how the use of information technology can improve our society, the White House reiterated this message. I continuously remind agencies to keep involved with the commercial development of e-commerce and to look for opportunities to reengineer their business operations to take advantage of that development. The

government's use of commercially-accepted electronic tools that interoperate with sellers' electronic access tools should help to keep down the cost to businesses -- including small businesses -- and facilitate their participation in government contracting.

2. Pursue e-commerce applications that offer opportunities to reengineer the procurement process. The rapid rate of technological advance can create temptations to buy intriguing technology simply because it is available. I have encouraged agencies to avoid the pitfalls of seeking to apply e-commerce technology without first addressing the need to restructure their business processes and assessing the benefits to be attained by making the investment. In this regard, the strategic plan challenges agencies to think about how applications of e-commerce can help us to:

- permit sellers to gain quick, easy access to information on contract opportunities;
- streamline and eliminate transaction steps so that productivity can be increased and transaction costs reduced;
- minimize unnecessary paperwork and its attendant administrative cost and delay;
- facilitate access to resource materials; and
- improve buyer visibility of products and services under contract.

To garner investment and participation, the strategic plan reminds agencies that they must remain attuned to the needs of both our sellers and buyers. High on the list of sellers' needs, including that of the small business community, is easy and cost-effective access to information on contracting opportunities. Prominent on the list of buyers' needs is the ability to gain more effective access to the marketplace. To address these needs, we are emphasizing within our e-commerce initiatives the improved flow of information related to business opportunities. Our focus is on creating a single government-wide point of electronic entry (the so-called "single point of entry" or "SPE") for access to business opportunities on the Internet, consistent with

Section 30 of the Office of Federal Procurement Policy Act. In light of the importance and promise of this initiative for both buyers and sellers, I would now like to take a few moments to highlight the activities we are undertaking.

Creating a Single Government-Wide Point of Electronic Entry for Business Opportunities

During the past decade, the government has employed various electronic means to significantly increase access to Federal government procurement opportunities. In the mid-1990s, the government introduced the Federal Acquisition Computer Network (FACNET) to provide widespread public notice of solicitations to facilitate communications through electronic data interchange. FACNET focused almost exclusively on purchases between $2,500 and the simplified acquisition threshold (i.e., $100,000).

In 1996, the Department of Commerce, partnering with the Government Printing Office, created the Commerce Business Daily Network (CBDNet). CBDNet's purpose was to provide electronic access through the Internet to all open market contract opportunities above $25,000 which are required to be published in the paper version of the *Commerce Business Daily*. All such agency notices are provided on CBDNet today. CBDNet was not designed to ensure easy access to solicitations or to other information related to a particular solicitation.

The Administration intends to designate, in the Federal Acquisition Regulation (FAR), an SPE that would be require agencies to provide businesses, small and large, with convenient access to *synopses* of government contracting opportunities above $25,000, *associated solicitations* for offers, and *other related acquisition information*. To ensure the success of this initiative, we are striving to move forward, consistent with the key principles of the strategic plan mentioned above.

Again, we recognize that we must follow the commercial lead. An effective SPE must provide access through electronic tools that have widespread commercial acceptance and interoperate with sellers' electronic tools, including new access-enhancing tools as they gain commercial acceptance. This market-led approach should help to minimize interference or competition with rapid commercial development. It will also help to maximize the number of vendors with access to information concerning government contracting opportunities.

Further, we recognize that an SPE must do more than simply electrify existing processes. It must facilitate reengineering. For sellers, an SPE needs to provide "one click to business" where notices and solicitations can be obtained and downloaded in one effort, through user-friendly searches. And, information must be provided in a timely, accurate, and consistent manner. For buyers, an SPE must support streamlined processes for preparing and issuing notices and solicitations, such as automatic posting of notices and solicitations to the Internet that can be simultaneously retrieved by sellers without additional searching.

Indeed, an SPE must meet the varied needs of its users so they can reap a return on their investment from transitioning from paper-based to electronic processes. We appreciate well the drawbacks of a solution that cannot effectively interoperate with both agencies' and sellers' electronic applications. For this reason, we have proceeded towards the development of an SPE through a series of pilot efforts with interagency assessment.

Pilot Efforts

In 1997, the National Aeronautics and Space Administration (NASA) developed the NASA Acquisition Internet Service (NAIS), an approach going beyond CBDNet to permit procurement staff anywhere in the agency to make both notices and solicitation files accessible on the Internet from a single point. In a report issued last year, the General Accounting Office

(GAO) found that NAIS served as a simple, effective, and user-friendly central electronic source[6] of procurement information from NASA's decentralized facilities. According to the report, feedback from NAIS users, particularly small businesses, was generally positive. In addition to improving access to NASA contracting opportunities, the GAO found that NAIS has enabled NASA to streamline the process for preparing and issuing notices and solicitations. Among other things, NAIS (unlike CBDNet) automatically formats notices, automatically posts notices on the Internet from the agency buyer's desktop computer without any rekeying on the part of the buyer, and makes solicitation files available for immediate review and retrieval.

In 1998, a group of agencies, including NASA, the General Services Administration (GSA), the Air Force, and the Departments of Transportation, the Treasury, and Commerce formed a team to build on the NAIS model and test whether its attributes could meet the varied needs of different agencies. Each participating agency agreed that at least one of its procuring activities would make accessible on the Internet through an "Electronic Posting System" (EPS) notices of requirements, solicitations, awards, and other acquisition-related documentation. Access was intended to be easy and convenient through a variety of search and downloading tools available at one uniform resource locator address.

Based on EPS' current functionality, sellers may:

- search and identify, at one location, notices of and solicitations for competitive business opportunities and awards over $25,000 from all EPS participants;
- search for business opportunities by, in any combination, type of product and/or service, buying entity (e.g., agencies or offices), or posting date;
- receive an automatic e-mail notification about contracting opportunities for specific supplies or services, or issued by specified agencies;
- receive an automatic e-mail notification of changes and amendments to solicitations;
- locate and download documents related to a specific procurement; and

- view summaries of contract awards (with contractor name, value, obligations, and description), and perform searches (by agency, office or region, type of product, date of award, or award number). 7

Service providers may access the EPS notices and solicitations and offer enhanced search capabilities to interested vendors. In addition, as I will discuss in a bit more detail below, small businesses accessing the Small Business Administration's (SBA) Internet database of small businesses, known as the Procurement Marketing and Access Network (PRO-Net), are prompted to also register in EPS to facilitate accessibility of these notices to the small business community.

Initial results from a user survey overseen by GSA indicate that businesses generally are finding that EPS is providing user friendly, easy, and consistent access to business opportunities. Our understanding is that documents concerning activity on a specific procurement can be located with a relatively high degree of reliability on EPS because it organizes information using a relational database rather than relying on simple text-based searches. With respect to small business reaction, in particular, of the more than 260 small business users that responded to the survey:

- Over 80 percent indicated that EPS was at least somewhat beneficial to the organization overall. Over one-third found EPS to be very beneficial. Less than 5 percent indicated it was not beneficial.
- Over 80 percent indicated that EPS was easy to use.
- Approximately 90 percent indicated that EPS provided reasonable or very consistent access to available procurement information.
- Over 75 percent of respondents indicated that EPS simplified the process to some extent (and in some instances to a great extent) for finding and proposing to contracting opportunities. (Approximately the same number specifically cited to the e-mail "notifier" service as beneficial.)

