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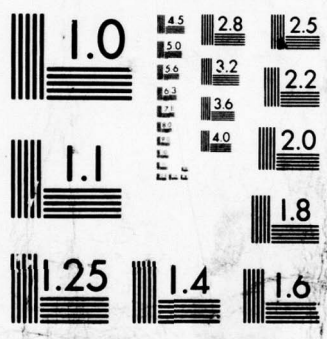
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**THESIS**

THE POTENTIAL IMPACT OF THE GOVERNMENT'S  
"BUY COMMERCIAL" POLICY  
ON SMALL BUSINESS

by

Willie E. Woods

March 1979

Thesis Advisor:

D. V. Lamm

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The Potential Impact of the Government's  
"Buy Commercial" Policy  
on Small Business

by

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Submitted in partial fulfillment of the  
requirements for the degree of

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## ABSTRACT

This thesis examines the Federal Government's decision to shift from almost total reliance on Government Specifications and Standards to a greater reliance on commercial off-the-shelf products and commercial specifications and standards. The policy is analyzed from a Department of Defense perspective, with special emphasis placed upon the impact that the policy will have on competition, pricing, quality and the small business community. The conclusion is that the "Buy Commercial" policy will have a positive effect on competition and pricing without sacrificing any of the essentials of quality. The effects on the small business community overall will be positive, in that more small firms will be encouraged to compete for Government contracts. For those small businesses however, that are heavily involved in producing products to meet Government specifications and standards the policy may spell financial disaster unless the Federal Government renders special consideration and assistance to them.

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## I. INTRODUCTION

During fiscal year 1978 it is estimated that the U.S. Government expended \$158.4 billion in the private sector for goods and services [1]. In numerous instances, the U.S. Government is the largest single customer of a particular industry or firm. Because of the volume of business done in the commercial market place, Federal Government acquisition policies can and do have a tremendous impact on the business community. In recent years, the Government and especially the Department of Defense (DOD) has drawn severe criticism from various private sources for being an unwise buyer. The extensive press coverage usually given to cost overruns on major system acquisitions contribute to the growing public skepticism in the area of Government acquisition policy. In addition to criticism from the private sector, the General Accounting Office has conducted several studies in the areas of ineffective acquisition policies and strategies and made highly critical reports to the Congress. This constant barrage of criticism from various sectors of the society has tended to heighten the concern of the Congress and those individuals that authorize and are responsible for acquisition policies and expenditures. Within the past ten years, commissions and study groups have also criticized Government acquisition policy for being archaic and burdensome in dealing with the private sector. The recurring theme in all of this criticism seems

to be that the present methods of acquiring goods and services are not the most cost effective, both in terms of prices paid for products and administrative costs incurred for managing associated inventories at stock points.

One of the recommended solutions that emerged from a number of the major studies was the "Buy Commercial" concept. This term is somewhat of a misnomer, since the Government has always relied on the commercial market place for the majority of its goods and services. Within the context of the studies that recommended it however, this term refers to the notion of the Government relying less on Government specifications and standards, and relying more on commercial specifications and standards when acquiring products in the commercial market place. Perhaps the most notable and comprehensive of all the studies making this recommendation was conducted by the Commission on Government Procurement during 1971 and 1972 [27]. This study group, commissioned by Congress, was the first of several to conclude that the Federal Government should acquire more commercial off-the-shelf products in an effort to reduce acquisition costs and as a means of increasing competition for Government contracts. The Commission indicated that the elimination of detailed Government specifications and standards from the acquisition process would ultimately lead to the Government obtaining an adequate product at a lower cost.



In order to implement the recommendation of the Commission on Government Procurement in reference to buying more commercial products, it was necessary for the Government to change existing acquisition regulations. Defense Acquisition Regulations (formerly Armed Services Procurement Regulations) explicitly stated that Federal or military specifications would be developed and utilized to procure products in the private sector for repeated acquisitions where the dollar value exceeded \$10,000 [3:1-1202]. The "Buy Commercial" concept reverses this policy by requiring the Government to utilize commercial products and distribution channels whenever possible.

Various private interest groups and Government agencies have a special interest in the "Buy Commercial" policy. Two of these major groups are: (1) The Department of Defense and (2) that portion of the small business community which have done or are currently doing business with the Government. The programs and positions of these two groups will be the focus of this thesis. The Department of Defense was chosen as a representative Government agency, because it expended approximately 67% of the Federal Government's acquisition budget during Fiscal Years 1974 through 1978 [I:485]. DOD also has an unusually large volume of military specifications and standards (in excess of 40,000), which it routinely utilizes as a vehicle for acquiring various products and services. The manner in which DOD expends its acquisition funds is subject to intensive

scrutiny by outside sources and has received significant publicity in recent years. The small business community on the other hand represents a myriad of separate entities locked in a competitive struggle for survival among themselves as well as with large businesses. Low profit margins and lack of significant reserves of operating capital make these firms particularly susceptible to major shifts in Federal Government acquisition policy.

It is obvious that the Government must seek to utilize scarce acquisition funds in the most efficient manner possible. Although the "Buy Commercial" policy has the potential to contribute to that objective, it also has the potential to generate unexpected side effects within that segment of the American business community which does business with the Government on a regular basis.

#### A. RESEARCH QUESTION

On 24 May 1976, the Office of Federal Procurement Policy (OFPP) issued a memorandum establishing an official Federal Government "Buy Commercial" policy [4]. This memorandum was addressed to the Secretary of Defense, the Administrator of Veterans Affairs and the General Services Administration. It expressed the concern of OFPP toward the trend of Government agencies to acquire ever increasing amounts of commercial products utilizing Government specifications. In an attempt to curtail that trend, the following policy statement was made in that memorandum:



The Government will purchase commercial, off-the-shelf products when such products will adequately serve the Government's requirements, provided such products have an established commercial market acceptability. The Government will utilize commercial distribution channels in supplying commercial products to its users.

[4:1]

This policy statement was subsequently utilized as the basis for development of a "Buy Commercial" pilot program within DOD known as the Commercial Commodity Acquisition Program (CCAP).

The Office of Federal Procurement Policy hypothesized that the "Buy Commercial" policy would benefit the Federal Government in terms of lower prices and increased competition among sellers. There was also an underlying assumption that the policy would be of benefit to the small business community overall, in that it would expand the Government market to small businesses that heretofore had been reluctant to enter, because of overly restrictive specifications and product requirements. The basic research question of this thesis therefore is:

1. Will the small business community, as a whole, benefit from the Government's shift in acquisition policy from the use of Government specifications and standards to the "Buy Commercial" concept? Corollary to this basic research question are such questions as:

2. If a negative effect will result, what are the characteristics of such an effect?

3. What modifications to the current "Buy Commercial" policy could be made in order to enhance accomplishment

of the policy's objectives relative to the small business community and the Federal Government.

## B. METHODOLOGY

### 1. Government Directives and Documents

The primary policy document reviewed was the OFPP Memorandum of 24 May 1976. During the course of this research, DOD was in the process of publishing directives which would provide detailed operating instructions to subordinate activities. All temporary directives and associated operating instructions were reviewed, along with essential correspondence transmitted between participating activities.

### 2. Current Literature

Due to the widespread interest in the "Buy Commercial" policy, several articles written by Government officials and private individuals were available in journals and periodicals. These articles were reviewed extensively for applicability to this thesis.

### 3. Commercial Commodity Acquisition Program (CCAP) Milestone and Status Reports

The Commercial Commodity Acquisition Program is an experimental program conducted by the Defense Logistics Agency for the purpose of determining the most feasible strategies of acquiring products from the private sector. The Defense Supply Centers participating in this study made milestone reports to the Defense Logistics Agency. These files were reviewed extensively by the researcher



because they provided an up-to-date account of the contracts which had already been awarded under CCAP as well as those awards that were being contemplated for the future. Although, in several instances, the results were incomplete, these files nevertheless proved to be an invaluable data source for determining the present status of the program along with any ensuing problems or success.

#### 4. Bidder's List of Firms Solicited to Bid on CCAP Contracts

These lists were reviewed and utilized as the population from which a small business sample was selected to participate in a questionnaire. It was reasoned that limiting the population to companies which had been solicited to participate in CCAP would enhance the credence of the responses. It was assumed that those companies would have a better perspective on any potential effects of the "Buy Commercial" policy upon small firms.

#### 5. Interviews and Questionnaire

##### a. Interviews

In order to get a true understanding of the impact of the "Buy Commercial" program it was necessary to cull the opinions of key Government officials involved in implementing the program. Phone interviews were conducted with several of the key individuals involved with the program within the Department of Defense, the Small Business Administration and the Office of Federal Procurement Policy. Due to time and monetary constraints, face-to-face

interviews were not conducted.

b. Questionnaire

A nineteen question questionnaire (Appendix A) was prepared and forwarded to 150 small businesses selected from the bidder solicitation lists discussed previously. The major industries represented by the firms solicited were: (1) textiles, (2) chemicals, (3) machinery and (4) electrical products. The purpose of the questionnaire was to determine the small businessman's opinion of the potential impact of the Government's "Buy Commercial" policy on the small business community. It was reasoned that this method would either support or deny the Government's underlying assumption that the small business community would benefit from the policy.

C. ABBREVIATIONS AND DEFINITIONS

1. Abbreviations

ASPR - Armed Services Procurement Regulations  
(superseded by DAR)

CCAP - Commercial Commodity Acquisition Program

COGP - Commission on Government Procurement

DOD - Department of Defense

GAO - General Accounting Office

GSA - General Services Administration

OFPP - Office of Federal Procurement Policy

OMB - Office of Management and Budget

SBA - Small Business Administration

VA - Veterans Administration



## 2. Definitions

### a. Commercial Off-The-Shelf Products

Commercially developed products sold in substantial quantities to the general public and/or industry at established catalog or market prices.

### b. Specifications

A document that clearly and accurately describes the essential and technical requirements for items, materials or services, and that includes the procedures by which a determination can be made that the requirements have been met.

### c. Commercial Specification

A document used to describe a product, or a family of products, or a process used by a broad section of the public and industry. These documents are generally developed by non-Governmental bodies such as nationally recognized industry associations and professional technical societies.

### d. Government Specification

A Federal, Military or departmental document used to describe the design and/or the performance of a product. Government specifications for items and materials may also contain preservation, packing and marking requirements. A Government specification may be used alone as an acquisition document.

### e. Standards

Establishes engineering and technical limitations and applications for items, materials, processes,

methods, designs and engineering practices. Standards are used primarily to achieve uniformity in materials or products and, unlike specifications, are not normally used alone as acquisition documents.

#### D. SCOPE

This thesis must necessarily restrict itself to limited aspects of the "Buy Commercial" policy. It is recognized that there may be other ramifications of this policy which are of greater or lesser importance than the issues addressed in this research effort. A cursory treatment will be made of some of these other issues in an attempt to enlighten the reader of their existence. This thesis does not profess to project the views of the total small business community, but the opinions expressed herein undoubtedly are shared by certain elements of that community. The views of the Federal Government and specifically those of DOD are representative however, since they were gleaned from existing policy statements and confirmed by telephone interviews with high level Federal officials.

#### E. ORGANIZATION

This thesis examines a potential major change in Federal Government acquisition policy and its effect upon selected entities of the small business community. Chapter II describes the background implementation, and current status of the "Buy Commercial" policy along with the associated programs and legislation pending as of the date of this



writing. Chapter III is a presentation and analysis of the data collected in the small business questionnaire. Chapter IV completes the study by presenting conclusions drawn from the research, reviewing the research questions and making recommendations concerning the "Buy Commercial" policy as it relates to small business.

## II. BACKGROUND AND CURRENT ENVIRONMENT

This chapter provides the reader background information regarding the basic acts, laws, and decisions that have had an impact on the Government's decision to implement the "Buy Commercial" program.

### A. THE ROLE OF GOVERNMENT SPECIFICATIONS AND STANDARDS IN FEDERAL ACQUISITION POLICY

The Federal Property and Administrative Services Act of 1949 gave the General Services Administration (GSA) the responsibility to establish and maintain a Federal-supply catalog system. It also gave GSA the authority to prepare and administer Federal specifications and standards for other agencies. As of 1977, approximately 4550 specifications and 1550 standards were cataloged by GSA [5:17].

The Defense Cataloging and Standardization Act of 1952 implemented the concept of standardizing items by utilizing specifications and standards wherever possible within DOD. As a result of this act and other factors, the volume of military specifications and standards grew at a rapid rate between 1952 and 1972. This rapid proliferation of standardization documents can be partially attributed to the needs of the military services to establish uniformity among similar products. The proponents of Government specifications and standards postulated that standardization would enhance maintenance capability at the military field



activity level, reduce the necessity for extensive cross training of maintenance personnel and reduce equipment downtime. From a logistics standpoint, standardization eased the burden of cataloging and cross referencing parts and components. Standardization also facilitated full implementation of an advertised procurement strategy. By utilizing specifications and standards which had been previously tested and proven, the Government found it easier to prepare non-ambiguous bid-solicitation documents. Prospective bidders could simply refer to the specification or standard quoted in the solicitation document and determine the exact nature of the product desired by the Government. This technique contributed to the aura of fairness and impartiality which the Government desired to project as an intimate part of its acquisition strategy. This technique also simplified the task of writing purchase descriptions in that less controversy was raised by bidders over the nature of the product the Government desired to acquire. Selection of the responsible and responsive bidder with the lowest bid became the primary contract award criteria.