- Approximately 60 percent of respondents felt that EPS helped eliminate the necessity of procurement-related questions to the government to at least some extent. [8]

An EPS agency users group has been meeting regularly to address concerns by agencies and the vendor community. Improvements that are being made in response to vendor concerns include:

- Improving search capabilities, including full text searches; and
- Facilitating opportunities for teaming by allowing vendors to obtain information regarding other vendors interested in entering into such arrangements.

Government buyers are also finding EPS to be beneficial:

- Over 80 percent of respondents indicated that EPS was at least somewhat beneficial to the organization overall.
- Approximately 85 percent of respondents found EPS easy to use.
- About 75 percent of respondents indicated that EPS saved some time compared to paper-based methods used to solicit business opportunities. And, 48 percent indicated that EPS reduced time spent posting contracting opportunities by more than half.
- Over 85 percent of respondents from central offices felt that EPS has contributed to increased efficiency. No respondents indicated a decrease in efficiency.

Because EPS is based on a distributed architecture that allows centralized access with decentralized maintenance, pilot agencies have found that EPS enables access without disrupting or eliminating or otherwise requiring the replacement of current individual agency e-commerce applications. The Department of Defense (DOD), for example, has been seamlessly integrating its opportunities website, DODBusOpps, with EPS to provide the mechanism for collecting data from the DOD services and components.

Agency interest in EPS has increased. Today, EPS is providing access to notices and solicitations from all or part of 14 agencies. To date, close to 42,000 postings (including pre and post award synopses, solicitations and amendments) from over 6,500 registered buyers have

been made on EPS and 53,700 vendors have signed up for electronic notification of posted opportunities.

Evaluation of SPE Alternatives

Presently, OFPP is evaluating the suitability of EPS, DODBusOpps, CBDNet, and FACNET. We are also examining whether suitable commercial alternatives are available to provide the SPE function. As noted, our intent is to designate an SPE that is sufficiently versatile to *enable agency buyers* to efficiently and effectively provide access, at a single electronic point, to synopses and solicitations and related documentation and to *allow sellers* to reach the SPE through different commercial electronic means. Thus, in providing access to notices and solicitations, the selected SPE must be able to: (1) interoperate with current electronic tools and, to the maximum extent feasible, future advances, (2) support and facilitate reengineering, and (3) provide reasonable return for the investment.

Before a designation is made in the FAR, OFPP intends to consult with Federal procuring agencies through the Procurement Executives Council. In addition, we intend to publish the proposed designation in the Federal Register for public comment.

Facilitating the Transition to the SPE

Improved access to business opportunities requires more than just a designation of an SPE in the FAR. It also requires that the transition from paper-based processes, or other electronic processes, be smooth and effective. The greater the benefit to be realized from an SPE, the more
enthusiastically our buyers and sellers will transition to it. For this reason, we have taken actions to maximize the potential benefit of an SPE for our sellers and buyers alike.

Maximizing Value for Small Businesses by Linking the SPE to PRO-Net

As I mentioned, we have been working with SBA to explore the feasibility of linking PRO-Net with the single point of entry. This linkage will serve as a means for using e-commerce to increase small business awareness of government contracting opportunities. It will add convenience for electronically-enabled small businesses using PRO-Net.

Maximizing Value for Agency Buyers by Recognizing Efficiencies of an SPE in Statute

This year (as we did last year), the Administration is seeking legislative changes to enable agency buyers to reap the full benefit of their investment in an SPE. As discussed above, we are already able to provide access to electronic notices of business opportunities that would otherwise be published in the CBD and are rapidly moving towards furnishing solicitations electronically along with those notices. One constraint from moving forward is that our statutory framework generally recognizes only hard copy issuance of a notice as an official notice and typically requires an agency to wait a minimum of 15 days after hard-copy publication of the notice of solicitation before issuing the solicitation itself.

The 15-day wait period served a useful purpose in a paper-based process where vendors were dependent on the mail system for receipt of the CBD, to deliver requests for solicitations, and for receipt of solicitations. The wait period helped ensure delivery of notices and solicitations to interested offerors before the time allotted to prepare proposals started. However, in an electronic environment where notices and solicitations can be accessed immediately through an SPE, this safeguard is no longer necessary and its continued existence prevents agencies from fully reaping the efficiencies made possible by an SPE.

To realize the full benefit of an SPE, our proposal would:

- Expressly recognize that publication requirements can be satisfied with the use of electronic notification through the SPE, thus allowing for offer submission deadlines to be tied to electronic issuance of the solicitation rather than hard copy publication; and 11

- Permit shortening (or eliminating) the 15-day period when the notice (or both the notice and solicitation) are furnished electronically.

While the period for offer submission would begin to run with electronic issuance of the solicitation, our proposed legislation would make no changes to currently required response times for submission of proposals -- typically 30 days, with certain exceptions.

We hope that the Congress will act favorably on this proposal. Agencies understand that the proposal, if enacted, would not take effect until the SPE is designated. Nonetheless, having the requested framework in place will allow agencies to enjoy the efficiencies that e-commerce enables and would therefore result in their realizing a more immediate return on their investment.

Conclusion

I remain convinced that e-commerce offers many opportunities for improving acquisition through redesign of the buying process and applaud my colleagues at the SBA for calling on small businesses to become e-commerce savvy. We must continue to look for ways to use e-commerce to strengthen the government's acquisition functions so that we can make our interactions easier, faster, and less costly, for both ourselves and our trading partners. Designating an SPE in the FAR, in tandem with a revised legislative framework that fully recognizes the benefits of an SPE, are important steps in this direction. I look forward to working with you to achieve this important goal.

This concludes my prepared remarks. I would be happy to answer any questions you might have.

Testimony of

Max E. Summers

State Director

Missouri Small Business Development Centers

Before the Committee on Small Business

Subcommittee on Government Programs and Oversight

United States House of Representatives

On April 11, 2000

On the subject of E-Commerce

On behalf of the Association of Small Business Development Centers, I am here today to offer information regarding the exciting opportunities that e-commerce presents for small businesses participating in the public and private sectors and at the same time express concern about some potential barriers inhibiting U.S. small business participation. I also hope to offer some recommendations for providing the education and acquisition assistance that businesses should receive to compete in the e-commerce arena.

My name is Max E. Summers, and I am the State Director of the Missouri Small Business Development Centers. I have served in that capacity since 1989. I am also responsible for the Missouri Procurement Assistance Centers and am a past-president and current member of the Board of Directors of the Association for Small Business Development Centers.

Both the ASBDC and the Missouri SBDC, along with the Missouri Procurement Assistance Center, are all currently working in the field of e-commerce. Those efforts include point-to-point web-based distance learning, web-based client service, and direct e-commerce and procurement assistance.

More specifically, at the Missouri SBDC, we have dedicated an entire research and product development unit to e-commerce efforts. In addition, the Missouri SBDC has a contract with the ASBDC to support SBDC clients and counselors nationwide in point-to-point Internet training and e-commerce.

The rules are changing for today's small businesses. Today's business owners cannot run their businesses like their fathers did. Transaction costs are approaching zero. Competition is craftier and more plentiful than ever before. The entire world is the marketplace. In the past, physical location was critical to business success, but that premise is now obsolete. Today it is not about being at the right location; it is about reaching the individual customer at the right moment. Unfortunately, many businesses do not understand the magnitude of the changes taking place around them.

Gordon Moore, founder of Intel, notes that for the last 30 years, computer processing power has doubled every 18 months. The logical result has been a reduction of transaction costs on the open market, which challenges the role of the traditional middleman. Buyers and sellers can now find one another without an intermediary. Although information-driven industries, such as insurance, banking, publishing and entertainment, are at the greatest risk, retail, wholesale and other sectors are also being affected. Wholesalers are finding their role and position in the marketplace threatened. Decreasing transaction costs are also driving outsourcing, downsizing and mergers.

During the 1990s, many experts believed that the Internet and e-commerce would be the great equalizers, putting small businesses on a level playing field. Although there are examples in which this has happened, there is also evidence to the contrary. For instance, a report by Forrester Research of Cambridge, MA, notes that small and medium-sized retailers capture 50 percent of offline retail revenues but are capturing only 9 percent of online sales.

According to Philip Evans writing in the *Harvard Business Review*, the first phase of e-commerce was characterized by experimentation and speed to get to the marketplace. The second generation of e-commerce, which we are entering now, will be shaped more by strategy than by experimentation. Navigation on the Internet is where the battle for competitive advantage will be won or lost. Boundaries between businesses may weaken or be eliminated.

In addition, product price will take on a much higher value in consumer decisions. Whereas other factors besides price have historically played an equal or greater role, because of the customer's ability to compare compatible products quickly via the online marketplace, price will play an even greater role. This is an issue that will threaten many small businesses across this country.

For those who have embraced e-commerce, it has enabled them to compete over larger geographic areas. It has created the opportunity for the creation of new businesses and, in some cases, has allowed small business to better compete with larger firms. Although the majority of small businesses do have access to the Internet and some are even participating in e-commerce, many others have been slow to put the tools in place. Most do not know how to effectively use the electronic arena to sell their goods and services via e-commerce. The vast majority of small businesses use the Internet to find information or simply post a website.

Small businesses are in a weaker position to embrace new technologies. They often lack the skills, experience and resources to effectively compete. The cost of upgrades, site maintenance and equipment are all challenging to the small business owner.

However, as important as those issues are, the real challenge is in educating small business owners regarding the huge structural shifts we will experience in the economy. We must sound the alarm to small business owners regarding these changes and provide assistance to help them adjust to this rapidly changing environment.

Although we cannot change the market forces, we can help businesses realign their marketing strategy, become successful procurement bidders or exit if

necessary. What we do not need is significant displacement of small business owners up and down Main Street all across this country.

We must educate companies to understand that while it has not necessarily been the case to date, the Internet is poised to pull significant numbers of dollars from the economy, and that shift will be felt throughout the small business arena.

The real challenge is for small businesses to have the right attitude toward technology and the knowledge base it can afford them. There is a huge potential for these companies, but they need training and services that help them build their e-commerce capability. It is expected that business-to-business trade will grow disproportionately during the early part of this century, displacing many existing small businesses. Small businesses will require a support structure to help them address these fundamental changes in the world economy. Small businesses in rural area and hub zones will especially need help to make the transition.

Both the SBDC and the Procurement Assistance Centers are poised to provide this assistance. We are charged by Congressional mandate to help companies maintain or enhance their competitive advantage. The issues with which we assist companies now -- marketing, industry structure and competitive positioning -- are the same issues they must consider when entering the e-commerce arena. This is not a question of hardware, software and portals. This is a question of competitive advantage and understanding the threat or opportunity these huge structural shifts can provide.

We need to provide educational opportunities to the masses in a way that is timely, convenient and accessible. E-commerce and information technology are increasing pressures to renew and redevelop skills through life-long learning. Businesses of all sizes are searching for ways to train employees more rapidly, effectively and at less expense than in the past.

As its capabilities increase, the Internet will be able to meet many of these demands. Although the bandwidth is currently not available to effectively deliver just-in-time education, this is expected to change in the near future. Technologies will advance to enable the creation and delivery of interactive media-rich content while access will become more standard both at work and at home.

Technology is in the process of revolutionizing business. We must now do the same thing to learning. The technological barriers are diminishing. The challenge is the development and dissemination of content that will address business needs on a real-time basis.

Government can play a role by ensuring that communications companies and other providers do not select only the most profitable markets for high-speed access and broad bandwidth services. Instead, a particular focus should be given to companies in rural areas and hub zones to enable equal access. If companies are allowed to develop only the most profitable and affluent markets, we will doom the disadvantaged rural and hub zone areas to further challenges.

These same areas are at the greatest disadvantage in terms of computer literacy and the ability to take advantage of e-commerce and procurement opportunities. Extending a helping hand to companies and their employees in the form of educational offerings and one-on-one assistance is likely to pay big dividends for these communities.

This educational programming could help small businesses deal with the major barriers to their success: 1) lack of information and knowledge regarding what e-commerce is and how it impact business structure; 2) competitiveness and business processes; 3) what is needed technically to implement e-commerce and how implementation is likely to restructure existing businesses; and 4) how to perform transactions business to business or business to government.

Targeting clusters of relatively similar businesses with this programming would be most effective and would allow small businesses to make intelligent decisions about the suitability of e-commerce to their business. It would also enable many companies to become better informed about electronic purchasing. This is especially true in the case of business-to-business transactions and government contracting opportunities.

Through the SBDCs and Procurement Assistance Centers, we can assist many of the thousands of businesses unprepared to deal with e-commerce and government procurement by the delivery of offerings via the ASBDC's Internet-based training program. In addition, both the SBDCs and the Procurement Assistance Centers are well-positioned to customize the training through one-on-one assistance.

Together, these programs have the procurement and management expertise to facilitate positive outcomes for the nation's small businesses. We would encourage this subcommittee and the entire House Small Business Committee to consider this a priority in identifying and supporting mechanisms of assistance to the nation's small business.

STATEMENT OF

MS. CLAUDIA S. KNOTT

DIRECTOR, JOINT ELECTRONIC COMMERCE PROGAM OFFICE

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT PROGRAMS AND OVERSIGHT

COMMITTEE ON SMALL BUSINESS

APRIL 11, 2000

NOT FOR PUBLICATION
UNTIL RELEASED BY THE
COMMITTEE ON
SMALL BUSINESS
HOUSE OF REPRESENTATIVES

Good morning, Mr. Chairman and distinguished members. I am Claudia "Scottie" Knott, Director of the Department of Defense (DoD) Joint Electronic Commerce Program Office. I appreciate the opportunity to appear before this subcommittee to discuss the present and future of e-commerce and its impact on small businesses doing business with the DoD. The story I have to tell is a good one and demonstrates the commitment senior management within the DoD has made to the revolution in business affairs.