The marriage between standardization documents and advertised procurements was consummated with the implementation of regulations which required the development and use of military specifications and standards wherever repeated acquisitions of an item were to be made [2:1-1202(a)]. The results attained with this strategy were predictable. By 1972, DOD had issued some 31876 standardization documents

(including specifications, standards, and handbooks) [2:19].

The Commission on Government Procurement reported in late 1972 the following problems associated with Federal specifications and standards:

1. Obsolescence

Several specifications were of questionable value because of their age (46% of Federal specifications were more than four years of age in 1972) [2:19].

2. Complexity

Many Federal and military specifications referred to other specifications. For example, the Commission found some 313 specifications pertained to a single light bulb [2:20]. The Commission further found that it was virtually impossible for a bidding contractor to obtain a copy of all specifications referenced in an acquisition document. They also found that a supplier on the average must ask three Government offices for specifications in order to bid responsively; thus, new companies were at a distinct disadvantage when bidding on Government contracts due to a lack of familiarity with the system.

3. Cost

The method of developing and maintaining Government specifications and standards was very costly. In DOD alone, some 88 activities were responsible for the standardization program.

4. Technological Advances Hampered

It was found that use of design specifications



prevented the Government from obtaining the benefit of technological progress. The high cost and risks to a company of designing a system superior to that specified in a Government design specification tended to discourage industry from pursuing such innovative ideas where Government contracts were involved.

#### 5. Specifications Too Rigidly Interpreted

Overly strict interpretation of specifications by Government officials tended to restrict competition for Government contracts, in that it discouraged new companies from bidding on contracts. It also tended to drive older companies out of the market.

The Commission recognized that the advantages which were present when the standardization program was implemented still existed (e.g. standardization facilitated fairness in the contract award process and it established minimum levels of quality to be met by any seller). The Commission also realized however, that these advantages were significantly outweighed by the disadvantages stated above, and as a result they made the following recommendations [2:21]:

a. Development of new Government standardization documents should be based on a cost benefit analysis. Those that cannot measure up to the criteria should not be developed.

b. All existing standardization documents should be reviewed at fixed time intervals in order to determine

their current utility. Obsolete or irrelevant specifications should be eliminated or updated as a result of this review.

c. Packaging requirements for military items should be separated from other standardization activities.

d. Commercial product specifications when used should exclude special packaging, packing and marking requirements. Special packaging and marking tended to increase costs to the Government.

Following the Commission's report, limited action was taken by DOD to reduce the proliferation rate of new standardization documents. For example, during the twenty-year period between 1952 and 1972, military specifications and standards had grown from virtual non-existence to in excess of 31,000. Between 1972 and 1977 military standardization documents grew from in excess of 31,000 to in excess of 40,000 [5]. Percentage-wise, the growth between 1972 and 1977 slowed to an average of five percent annually. During that same period, GSA standardization documents grew at about the same rate. There was still concern at GAO however, that insufficient progress had been made in this area.

Two other major studies conducted by Government commissioned task groups also addressed the role of Government standardization documents in the acquisition process; these groups were: (1) the Task Force on Electronic Test Equipment and (2) the Task Force on Specifications and Standards.



The Task Force on Electronic Test Equipment reported its findings in February 1976. Several problems involving Government specifications were reported by this task group. The majority of the problems were similar in nature to those expressed by the Commission on Government Procurement. Some of the identified problems were:

a. Acquisition of electronic test equipment in accordance with a Government specification was tantamount to buying custom made test equipment. The Government's method of acquiring test equipment was not only more expensive at the outset than off-the-shelf test equipment, but it also required a higher life cycle expenditure due to the necessity of having to buy custom built parts in order to effect repairs.

b. Government acquired test equipment tended to lag the state-of-the-art in the industrial community due, primarily, to the Government's inability to maintain up-to-date test equipment specifications.

The significance attached to this study is based on the fact that it confirmed for a specific group of products what the COGP had reported four years earlier, namely that acquiring products solely through the use of Government specifications was a costly venture. In an effort to correct this inequity some 28 total recommendations were made. Of the 28, three specifically addressed the government specification problem, and they were [6:27]:

a. Prior to developing new specifications for electronic test equipment, a determination should be made if off-the-shelf test equipment could meet the minimum requirement. In those instances where Government specifications were deemed necessary, justification could be prepared in order to substantiate the requirement. Additionally, existing obsolete test equipment specifications were recommended for elimination.

b. Changes should be made to the general military specification MIL-T-28800 (Test Equipment for Use With Electrical and Electronic Equipment) which is utilized as a guide for acquiring test equipment, to ensure that it facilitates procurement of off-the-shelf equipment.

c. Reduce the rigid application of specifications requirements, such as those dealing with environmental requirements, military parts, materials and processes.

The anticipated benefits to be derived from implementing these recommendations were [6:28]:

a. Reduced acquisition costs (\$10.5 million annual estimated savings in reduced specification writing)

b. Shorter acquisition lead times

c. Potential for cost effective use of manufacturers' repair and calibration service

d. Increased insurance against the technical and cost problems often associated with dependence on a single source for specially designed equipment.



The second major group to study the effects of standardization documents upon the acquisition process was the Task Force on Specifications and Standards [7]. This task group issued an informal report in mid-1975 and a final report in April 1977. This group generally agreed with the previous two study groups, but one deviation was made in the findings. This group suggested that specifications were useful and should be maintained, but rigid interpretation by Government officials and rigid compliance by contractors tended to create the majority of the problems commonly associated with Government specifications and standards. This group did agree however, that in the future DOD should work closer with civilian standard agencies in an attempt to develop national specifications and standards as opposed to military specifications and standards. It concluded that the system as it presently existed was inadequately organized and managed to perform the task at hand.

The General Accounting Office has also issued reports citing the disadvantages of utilizing Government specifications in the acquisition process. Some of the problems pointed out in these reports were [5:6]:

- a. High management, investment, and storage costs associated with military stocking of common-use commercial-type items when many of these items were available from commercial sources.

- b. Low number of bids received repeatedly for the

same items without revision of specifications or purchase descriptions to increase competition.

c. Packaging specifications and standards were repetitious, redundant or not applicable and commercial packaging was probably suitable for most military requirements.

Armed with all of these reports which pointed out the flaws in the existing acquisition system, OFPP issued a policy statement on 24 May 1976, which directed the Department of Defense, Veterans Administration and General Services Administration to commence purchasing commercial off-the-shelf products where available, in an effort to reduce costs associated with maintaining their respective logistics systems [4]. In response to that policy statement, DOD initiated the "Commercial Commodity Acquisition Program" in an effort to test the viability of the policy statement. This program is discussed in a subsequent section of this thesis.

The Commission in its 1972 report and GAO in subsequent reports, recommended that a cost benefit analysis approach be adopted as a means of determining whether a new specification should be developed [5:18]. In regard to this recommendation, GAO found that historically DOD and GSA had not performed cost/benefit analysis prior to developing new specifications, mainly because there were no existing regulations that required it. Instead, these agencies relied on DAR which stated that Federal and



military specifications were not required for items where the total purchase amount was \$10,000 or less. However, in the case of repetitive procurements exceeding \$10,000, specifications were required as a basis for soliciting bids. As a result, prior to 1976 cost data was not collected by these agencies in any form that would lend itself to a cost/benefit analysis. During 1975 GSA's Federal Supply Service (FSS) developed a cost/benefit criteria for specification development, and for the first time, cost data was available for analytical purposes. Based on data obtained from the FSS for fiscal year 1976, the average cost to develop a new specification was found to be \$17,241. The average cost to develop a purchase description was \$1,127 [5:21]. The determination of whether a new specification would be developed within the FSS was based on the following criteria:

- a. There must be an annual recurring demand for the products that the new specification will cover.
- b. The annual demand value must exceed the specification development cost by a 10 to 1 ratio, where development cost is computed as follows:

$$\text{Development Cost} = \frac{\text{Productive Staff Hourly Rate}}{\text{Rate}} \times \text{No. hours required to develop the specification}$$

Productive Staff hourly rate was a semi-fixed labor cost (\$30.00 at the time), which did not include laboratory costs. This rate was to remain fixed over the budget year, but was subject to change annually as labor rates changed.

The variable component of the development equation was the number of hours required to develop or change a specification. This basic mode was applied by the FSS to new specification development, specification revision and purchase description preparation. As an example of how this criteria operated, during FY 1976 FSS estimated that fifty-six new specifications would be developed and 13,079 staff hours would be expended. This equates to an average of 234 staff hours expended on each specification. Utilizing the \$30.00 hourly rate for staff hours, the average cost of developing a new specification during FY 1976 amounted to \$7,020. Applying the criteria that annual demand value must exceed the development cost by a 10 to 1 ratio, the annual demand value needed to justify a new specification would have been \$70,201 or greater ( $\$7,020 \times 10$ ) during FY 1976. This value obviously exceeds the \$10,000 criteria established by DAR and FAR.

DOD on the other hand developed a slightly different approach to specification development and management than the FSS. DOD contended that basing specification development and revision on cost/benefit analysis was very difficult, because several of the key factors to be considered were non-quantifiable. DOD instead elected to concentrate on so-called "high pay-off" specification improvements, such as the elimination of non-essential specifications, and greater use of specifications developed and maintained by non-Governmental bodies. The Commercial Commodity



Acquisition Program represents one of the major vehicles by which DOD hoped to accomplish this goal.

It appears that the era of unlimited Government specification proliferation may be ending. Quantum increases and improvements in the standardization documents developed and maintained by non-Governmental bodies has produced a significant overlap with those standardization documents maintained by the Federal Government. On-going budget constraints dictate that every ounce of inefficiency existent in the present Government standardization program be eliminated. Closer ties with non-Government standardization bodies coupled with greater reliance on commercial off-the-shelf products are all viable approaches to solving the long existing problems associated with Governmental specifications and standards.

#### B. THE POTENTIAL ROLE OF NON-GOVERNMENT SPECIFICATIONS AND STANDARDS IN FEDERAL ACQUISITION POLICY

The commercial specification and standards network has grown in stature and capability since the early 1950's when the Federal Government found it necessary to develop its own body of specifications and standards. The Task Force on Specifications and Standards reported that non-Government standard organizations had published over 26,000 voluntary engineering specifications and standards, many in areas related to the DOD documents. DOD has so far adopted approximately 1200 industry standards [7]. Some of the non - Government bodies which currently maintain and develop

specifications are: (1) American National Standards Institute (coordinating agent for approximately 6000 national standards), (2) American Society for Testing and Material, (3) The Underwriters Laboratory, and (4) The Technical Association of the Pulp and Paper Industry.

In addressing the availability of non-Government specifications, the Task Force on Specifications and Standards recommended that DOD take the following steps in order to better utilize this existing network [7:III-7]:

1. Establish a focal point for interface with voluntary standards programs.
2. Develop guidelines for DOD participation in voluntary programs.
3. Encourage greater participation in voluntary national standards programs by having DOD personnel maintain active dialogue with the technical committee structure.
4. Nominate a responsible DOD official for the board of directors of the American National Standards Institute.
5. Encourage use of national standards in lieu of military specification and standards when there is no significant advantage to DOD in the development of new documents.
6. Educate engineers as to the use of commercially available components and products.

The Defense Science Board Task Force on Electronic Test Equipment and the General Accounting Office have also pointed out the potential advantages of utilizing non-Government



specifications and standards. Some of the major advantages of utilizing non-Government specifications are as follows:

1. They are less expensive to the Government, in that the need for a bureaucracy to prepare and maintain standards is eliminated. The various DOD and GSA activities tasked with maintaining standardization documents constitute a sizeable budget. Any major shift toward greater utilization of non-Government standardization documents will ultimately lead to a reduction in the existing bureaucracy, which should lead to a reduction in operating costs.

2. It will promote wider competition among industry for Government contracts, by eliminating the numerous restrictions and conditions currently imposed by Government specifications.

3. It can lead to savings in Government storage and inventory costs through greater utilization of supplier's warehouses and the commercial distribution system. The elimination or reduction of specification requirements for packaging and marking for example will enhance the capability of suppliers to directly support military field activities, thereby resulting in reduced inventories at military stock points.

4. It will eliminate the technology lag inherent in certain products acquired to meet Government specifications. This is especially true in the electronic test equipment area. The Defense Science Board Task Force on Electronic Test Equipment indicated that the majority of total test

equipment sales were being made to commercial customers utilizing off-the-shelf units. The Government on the other hand had a unique share of the test equipment market in that it usually procured custom units, designed to a military specification. In many instances, these custom units were obsolete in that an improved version of the unit had already been developed and was available to the Government. However, since the military specification used to acquire the test equipment had not been revised, suppliers were required to provide the older version of the same unit in accordance with the specification. This not only resulted in a technology lag in Government acquired test equipment, but it also resulted in higher acquisition costs. The Government had basically attempted to make the market conform precisely to its requirements, rather than adapting to the reality of the market place. Exacting total conformity from suppliers in accordance with outdated specifications inevitably creates an environment of planned obsolescence.