Let me begin with some background on the Joint Electronic Commerce Program Office or (JECPO). The JECPO serves as the DoD executive agent for accelerating the application of electronic business practices and associated information technologies to improve DoD acquisition processes, supporting life-cycle sustainment, and other department business operations. The JECPO accomplishes this mission by providing shared e-business services that can be used by each business area such as acquisition, contracting, finance, logistics, transportation, medical, personnel, and travel. The JECPO programs are enterprise-wide electronic commerce solutions that are being leveraged across DoD with the goal of creating the DoD eBusiness environment that manages the business-to-business exchange of information within the DoD enterprises. The JECPO's efforts unite three communities that benefit from the use of electronic business. The first community is the DoD warfighter: The sailor, soldier, airman, marine who is responsible for maintaining equipment, running installations, or generally meeting mission needs that require the use of commercially available goods and services. The second community is our industry partners: the thousands of small and medium-size businesses that conduct business with DoD, as well as our large defense

contractors who have, in the past had to build a separate support structure to meet unique government requirements. And third – the DoD acquisition community, the buyers, logistics managers, contract managers, and payment and receiving officials who support the business processes that cause the delivery of commercial products from industry to the warfighter.

The progress the DoD has made in fielding our electronic commerce initiatives, is in stark contrast with the old way we did business. The old way was serial processed, paperbased, extremely labor intensive, and time consuming, and generally resulted in frustrated business partners – both government and industry. Today, DoD is pursuing paperless processing - keeping pace with industry in the use of Internet-based emerging technologies while ensuring secure transactions and authorized access based on commercially available security solutions. On January 1, 2000, the DoD was, on average, processing 78% of its procurement actions in a paperless way (Contract Requirements – 95%, Solicitations – 95%, Awards/Mods – 88%, Receipts/Acceptance – 73%, Invoice/Payment – 64%, and Contract Closeout – 75%). This is up from 27%, which was the baseline when we started this effort in FY 98.

Additionally, entry into the DoD marketspace has never been easier for our trading partners as the Department is continuing to make it faster and easier to:

- Make vendor information accessible to all contracting activities.
- Find business opportunities within the DoD; and
- Get paid in a timely and efficient manner.

First, the Central Contractor Registry (CCR) provides vendors with an unprecedented method of marketing themselves and their products to all potential buyers within the Department. For example, let's suppose you are a bolt manufacturer in the Midwest and you want to be able to sell to DoD and you want to be able to get paid for these sales using electronic means, since this is your commercial method for getting paid. In the old way of doing business, before the advent of the CCR, you would have had to go to some 800 individual contracting and finance offices to register to do business with them. You would have had to individually contact each one or pay someone else to do so on your behalf to make yourself eligible to sell to all of DoD. This was a labor-intensive, repetitive task for any vendor – large or small, but the smaller vendors did not have the same resources available to them that the larger companies did. Now, any business can register in one easy place on the Internet with the CCR – and their information is available to all DoD contracting/finance offices.

Contractors are required to register in the database one time, with subsequent annual updates/renewals. The annual renewal process ensures that the CCR contains the most current vendor information to include electronic fund transfer (EFT). As a result of CCR, 80% of our contract payments are being paid via EFT. As of March 2000, there are approximately 163,000 vendors registered in the CCR, up from 22,016 2 years ago. To summarize, the CCR has eliminated redundant paperwork and tasks that used to be required to do business with the government. Any vendor can do business with all of DoD by registering one time from his desktop. A vendor does not need a large internal infrastructure to support doing business with the government. Moreover, government buyers now have a more efficient way to locate all potential

vendors, as well as an easy way to identify small & disadvantaged vendors to meet socio-economic goals.

Now I would like to tell you about how we are making it easier than ever for vendors to find all of the business opportunities from DoD using point-and-click internet technology. Going back to our bolt vendor in the Midwest, let's suppose our vendor wants to sell bolts to the entire DoD. He has had some success selling to the local base in the community, but now has a nationwide distribution system that is being used to successfully support his commercial firm. Our bolt manufacturer is looking to expand his business opportunities with the government.

In the old way of doing business, the bolt vendor would have had to go to multiple DoD activities to find business opportunities. Even if each of these individual activities had had electronic bulletin boards or web pages, our bolt vendor would still have had to access each site to identify the total business potential. The vendor would also have had to go to multiple places to get the associated documents like drawings and specifications. Today, our bolt vendor has one entry point to find DoD business opportunities as well an easy way to obtain most of the documents needed to provide a response to the solicitation.

The DoD Business Opportunities Web site (DoDBusOpps) developed to easily interface within a Federal single point of entry (SPE) provides a single search mechanism for vendors to locate and access DoD on-line solicitations. As a result of its partnership with the Office of Federal Procurement Policy, DoDBusOpps will be well positioned to support the concept of a SPE for Federal business opportunities. Through the DoDBusOpps site, users can also link to the appropriate DoD Component site to

make offers on specific solicitations. Delivery of quotations from the vendors can go directly to the desktop of the buyer, avoiding costly serial processing from mail room or fax machine to a buyer's desk to manual entry into a contracting system. This means that the time to do simplified purchases is significantly reduced because there is no mail time or administrative handling. This reduces the time required in response to solicitations from 30 days to 5 days, saving time for both the vendor and the government. This centralized, coordinated approach allows a single view of all DoD business opportunities while maintaining flexibility at the local level, supporting individual DoD Component initiatives, and increasing electronic commerce and paperless operations. On January 1, 2000, 95% of the DoD's solicitations were posted in a paperless fashion.

Next, I would like to outline how our Wide Area Workflow initiative has made it easier for industry to get paid for work performed or for goods delivered through use of a virtual payment folder.

To help me describe the current business process, I'd first like to draw an analogy with a real-life example. Suppose that last week, while you were living here in Washington, DC, the water heater in your home in Frederick, MD broke and was in need of emergency replacement. Your caretaker, or a family member, surveyed the local market place and recommends to you a new water heater. You agree and a purchase order, or contract, is made for the item. The next day, the service company installs your new water heater and your caretaker signs the receipt that the heater was delivered and installed, and is now operational. Today, here in Washington, you receive a bill from the company. While ample hot water is worth every cent, you remember the

quoted price to be somewhat less. Before you pay this bill, you need to get all three documents together – the original purchase order (or contract), the receipt that shows the heater was delivered and installed, and third, the invoice. You match up these documents and discover that the extra charge was for an additional piece of pipe and plumbing services. The bill now makes sense and you write them a check. Your house in Frederick now has all the hot water it needs.

What I've just described is also the DoD bill-paying process. The DoD pays bills by requiring that three key documents – the original contract, an invoice, and a document that demonstrates goods or services were received and accepted - be matched and validated. But if you recall from my earlier statement, the process of contract award and payment involves some 800 geographically dispersed government offices, doing the business of awarding contracts, managing those contracts, and paying the vendors, while many more locations receive the products/services. Whether it is your water heater in another state, or a specialized electrical spare part for the Apache helicopter, you must get the 3 documents to the payment official at the DoD DFAS payment center. Without new initiatives, on average, this process takes 6 weeks. While I've described this process for just one item, the DoD payment center in Columbus manages over 365,000 major active contracts, and disburses over $84 billion a year. In fact, on a daily basis, the payment teams in one DFAS activity receive over 1,300 contracts, 400 receipts, and 4,800 invoices.

This practice, over the years, has resulted in creating over 15 linear miles of files at one payment center. You can see how labor-intensive the distribution and

processing of these documents has been, which results in frustrating delays, especially for cash-strapped, smaller companies.

As a result, the DoD has developed an Internet application to allow government vendors and authorized DoD personnel the capability to generate, capture, and process the contract, invoice, acceptance, and payment-related documents and data to support the DoD payment process. Documents and data used to substantiate payments are generated electronically using interactive Web-based applications or captured via fax gateways and scanners. By storing these documents on the web, we have begun to turn off the paper going to the payment offices and make information available within 24 hours.

All 3 of the initiatives discussed above can be accessed by any vendor – large or small – through commercial Internet access. The ease of entry into this "marketspace" is equivalent to an annual subscription service on the Internet of $10 - $15 per month.

The next initiative I would like to discuss demonstrates our commitment to making it easier and faster to find and acquire commercial items of supply that are needed by the DoD. Using the power of the Internet and commercially available technology, the DoD warfighter can locate, comparison shop, and acquire the items he needs to do his job all in one session from his desktop computer.

Suppose you are a Tech Sergeant at Ft. Bragg and you are responsible for repairing a troop support vehicle that is being brought in for maintenance. You need to get it repaired quickly to support an exercise. The problem is that the gears are stripped and they need to be overhauled. The Tech Sgt needs to find out the availability of that part from the supply chain that includes our commercial partners. He also wants to

ensure that the commercial part meets his quality requirements, that he gets a good price, and that the supporter meets his requirement for fast delivery.

The DoD EMALL provides "point, click, and ship" shopping for over 3 million available items. It is comparable to Amazon.com, CD Now, and multiple other commercial electronic catalogs for on-line shopping. It reduces transaction costs by eliminating the conventional, labor-intensive process of identifying sources of supply through vendor brochures, paper catalogs, phone book searches, or sequential Internet catalog searches. The DoD EMALL also provides the assurance of buying against long-term government contracts in which all of the federal procurement regulations have been addressed as part of the contract award while DoD is also leveraging its buying power to get the best available price. The DoD EMALL also facilitates use of the Government Purchase Card (GPC), which allows the vendor to be paid in the same way as commercial credit card payments. The DoD EMALL provides one-stop visibility of available items from both government and commercial sources. This one-stop visibility does not exist today in sequential catalog searches. The DoD EMALL was fielded to give the DoD customer an easy, quick tool to search, compare, order, and obtain status across all available sources in one desktop session for on-line comparison of price, delivery, and technical product characteristics.

Using commercial Internet catalog capability, the DoD EMALL uses a distributed architecture that does not require the vendor to build an electronic catalog or electronic shopping cart. Integration by a vendor within the DoD EMALL requires only a commercial database of the offered products and the ability to receive an electronic or email order. The DoD EMALL uses the vendor's normal business data and simply

accesses the data when queried by the customer. There are no unique programming requirements necessary to be a vendor on the DoD EMALL.

The DoD EMALL eliminates the need to go through the entire labor-intensive procurement process for commercially available items. What once took anywhere from 30 –140 days has been streamlined to point, click, and ship comparison shopping. The number of catalogs/products available to the warfighter is virtually limitless and, for the vendors, anyone can now be a worldwide vendor and sell to DoD via the Internet.

In all of the Electronic Business initiatives I have presented, we have worked to use commercial technology to establish a single view or access to processes within DoD. This has made it easier to do business with DoD, and allows DoD to take advantage of the best commercial business practices used by our industry partners. With electronic business technology, we've created a seamless business process where the flow of electrons allows streamlined interface between DoD and industry to expedite the delivery of the right information - to the right place - at the right time.

Thank you very much for this opportunity and I stand ready to address your questions.

Testimony

Of

Jere W. Glover
Chief Counsel for Advocacy
U. S. Small Business Administration

Before the

SUBCOMMITTEE ON GOVENRMENT PROGRAMS AND OVERSIGHT

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

April 11, 2000

Good morning Mr. Chairman and Members of the Subcommittee. My name is Jere W. Glover, Chief Counsel for Advocacy at the U. S. Small Business Administration. I am pleased to address the issue of E-Commerce and the potential for small business. Before proceeding, however, I wish to state that the views expressed here are my own and do not necessarily reflect the views of the Administration or the SBA Administrator.

I would like to lay some foundation before I speak to the issue of particular interest to the Subcommittee.

Congress has struggled for years to determine how to address the problem of regulatory burdens on small business; how to make agencies consider the value of small business to the economy; and how to get agencies to solve public policy issues by getting to the root causes of problems without imposing "one size fits all" regulatory solutions, but, instead, customizing solutions that maximize impact and compliance, while minimizing the impact on small business.

Government procurement has been a particularly challenging issue. Congress has rightly been concerned that federal tax dollars be used to get the "best buy," that government manage the procurement process efficiently – meaning at the lowest possible operating cost – and that, at the same time, be assured that tax dollars do not promote industrial concentration, that they do in fact promote competition to ensure lowest costs in the long run. Safeguards were instituted to ensure against abuses such as favoritism in the award of contracts; failure on the part of contracting officers to "shop" the marketplace, etc. Mandates were also established to ensure that small businesses would have some viable access to federal contracting opportunities.

Congressional reforms created a single acquisition regulation, the Federal Acquisition Regulation. Other legislation – the prompt Payment Act, the Equal Access to Justice Act and the Competition in Contracting Act – were all enacted in the name of reform, with a view toward ensuring fairness and small business access to government contracting.

Within the past decade, however, the entire procurement process came under criticism for being inefficient - too bureaucratic – and too costly from an agency operating cost perspective. Legitimate concerns were raised about so-called cumbersome processes. In response Congress enacted the Federal Acquisition Streamlining Act, the Federal Acquisition Reform Act and the Clinger-Cohen Act.

It is perhaps fair to characterize the reform movement of the 80s as an attempt to remove the conditions that had given rise to waste, fraud and abuse, and that of the 90s as streamlining the acquisition system – pushing the government toward increased use of the Internet and reduced reliance on costly paper acquisition systems.

However, in the push for streamlining, which Advocacy largely supported, Advocacy nevertheless remained concerned that enough safeguards were not built into the reforms. The safeguards we believed were needed were those that would ensure the government continuously shopped for the "best buy" – found most often in the small business sector, the major source of price and quality competition in the economy – and that the vast purchasing power of the U.S. government would not, in effect, end up promoting economic concentration rather than competition. We remained concerned that the reforms advanced in the name of efficiency would result in more bundling of contracts into large contracts on which small businesses could not bid. We also were concerned that contracting officers, being given more discretion in selecting contractors

at the same time that the number of contracting officer positions was being reduced, would not have the right incentives to reach out to small businesses on contracts and purchases where small business was truly competitive.

Computer technology and the Internet provided an option to help implement operating efficiencies while providing important information on small business capabilities. To reduce search costs, contracting officers needed a service, properly designed, that would make it easy for them to find qualified small businesses. Thus, PRO-*Net* was developed by the Office of Advocacy. It is a data base that profiles small businesses, providing information on what services and products they offer, their history, etc. It has as its long term goal to be a one-stop information portal on small businesses which all contracting officers – public and private – could consult to find qualified small business vendors. It was a major step toward making it easy for small businesses to do business with all federal agencies (as well as state and local agencies) and to have the data base linked to other federal programs then under development to increase the efficiency of contract management.