There are some disadvantages in placing total reliance on non-Government specifications that must be recognized however. Some of these disadvantages are:

1. Standardization problems may ultimately result from over-reliance on non-Government specifications. When there are several commercial items of basically equal design available to the Government, a problem of standardization arises that is not present when Government specifications are used. Several slightly different commercial machines,



for example, may be capable of performing the same task. The Government, however, in attempting to stock and provide support for these machines, would like to minimize the variety carried in stock. Reducing the stock variety serves two key purposes: (1) it reduces the need for cross referencing and cataloging within the stock system, and (2) it reduces the range of spare parts needed to effect repairs to the machine.

2. Greater reliance on commercial products and the commercial distribution system will increase the vulnerability of DOD to strikes and work stoppages by trade unions and other work groups. By maintaining extensive inventories at various stock points around the world, DOD currently has a built-in buffer against these factors.

Weighing the advantages against the disadvantages however, it appears likely that DOD will place greater reliance on commercial specifications in the future. As non-Government standardization bodies continue to develop and become more adept at developing extensive standardization networks the overlap between commercial and Government specifications will increase. As a result, it will become even less cost effective for the DOD and other Government standardization agencies to maintain their present systems.

#### C. AN OVERVIEW OF THE SMALL BUSINESS COMMUNITY

The small business community has existed as a recognized entity since June 11, 1942, when Congress created the Smaller War Plants Corporation (SWPC) [8:15]. The purpose

of the SWPC was to mobilize small business for the wartime production effort.. This organization was successful in diverting to small business some 60,000 contracts valued at almost six billion dollars [8:16]. Perhaps the most lasting contribution of this organization was the fact that it raised the consciousness of the American public and the Government in regard to the value of the small business community as a viable force in the war effort. The SWPC was dissolved following the war, but it was reinstituted during the Korean War (31 July 1951) in the form of the Small Defense Plant Administration (SDPA). The SDPA existed for approximately two years (until 1953). During this period, SDPA achieved a less than illustrious record, but it did manage to keep alive the desire to establish a permanent organization within the Federal Government designed to tap the extensive resources within the small business community as well as assist those businesses in taking a more competitive stance within the American economy. The SDPA was terminated on 31 July 1953. On 30 July 1953, the 83rd Congress created the Small Business Administration (SBA) under P.L.-163. From the outset, the SBA differed from its predecessor agencies in two major areas: (1) it was created to be a full time organization (in peace and war) and (2) it was designed to serve all types of small businesses as opposed to just manufacturing firms on which the SDPA had concentrated. At the outset, the SBA was given the power to:

1. Make loans to small businesses.



2. Enter into contracts with other Government agencies that would be sublet to small businesses.

3. Certify to Government acquisition officials the capacity and credit of a small business firm to undertake a Government contract.

4. Provide technical and managerial aids to small business.

5. Evaluate the productive facilities of small business in relation to war and defense production.

6. Encourage Government contractors to let subcontracts to small business.

7. Make recommendations to appropriate Federal agencies to insure that an equitable and fair share of materials was directed toward the small business community.

8. Cooperate with Government acquisition officials with the objective of attaining complete usage of the productive capacity of small business.

The role of SBA as envisioned by the Congress was to (1) aid, counsel, assist and protect the interests of small business in order to preserve free competitive enterprise and (2) ensure that a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government be placed with small business enterprises. At the outset, SBA represented some five million small businesses. In 1977, that number had grown to nine million. The following statistics will provide some indication as to the impact the small business community has on the nation's economy:

Small business constitutes [9:2]:

45% of the Gross National Product  
55% of the Labor Force  
95% of all Businesses  
50% of National Payroll

The Small Business Act generally states that a small business is considered to be an independently owned and operated firm that is not dominant in the field of operations in which it is bidding on Government contracts. Over the years however, this general policy statement has evolved into specific size guidelines. The average number of employees is the most common determinant of whether a business is to be classified small or large. In some instances however, gross annual receipts is used as the primary determinant. Table 1 below provides a summary of the size guidelines set forth in DAR [3:1-701.1].

SUMMARY OF QUANTITATIVE DEFINITIONS OF SMALL  
BUSINESS FOR THE PURPOSES OF ASSISTANCE BY SBA

<u>INDUSTRY</u>	<u>RANGE OF MAXIMUM SIZE STANDARDS</u>
Construction	Receipts: \$5 million to \$12 million annually
Manufacturing	Employees: 500 to 1500 (average)
Services	Receipts: \$1.5 million to \$9 million
Transportation	Employees: 500 to 1500 (average) or, Receipts: \$5 million in certain categories
RDT & E	Employees: 500 if not manufacturing a product  Other: If manufacturing a product use the standard specific to that industry



Appendix B is a detailed sample of the guidelines used by DOD acquisition officials to make small business determinations. Although this method of determining size may not appear to be very representative at first glance, research has shown that the average number of employees is a better indicator of size than such economic factors as net sales, total assets or profits [8:61]. The Federal Government does business with a small percentage of the nine million plus small businesses in this country, but major changes in acquisition policy can have a significant impact on that portion of the small business community competing for Government contracts. This thesis will address the latter group.

#### D. REVIEW OF SIGNIFICANT LITERATURE AND POLICY DOCUMENTS

The following key documents and studies played a major role in the Federal Government's decision to place greater reliance on commercial off-the-shelf products.

##### 1. The Commission on Government Procurement

This study group was commissioned in November 1969 to study the existing state of acquisition policies and procedures within the Federal Government. Study Group 13-A, commissioned on 6 January 1971, was assigned the task of examining the acquisition of commercial goods and services by the Federal Government. The study was completed in 1972, and recommendations were made to the Congress. The recommendations of this Commission have had the most far-reaching implications on subsequent acquisition policies. Some of the key recommendations made by the Commission in regard

to greater use of commercial products include [2]:

a. Commercial products specifications and/or standards should be used where possible.

b. Greater use of commercial off-the-shelf products wherever possible.

c. Development of all government standardization documents should be justified in advance in terms of all costs involved in their development, promulgation, and maintenance in relation to the benefits obtained.

d. An Office of Federal Procurement Policy should be created to administer and coordinate the Government's procurement programs.

Public Law 93-400, enacted on 30 August 1974, established the Office of Federal Procurement Policy in the Office of Management and Budget, and thus was achieved one of the major recommendations of the COGP. OFPP commenced operating on 31 December 1974 and since that time has played a major role in implementing the other recommendations of the COGP.

## 2. Defense Science Board

### a. Task Force on Electronic Test Equipment

This task force was established by DOD on October 25, 1974 "to examine the greater use by the DOD of privately developed, commercially available off-the-shelf electronic test equipment, including modification thereof, with the goal of achieving economy and reliability benefits for the several armed services and to recommend policies and procedures which will maximize these benefits" [6:1].