But this new Internet based service could not and was never intended to address all the concerns Advocacy had about the most recent reforms that we suspected would lead to increased contract bundling and the by-passing of small business by contracting officers with impunity.

More than five years have elapsed since the 1994 Federal Acquisition Streamlining Act and we are now beginning to document what has happened. Advocacy contracted for several studies:

- One on contract bundling;

- One on credit card purchases; and
- One on Federal Procurement Center data

In general, these reports are showing that fewer contracts or fewer contract dollars are going to small business. Let me share with you some data.

Contract Bundling

Advocacy's contractor, Eagle Eye Publishers, Inc., produced data showing that bundling is associated with a decline of dollars to small business. Specifically,

- Between fiscal years 1989 and 1997, only 8.9 percent of all prime federal contracts were bundled. That seems like small number *except* when one considers that the dollar value of those contracts represented 56.6 percent of all federal prime contract dollars.
- The share of bundled contracts has grown annually since FY 1995 from 9.98 per cent in FY 95 to 12.4 per cent in FY 97.
- Bundling is growing in the Construction and Other Services sector, where there are many small businesses, but appears to be declining in the R&D and Supplies and Equipment sectors. Where bundling is occurring, it is harming small business.
- The small business share of all federal contacts shrank 1.43 per cent between FY 96 and FY 98.

Credit Card Purchases

Advocacy has contracted with Eagle Eye Publishers, Inc. to examine data from the Federal Procurement Data Center to see if any determinations can be made as to the number and amount of credit card purchases made with small firms. The data is very

preliminary but does show that credit card purchases have increased dramatically, as expected. The total value of purchases made by credit cards in FY 99 was $10 billion. If small business' share remained constant, that would mean $4 billion would have been spent with small business. Whether or not this is happening is what remains to be documented.

Federal Procurement Center Data

In FY 98 Advocacy issued a report on data from the Federal Procurement Centers. This report for the first time compiled and published procurement data by individual buying centers and broke down the data on awards to small firms by state and by congressional district. The results were interesting. Overall two-thirds ($120.2 billion) of the total prime contract dollars were controlled by those centers that spent the least on small firms. These centers spent on average just 6.3 percent of their contract dollars with small firms – a total of only $7.6 billion. More than 10 percent of the centers *did no business at all* with small business. The FY 99 report is near completion and there is no reason to believe that much has changed. The grounds for our suspicion is that no safeguards – no incentives – no accountability measures have been put in place to monitor contract awards in advance.

Data tell us that something is wrong; it does not, however, tell us how to fix the problems. Advocacy makes no claim to hands-on expertise with procurement processes. Nor does it have working knowledge on the day-to-day management of federal contracting. Thus, as is our practice, we convened a meeting of private sector individuals who are conversant with procurement processes and with the world of small businesses trying to do business with the government. The meeting included Dr. Steven Kellman,

the former Administrator of the OMB Office of Federal Procurement Policy (OFPP), who has returned to Harvard University after his stint with OFPP. Dr. Kellman, as you know, is the author of many of the procurement reforms adopted to correct inefficiencies in the system.

Drawing on their collective expertise, the group identified several problems that were causing the reduced small business share of federal procurement and the downward trend that would likely continue unless changes were made. Among them:

1. Streamlining rules that give contracting officers significant discretion to deal with large firms, without any built-in small business safeguards;
2. Government-Wide Agency Contracts (GWACs) that bundle, for ease of contract administration, what had previously been individual requests for proposals (RFPs) and contract awards that would, because of their size, effectively preclude small business from competition.

The corrective steps the group believed deserved consideration were as follows:

1. Develop GWACs on which only small businesses can bid and establish GWAC small business goals for each agency.
2. Ensure that all awards – large and small – made to companies on the GSA schedules are reported on an agency's procurement goal reports so that awards to large firms cannot be hidden.
3. Establish Blanket Purchase Agreements (BPAs) for small business, 8(a), SDB and women-owned businesses selected from GSA schedules for various supplies and services and make the BPAs available for government-wide use.

4. Make PRO-*Net* the central registration for all small businesses.
5. Expand mandatory use of and reliance on PRO-*Net* to overcome contracting officer inertia in searching for small businesses.
6. Establish interagency surveillance review teams to target procurement centers where awards to small business are declining or are non-existent.
7. Establish a program of monetary incentive awards to program and contracting officers for making awards to small business; and
8. Issue a policy directive to executive branch agencies that urges them to use SBA/OMB contract waiver provisions to award service contracts of less than $100K to small business.

These recommendations have been forwarded to OFPP and SBA and some steps have been taken. For example, we are working with Deirdre Lee, Director of OFPP, and Sherrye Henry, head of SBA's Women's Business Office, to develop a single point of registration for small firms and women-owned firms, which could also become an information site where small firms can find information on all available contracts. PRO-*Net* could be this site. If this can be accomplished, it will reduce the search costs of finding contract opportunities.

While there are signs of progress, clearly more has to be done to ensure that small business has ready access to federal procurement opportunities and that contracting officers do not overlook the most competitive sector of the economy.

What does this have to do with E-Commerce and small business? Let me share with you what we do know. Procurement reforms have led to federal agencies posting business opportunities on the Internet. All federal contractors are now required to

transmit invoices electronically. Many federal contractors are also being required to accept contract payments by credit card. The question these changes pose is: how is this affecting small business?

An Advocacy study published in 1999 showed that over 4.5 million small employers used computer equipment in their business in 1998. The percentage of small businesses with access to the Internet nearly doubled from 1996 to 1998 from 21.5 per cent to 41.2 per cent respectively. However - and this is significant – only 1.4 per cent of Internet use among small businesses is directed to e-commerce sales. In addition, this report identified several obstacles facing small business in e-commerce. Costs, security concerns, technical expertise, and customer service were the major roadblocks to greater small business participation in e-commerce. Cost was singled out as the most common and greatest impediment to expanding e-commerce. Three basic cost concerns identified by respondents were: 1) lack of funds for up front implementation costs; 2) lack of monthly cash flows to maintain their sites; and 3) the probability that there would not be a real return on their investment.

All of these taken together leads us to conclude that without managerial systems in place, or accountability measures that provide incentives for agencies to do business with small business, or services that make it easy for contracting officers to find small business, the benefits of E-Commerce as used by the federal procurement system will not redound to small business. Moreover, without such changes, small business will not have the incentive to increase its use of the Internet. There will grow and remain a digital divide – a divide that will be caused in large part by the failure of federal policies to ensure small business access to federal procurement opportunities. E-Commerce and the

Internet are but tools that without the right building blocks can be used to by-pass small business. The building blocks on which the use of technology is grounded are what concern me. Ensuring that the government does business with small business is not dependent on technology. Rather it is dependent on policies and mandates. And it is important to remember that doing business with small business is not social welfare. It is good government and good business. To prove this point I defy anybody to find a $700 toilet seat sold by a small business.

E-Commerce is at the center of efficiency reforms in the federal government. It requires business to be computer oriented. Businesses must know how to navigate the Internet, venture into foreign cyberspaces, transact sensitive and proprietary business on line with limited assurances of privacy protection, avoid cyber crime. But none of this addresses the rules by which contracting officers are to make decisions. Without such rules, small business' share of federal procurement will continue to decline. That is our concern.

A number of the steps we have outlined above are designed to help small business increase its reliance on e-commerce. However, just as PRO-*Net* was a leap forward, we need new ideas and programs that make it easier for contracting officers to find, select and award contracts to small business, including women and minority-owned businesses.

TESTIMONY FOR

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
106TH CONGRESS
COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON GOVERNMENT
PROGRAMS AND OVERSIGHT
2361 RAYBURN HOUSE OFFICE BUILDING
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BY

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April 11, 2000

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: I want to thank you, and the other committee members, for your leadership in addressing the progress and future of e-commerce procurement in the private and public sectors.

It is unfortunate that as our country celebrates the dawning of the 21st Century, our government's procurement system remains firmly planted in the 20th.

As President and CEO of Digital Commerce Corporation, a privately-held small business based in Reston, Virginia, I consider myself a pioneer in the online government marketplace. Digital Commerce's government procurement solution, FedCenter.com, is the reason I am here today — to present the need for private/public partnerships.

Although FedCenter.com was launched in January 1999, Digital Commerce first opened its doors in 1995 to create a free digital marketplace that would bring new efficiencies to the government procurement process. Today, FedCenter.com has more than 5 million line items available to federal government buyers from nearly 600 pre-approved vendors.

I will speak to three ideas today that, I believe, will significantly advance the implementation of e-commerce solutions between private sector business and the federal government. First, I will address the benefits of independent electronic commerce product-service offerings like FedCenter.com and their relation to legislation mandating a paperless government. Second, I will speak to how offerings like FedCenter.com create the leverage that is necessary to "level the playing field" for small, disadvantaged, and minority owned businesses. Third, I will address the role of the Federal government in facilitating the creation of this leverage for small business, by what it does and does not do.

FedCenter.com: An independent government-focused electronic commerce intermediary that is free for the government's use.

In 1994, President Clinton signed the Federal Acquisition Streamlining Act mandating that federal agencies purchase goods and services using the Internet. In essence, this Act requires a 'paperless' government-procurement process by 2003. With this mandate in mind, FedCenter.com was born.

Today, your constituents purchase books, clothing and insurance, among many other items, online using Websites like Amazon and Nordstrom.com. This process has become an increasingly acceptable and useful way to purchase a diverse range of products and services. Users value the simplicity, clarity, speed, and flexibility that the Internet delivers in the procurement of consumer goods and services. FedCenter.com is designed to bring those same efficiencies to the procurement of government goods and services.

I should point out that FedCenter.com is free — government purchasers pay nothing to use the service. By logging onto FedCenter.com, government purchasing agents can browse catalog items, compare products for quality and price, and buy using either a government purchase card or purchase order. Using FedCenter.com, government buyers

can make smarter, more informed purchases. As stated earlier, although we bring efficiencies to the government procurement process that benefit taxpayers and the government in many ways, this service is free.

Having made that point, it may make sense for Congress to consider whether government agencies should be committing resources for the establishment of a costly e-commerce business infrastructure, or whether they should leave it to experts in the private sector to do the "heavy lifting."

Leveling The Playing Field.

I would now like to address how to level the business playing field, allowing a broader range of vendors to participate in this new economy. This country's economic history is rooted in small business. The American opportunity is all about taking an idea and making it grow into a successful enterprise. Increasingly small business is falling behind in the digital age. Why? They simply don't have the resources to compete with their larger and better-funded competition.

What's needed to help small businesses?

The economic system of the United States promotes, encourages, and rewards entrepreneurship. Typically, small businesses focus on specific opportunities in specific functional areas. This ability to focus, driven by the potential rewards of entrepreneurship, results in a plethora of innovation -- the real engine of America's dominance in many of the world's business markets.

However, the world is changing dramatically. Now, because of the constraints of worldwide competition, rapidity of change, and complexity, small businesses have virtually no margin for error and no time to grow and flourish. The emergence of the World Wide Web has increased the pressure on small businesses by orders of magnitude.

The Web is now **a cost of doing business**. In addition to bricks and mortar, small businesses must now understand -- and invest in -- web-enabled machines and networks. Small businesses need to migrate to the Web to stay competitive, but developing, marketing, maintaining, and evolving a web presence negatively impacts their competitiveness by siphoning away scarce resources.

A presence on the Web can be a major expense, especially if you are trying to do it alone by yourself. And, once you are on the Web, how do you get noticed along with the millions of other websites that have emerged and thousands more that emerge every day.

Companies spend millions of dollars on traditional and web advertising to drive visitors to their web sites. This level of investment is not possible for small businesses.

Small businesses need help. Electronic commerce intermediaries such as Digital Commerce Corporation have offerings such as FedCenter.com that have emerged to

buffer small businesses from the need to master the technologies and techniques of the doing business on the World Wide Web. By spreading the cost of maintaining and evolving the web-based infrastructure over multiple participants, FedCenter is **using capital efficiently to provide the leverage that small businesses need**.

By participating in an electronic marketplace like FedCenter.com, small businesses have their own easily accessible website, with product catalog, in the context of a sophisticated government-focused virtual marketplace where government sellers and buyers come to transact business.

And, the leverage provided by electronic commerce intermediaries like FedCenter.com goes well beyond a website. Our work just begins when a small business becomes a "FedSite" owner. To make a small business successful, FedCenter facilitates the realization of a return on the investment of the small business owner's scarce resources. To do this, it provides numerous value-added services such as training, co-marketing, and continuous government-focused integration of Internet and World Wide Web technologies to enhance the capabilities of our offering.

Electronic commerce intermediaries such as FedCenter.com provide a high-impact, cost-effective alternative to "building your own." An example is a FASTech Inc., a local small business in Beltsville, Maryland that is an owner of a FedCenter "FedSite."

FASTech Inc., local small business competing for Federal procurement dollars.

Maryland entrepreneur Matthew Lee started FASTech, Inc., a small business specializing in after-sales, high-technology services for computer systems buyers, in 1990. FASTech has provided services to components of the Maryland State Government, the University of Maryland, a major public hospital, and several federal agencies including the National Aeronautics and Space Administration, elements of the Department of Defense, and a number of law enforcement groups.

The firm is small by anyone's measure with seven engineers, a handful of support personnel, and a few part-time and full-time consultants, in late 1999. Although located in unpretentious quarters on Old Baltimore Road in Beltsville, Maryland, the atmosphere suggests quiet intensity and long hours.

When Mr. Lee started FASTech as a retail business selling computer hardware and software to individuals, the home and office retail sales industry for computers, then in its formative stages, looked good. But, competitive pricing soon squeezed margins on the retail side of the industry, as computer hardware became a commodity. Market share became the only real competitive advantage. Difficult for a small business to achieve.

Mr. Lee began to explore the need of large organizations, both public and private, for after-sales service. This led Mr. Lee to the growing after-sales market among government agencies and corporations that increasingly require client-oriented services

such as systems integration, network engineering, and information management consulting.