The findings of this task force basically confirmed the findings and recommendations of the COGP, namely that greater use should be made of commercial specifications and commercial off-the-shelf test equipment.

b. Task Force on Specifications and Standards

This study group tended to disagree slightly with the general consensus of the COGP and the Task Force on Electronic Test Equipment over the cause of the higher cost of acquiring products utilizing Government specification. Whereas the former had labeled the existence of Government specifications as a problem, the latter emphasized that the specifications were useful. However, the rigid interpretation of those specifications by Government officials and contractors contributed significantly to the problems commonly associated with Government specifications. The conclusion was that Government specifications and standards were necessary to the DOD acquisition process, but costs associated with developing and maintaining them could be reduced by [7:V-11]:

(1) DOD introducing flexibility, judgement and contractual latitude and incentives in the application of the specifications;

(2) DOD encouraging industry to feedback cases of unreasonable requirements, and recommend alternatives for improving the situation;

(3) DOD applying education, motivation, publicity and leadership to the development and application of specifications and standards.

3. OFPP Policy Memorandum of 24 May 1976

The Office of Federal Procurement Policy responded to the recommendations of these major study groups by issuing a policy memorandum to DOD, VA, and GSA directing those agencies to place greater reliance on commercial off-the-shelf products whenever possible [4]. This memorandum set in motion the necessary stimulation required to make the recommendations of the COGP a reality. A chairman designated to head a "Buy Commercial" Task Group was appointed from OFPP and tasked with the responsibility for coordinating the efforts of the various Government agencies. This policy statement was significant because it could lead to widespread changes in Federal Government acquisition strategy.

4. Federal Acquisition Bill (Senate Bill S-1264)

This bill was introduced in the 1st session of the 95th Congress on 6 April 1977. (This bill was recently reintroduced in the 96th Congress as S-5.) According to its sponsors (Senators Chiles and Roth), "This bill would consolidate and reform the 25 year old basic laws now controlling Federal contracts and replace them with a modern statute aimed at far more intense and innovative competition; a crackdown on sole-source awards; and a severe cutback on specifications and regulations." [10:3-20] This bill incorporates several of the recommendations made by the COGP,



the most important being the implementation of a new acquisition statutory base.

The primary reasons given for drafting this bill included [10:3-1]:

- a. The laws controlling Federal purchasing have become outdated, fragmented, and needlessly inconsistent;
- b. these deficiencies have contributed to significant inefficiency, ineffectiveness, and waste in Federal spending;
- c. the COGP found and recommended that a new consolidated statutory base was needed.

Those aspects of the bill related to the "Buy Commercial" policy are discussed below:

a. Title I. Acquisition Methods and Regulatory Guidance

The director of OFPP will be tasked with promulgating a single set of Federal Acquisition Regulations within two years following passage of the bill. This is a major step toward uniformity in the acquisition process, since it will incorporate several aspects of the various acquisition regulations currently published by the different agencies. OFPP will also be responsible for reviewing and revising these regulations as necessary; and conducting studies to determine whether Federal agencies have been efficient and effective in their compliance with the regulations.

OFPP will oversee a program to reduce agency use of detailed product specifications. This program is already basically underway as a result of the OFPP Memorandum issued on 24 May 1976. The intent of the Bill appears to be in having OFPP establish a direct specification reduction program which would be followed by agency heads. Although agency heads will retain the authority to develop and utilize specifications, their performance in the area of specification reduction will be assessed by OFPP and reported to Congress on an annual basis.

b. Title II. Acquisition by Competitive Sealed Bids

This method will be utilized for acquisitions costing over \$10,000 where:

(1) The product or service needed can be clearly defined. Current regulations require the development and utilization of specifications if the product is to be acquired on a recurring basis. Under S-1264 however, the utilization of functional specifications are encouraged to the maximum extend possible. A functional specification as defined by this Bill is:

A description of the intended use of a product required by the Government. In such terms that it would not prevent the Government from considering alternative solutions to its needs or act to limit effective competition. A functional specification may include a statement of the qualitative nature of the product required and, when necessary, may set forth those minimum essential characteristics and standards to which such product must conform if it is to satisfy its intended use. / 10:3-2 /



Prior to the preparation and use of a detailed product specification in a purchase description, the prior approval of the agency head (written justification) would be necessary.

(2) A number of qualified suppliers are willing to bid.

(3) Suitable products are available so as to facilitate award of a fixed price contract to a bidder selected.

(4) Sufficient time is available to use the sealed bid process.

(5) The property or service to be acquired is within the U.S.

(6) The price for the property or service has not been established by or pursuant to law or regulations.

c. Title III. Acquisition by Competitive Negotiation

This method will be used for acquisitions in excess of \$10,000 that have failed to meet at least one of the criteria for competitive sealed bids. The major implication in this section of S-1264 for the "Buy Commercial" program is the emphasis on functional specifications. Just as in the sealed bid process, agency heads will be required to justify development and utilization of detailed specifications.

All of the previously discussed studies and documents represent the basis for the existence of a "Buy Commercial"

philosophy within DOD and other Government agencies. The specific programs which have emerged as a result of this philosophy will be discussed further in subsequent chapters of this thesis.

#### E. THE COMMERCIAL COMMODITY ACQUISITION PROGRAM (CCAP)

OFPP issued its "Buy Commercial" memorandum in recognition of the fact that in order to change existing policy and practices it would be necessary to mount a unified effort among the three major agencies that would be most affected (DOD, GSA and VA). The following statement was made in reference to this problem:

We fully recognize the size and complexity of this task, and that a uniform approach to implementation is essential to assure a high probability of success. Therefore, it is requested that you designate a representative to participate with an OFPP sponsored interagency steering group to develop implementation procedures which, ultimately, will be coordinated with all concerned agencies prior to finalization. [4:3]

DOD's response to this memorandum was already in progress. During December 1975, DOD had issued a memorandum addressing the acquisition of commercial products within DOD [1]. This memorandum was addressed to the four service branches and it basically underscored the need for DOD to place greater reliance on commercial products as a means of reducing costs. The December 1975 memorandum further established a steering group to design and implement a "Buy Commercial" program. In January 1977, DOD issued a second memorandum, which introduced a pilot program entitled "Commercial Commodity Acquisition Program." This program was designed



to become the primary vehicle for coordinating the "Buy Commercial" effort within DOD. The January 1977 memorandum also provided specific objectives and implementation guidelines and basically aligned DOD's program with OFPP's program. In this regard, the DOD position was stated as follows:

It is important to point out that while the subject program is a DOD initiative, it is also totally compatible with the policy statement on commercial product acquisition and support, which was issued by the OFPP on 24 May 1976. [12:1]

Attachments to the January 1977 DOD CCAP implementing memorandum included: (1) a list of products to be procured within the program, (2) objectives of the program, and (3) guidelines for use during the pilot program.