Pursuing this market, FASTech grew during the decade and in 1998 posted sales of about $2.5 million. Many would have been satisfied with this performance, but Mr. Lee was not. The problem was FASTech's small size for a government client base accustomed to dealing with giants.

"The federal procurement system was attractive to us," FASTech marketing director Jerry Kim recalls. "It is fair and objective — you don't have to have a personal connection to get a contract — but the agencies are accustomed to dealing with the big firms they find through the General Services Administration. It is difficult for a small company like ours to get noticed.

"Our competitive advantage is speed and responsiveness," says Mr. Kim. "We believe we give excellent value to our clients and that our clients appreciate that. The problem is this: **How can a small firm like ours bring our advantages to the notice of prospective clients, who have never heard of us?**"

FASTech needed more exposure to the federal government market at a time when federal government buyers were searching the Internet for the products and services they required. FASTech could ill afford the high costs of setting up its own e-commerce capability, including the infrastructure and development, not to mention the ongoing maintenance costs.

"We heard about FedCenter.com and it looked attractive to us," Mr. Kim recalls. "They sent a company representative out here to meet with us, and we liked what we saw. With FedCenter.com, we could acquire the connection we needed to achieve a competitive e-commerce position at a fraction of what it would have cost us to do it alone."

"FedCenter.com gives the government buyers of after-sales services an opportunity to see what we have to offer," says Mr. Kim, "and our FedCenter.com presence is easily linked to our website, giving prospective clients an additional reference point. Even better: our clients now can link directly to us through the FedCenter.com site, and pay us electronically. The whole transaction can occur in a fraction of the time it took under the former conditions, and the transaction cost is much lower. It is an advantage all around. Of course we don't yet know for sure if we can meet Mr. Lee's goal for next year, but we believe that at least now we have found a way to compete with organizations that are far larger than we are. We work hard for our clients, and we are very responsive if they have a problem. FedCenter.com has given us a way to get that message out to a far larger audience than we ever had before."

What is the government's role?

The Federal government need not do anything special to facilitate the creation of this leverage for small businesses. It is happening naturally as an ecological dynamic in the evolution of the Web, as evidenced by the FASTech/FedCenter story and many others.

However, the Federal government can help (and traditionally does in other areas of public service) by facilitating the development of guidelines, standards, and certification programs to guide industry in developing solutions to conduct business with the government over the Internet and World Wide Web.

The Federal government must encourage agencies to use and promote private sector e-procurement solutions – naturally emerging from competition in the marketplace – instead of allocating federal resources to develop and implement capabilities that parallel the efforts of industry.

The natural tendency, in the absence of any inter-agency leadership, of agencies to address their needs in their own way is exacerbated by the allure of technology. Agency technologists are attracted to and want to acquire the resources to develop applications for the Internet and World Wide Web. With electronic commerce being one of the hottest areas of the Web, agency technologists are motivated even more to acquire and apply the technology. However, this can result in competing not only with other agencies but with industry as well.

An example is GSA's online catalog GSA Advantage. GSA's original responsibility in this regard is to negotiate government-wide contracts. GSA has done a remarkable job of adding products and a wide range of services to their MAS (Multiple Awards Schedule) contracts and should be commended for their efforts. After these contracts are negotiated and awarded, transactions occur directly between the holder of the contract and agency buyers.

However, by developing GSA Advantage, GSA has inserted itself in the middle of the business transaction as an intermediary. To do this GSA has created a programmatic function that must analyze, design, develop, test, implement, and evolve electronic commerce components, an expensive undertaking. Should this be part of their mission? Is this inherently governance?

This is where the mandate "let industry lead" is applicable. The development of enabling electronic commerce technology and the application of that technology to address business opportunities oriented to the government is a function of the marketplace.

Digital Commerce Corporation has invested millions of dollars researching, developing, and operating FedCenter.com. We feed-forward the lessons we learn to continuously

improve our offering. It's our business. Sellers need not spend tens of thousands of dollars becoming EC enabled and then tens of thousands more driving government buyers to their web sites. Sellers acquire these benefits and more by leveraging FedCenter. Federal buyers need not allocate Federal resources to build electronic commerce capabilities to buy products and services, when they can leverage commercial entities like FedCenter.com, who are doing it on their own nickel. And, it's not a one-off effort for us. The rate and magnitude of technological change in the Internet and World Wide Web industry is formidable. To play the game, you must continuously adapt and improve your offering, or fall behind.

Should the Federal government allocate resources to engage in programmatic activities that industry is willing to invest in on its own?

We strongly believe that the Federal government should not engage in the attempt to develop the best electronic commerce solutions to facilitate frictionless electronic commerce for the government. Just as developing government-wide requirements for electronic commerce is clearly the government's responsibility, the development of the solutions providing the best value to meet those requirements is the responsibility of industry and the competitive marketplace.

Conclusion.

The Web is a radically new environment that we are only just beginning to understand. Many more billions of dollars will be invested by industry in the competitive marketplace for dominant positions in providing enabling technologies and product-service offerings. During this struggle, technologies and business models will fall by the wayside with many investments, never realizing a return. Does the government really want to play this game? Isn't it easier to let industry and the competitive marketplace decide who emerges with the best solutions? Isn't it easier for the government to be a "subscriber" of services that it can easily turn on and off, as circumstances dictate, rather than taking the risk to build the infrastructure for these services -- based on technologies that are changing as we speak?

The government should (1) focus on comprehensively consolidating and codifying its electronic commerce requirements for government-wide usage, (2) encourage industry to take the business risk to meet these requirements, and (3) avoid allocating taxpayer dollars or other federal resources to establish capabilities that are emerging naturally in the evolution of the electronic commerce market.

Who stands to benefit if the government fulfills its role? Small business.

Small businesses need help. They do not have resources to build technical infrastructure to sell to the government electronically. Private sector solutions, such as FedCenter.com, can help. The government must encourage and facilitate the growth of such private sector solutions and not be an obstacle. The government should not use taxpayers' money or other Federal resources to build its own redundant systems.

Members of the committee, I stand here not just representing Digital Commerce Corporation and FedCenter.com but as a reflection of the economic model that has made this country the envy of the world. I encourage you to fulfill your role as the maker of the rules and referee rather than as a player in the electronic commerce marketplace.

About Tony Bansal

Tony Bansal is the President and Chief Executive Officer. Tony began working at DCC in March 1998 and led the evolution from e-business concept to execution on multiple fronts. He directed the strategic vision and developed the solid infrastructure while securing the resources to support the plan. His clear vision and leadership continue to propel DCC on its path to building communities with businesses, governments, and consumers.

Tony has more than seventeen years of successful management consulting experience including fourteen years with ICF Kaiser International where he held numerous senior executive positions including CIO for World-Wide Operations. He left ICF Kaiser as President of ICF Kaiser Systems, a first-tier subsidiary, to join DCC in 1998. Tony is a featured speaker at IT forums and is a member of the Fairfax County Chamber of Commerce.

When Tony is not at work, he spends time with his wife and two children, ages 16 and 9 years old. Occasionally, he finds time to unwind on the golf course.

Tony holds an MS degree with Dean's distinction from Carnegie Mellon University, an MBA from Indian Institute of Management, India, and an MS degree in Physics from Delhi University.