1. Products Acquired During the CCAP Pilot Study

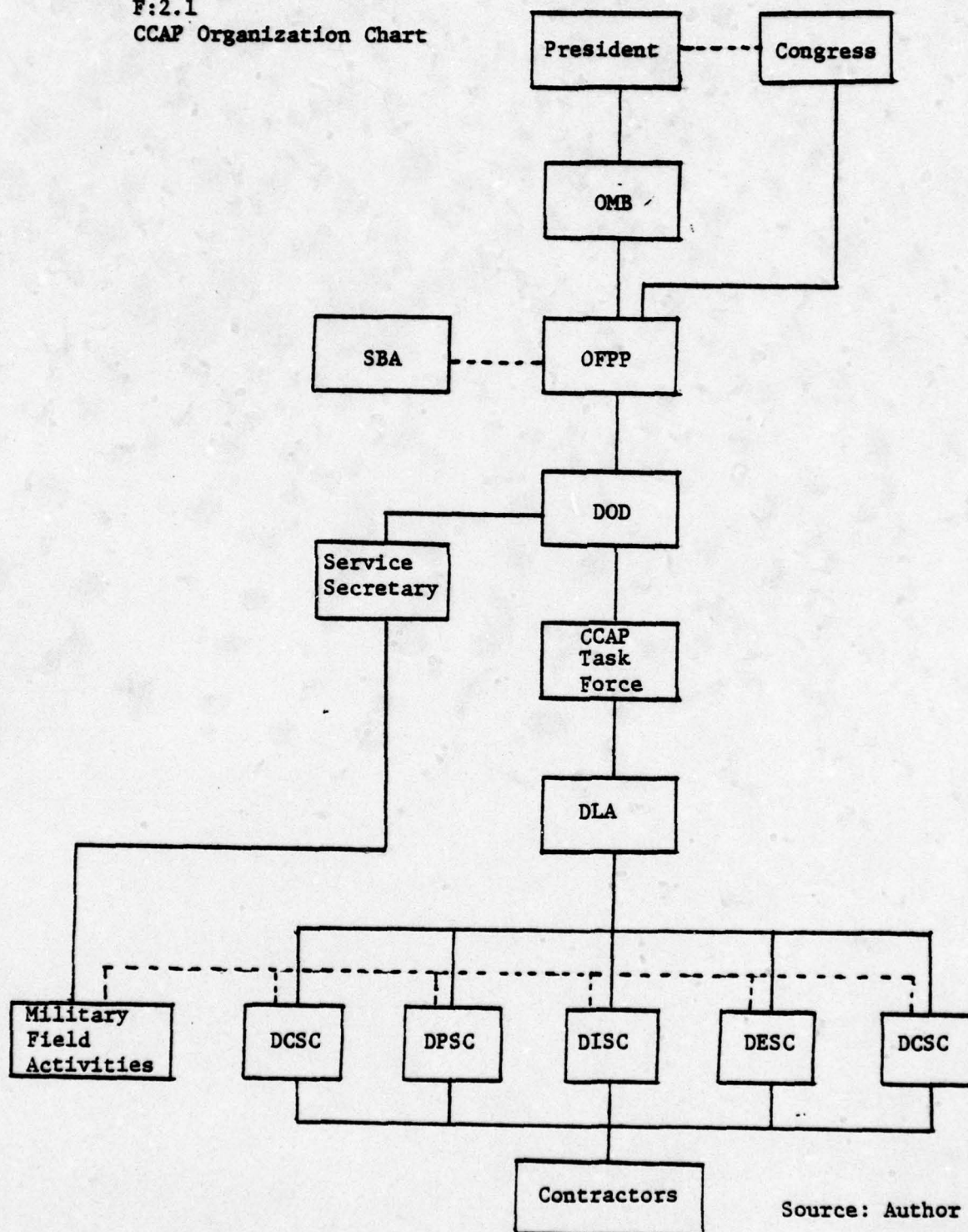
Candidate products for the pilot program were obtained from all four service branches and the Defense Logistics Agency. These candidates included: harbor tugs for the Army, communications equipment for the Navy, electronic test equipment for the Marine Corps, tanker cargo aircraft for the Air Force and towels for DLA [12:Attachment 2]. These items were subsequently integrated into OFPP's master listing of items to be analyzed by the "Buy Commercial" pilot programs [13].

2. Organizational Structure of Activities Participating in CCAP Pilot Study

The following organization chart depicts the lines of authority and responsibility (unbroken lines), and the

lines of information flow (broken lines) envisioned at the outset of the study.

F:2.1  
CCAP Organization Chart



Source: Author



As indicated, the lines of authority reach jointly from Congress and the Executive Branch to the OFPP. This unique organizational relationship is based on the manner in which OFPP was created. Although OFPP is within the OMB, which is in the Executive Branch, OFPP has a direct responsibility to the Congress. On an annual basis OFPP is required to report on the results of its preceding year of operations directly to Congress. Acting in accord with this joint authority, OFPP can legally set acquisition policy for the other Government agencies. The roles of the key players involved in the CCAP below the DOD headquarters level are discussed below:

a. Defense Logistics Agency (DLA)

Headquarters DLA was assigned the task of administering and supervising the CCAP pilot study at the implementation level. Items to be acquired under the pilot program were distributed between the five Defense Supply Centers in accordance with their normal areas of acquisition responsibility. DLA was responsible for collecting milestone reports from each of the Supply Centers and transmitting progress information to higher authority.

b. Service Branches

At the outset of the CCAP study, each branch of the military service and DLA was responsible for submitting a list of items that could be considered as candidates for acquisition under CCAP. DLA collected and compiled all of the CCAP candidates into a master listing, which was in turn

provided to the respective Defense Supply Centers for action. Since that time, the service branches have maintained direct communications with DLA in regard to their respective candidates within the program. Some of the on-going communications which have taken place between DLA and the services have been in the area of specification waivers. Prior to acquiring a military specification covered item utilizing commercial standards, DLA was required to obtain the approval of the cognizant service. The services have also added and deleted items from the original list. In the final phase of the CCAP study field activities will provide feedback information on the acceptability and quality of the products acquired under CCAP.

c. Defense Supply Centers

The five Defense Supply Centers were given the responsibility for actually acquiring the products involved in the CCAP study. In carrying out this responsibility, they have: (1) designed and implemented acquisition strategy, (2) conducted pre-bid conferences, (3) solicited bids and awarded contracts, and (4) received and issued material acquired under the program. The five supply centers and their general areas of product responsibility were:

(1) Defense Industrial Supply Center, Philadelphia, Pennsylvania. Responsible for acquiring industrial type items, such as screw caps, nuts and bolts.



(2) Defense Personnel Support Center, Philadelphia, Pennsylvania. Responsible for acquiring textile type products, food and medical supplies.

(3) Defense Electronic Supply Center, Dayton, Ohio. Responsible for acquiring electronic products.

(4) Defense Construction Supply Center, Columbus, Ohio. Responsible for acquiring construction products.

(5) Defense General Supply Center, Richmond, Virginia. Responsible for acquiring general supplies such as food service equipment and chain saws.

A coordinator was assigned at each of the supply centers to serve as a single contact point for internal and external inquiries.

d. Contractors

Contractors participating in the CCAP study were selected by the Defense Supply Centers in the usual manner from available bidders' lists, the Thomas Register and other normal sources of contractor information. The acquisition strategies selected by the Contracting Officers were subject to the usual restraints, such as Small Business Set Asides and Minority Business requirements. In certain instances, waivers of the set aside requirement were obtained in order to test the effects of totally open competition upon the bidding process. Contractors were invited to participate in pre-bid conferences and to provide meaningful feedback as a method of aiding in evaluating the

program. The dialogue between contractors and the Government is expected to continue throughout the remainder of the program.

3. Implementation of the CCAP Study

Development and implementation of CCAP can be depicted by the following three phases:

a. Phase I, Pre-Implementation, December 1975 - January 1977

- (1) "Buy Commercial" policy promulgated
- (2) List of CCAP candidates generated
- (3) Responsibilities delegated to activities designated to participate in CCAP
- (4) CCAP implementation timetable established
- (5) Implementation instructions and objectives promulgated

b. Phase II, Implementation, January 1977 - January 1979

- (1) Assignment of specific products to acquiring activities
- (2) Development of acquisition strategies by acquiring activities
- (3) Solicitation/award of CCAP contracts
- (4) Receipt and issue of material by acquiring activities (continues through Phase III)
- (5) On-going evaluation/report of problems and success achieved by acquiring activities. This includes



contractor protests, faulty acquisition strategies and user dissatisfaction (continues through Phase III)

(6) Issue directive at DOD level on Acquisition and Distribution of Commercial Products [20]

c. Phase III, Post Implementation, commenced January 1979

(1) Obtain feedback from end-users of products acquired under CCAP

(2) Revise "Buy Commercial" acquisition strategies as necessary

(3) Continue receipt and issue of material at acquiring activity level (commenced during Phase II)

(4) Continue an on-going evaluation/report of problems and success achieved by acquiring activities (commenced during Phase II)

(5) Evaluate success/failure of program and report to OFPP significant findings and recommendations

#### 4. Problems Discovered During the CCAP Study

It is difficult to evaluate the overall success or failure of the CCAP at this point, because of the lack of feedback information from user activities. Some trends have emerged at the acquisition level however, that warrant further discussion. In order to evaluate the program at that level a total of thirty-three CCAP acquisitions were selected as a representative sample of the total population. Comments expressed hereafter refer to the results obtained from that sample.

As CCAP passed through the three implementation phases, some definite problems emerged at the acquisition activity level. These problems are discussed in detail below.

a. Brand Name or Equal Clause

This clause was utilized in eleven of the thirty-three CCAP acquisitions studied. It essentially involves utilizing a commercially marketed product with an established "brand name" as the basis for a purchase description. Potential bidders are usually required to submit samples of their proposed products to the contracting activity in order that a comparison may be made between the "brand name" product and the offered product. Bids are subsequently accepted from those firms whose products are certified to equal or exceed the quality of the "brand name" product. At least one contractor protest was submitted in conjunction with this clause [14]. The basis of the protest was that the winning contractor had offered a product that was inferior to the "brand name" product utilized in the Invitation for Bids and the contracting activity had failed to detect the deviation. This would seem to indicate that contracting activities must carefully scrutinize bid samples in order to ensure that they measure up to the "brand name" product described in the Invitation for Bids. Contractors submitting inferior products must be found non-responsive and their bids rejected if protests and problems are to be avoided in this area. From the standpoint of the contracting activity, the



"Brand Name or Equal" clause can be an effective strategy only if all parties participating in the process adhere to the established ground rules. Contractors who purposefully submit inferior bid samples coupled with technical evaluators who carelessly certify such samples can only serve to weaken the process.

b. Commercial Market Acceptability Clause

This clause was utilized in one out of the thirty-three CCAP acquisitions studied. The Government definition of "Commercial Market Acceptability" is as follows:

Established commercial market acceptability relates to commercial products that are currently marketed in substantial quantities for the general public and/or industry. These marketed items involve commercial sales that predominate over Government purchases. To have become acceptable in the market place, products must have been priced competitively and performed acceptably, as judged by a wide range of users. [4:Attachment 1]

The reasoning behind utilizing this clause as a vehicle for acquiring commercial products is based on the assumption that the commercial marketplace will act as a filter to remove those companies marketing inferior products. This filter will in turn reduce the Government's exposure to inferior products. Unlike the "Brand Name or Equal" clause, this clause is largely untested in the acquisition environment. Certain interest groups speaking on behalf of the small business community have suggested that the "Commercial Market Acceptability Clause" will ultimately work to the detriment of small business, because of the inherent

difficulty small business encounters when competing with larger companies for Government contracts. The Government's position is that the clause will not significantly alter the number of small businesses receiving Government contracts because of the existence of the Set Aside Program and other factors designed to keep the small business in competition. An attempt was made to measure the perceived impact of this clause on small business in the Small Business Questionnaire. The responses received to this questionnaire are discussed in a separate section of this paper. In the final analysis however, the manner in which this clause is used resides with the contracting activities. The manner in which it is interpreted (narrowly or broadly) will determine the effects on those companies doing business with the Government.

c. Purchase Descriptions Developed by the Contracting Activity

This method accounted for nine of the thirty-three CCAP acquisitions studied. Although no formal protests were submitted by participating contractors, one contractor was concerned enough to raise a controversial issue. This company (a small business) objected to the Government's decision to switch from a product formerly bought under a Military Specification to a product bought under a commercial market standard. This company rationalized that the commercial product was inferior to the MIL-SPEC product and as a result the Government would suffer a



loss in quality by accepting the commercial product [15]. Purchase Descriptions have been used for a number of years by contracting activities to acquire products for which no Government specification existed. The use of Purchase Descriptions to acquire products is not a new concept and as such, does not require extensive testing. Ambiguity can result however, when Purchase Descriptions are too general. As a recourse, the contracting activity has the option of accepting feedback from potential bidders on the clarity of the Invitation for Bids, which should result in the attainment of a Purchase Description sufficiently clear as to allow contractors to bid responsively.

d. Commercial Specifications and Standards

Twelve of the thirty-three CCAP acquisitions were made utilizing commercial specifications or standards. This strategy enjoys the highest credibility among the frequent critics of Government acquisition policy. The Commission on Government Procurement, Defense Science Board and the General Accounting Office have all endorsed the increased utilization of commercial specifications as a viable alternative to Government specifications. For the contracting activities participating in CCAP however, obtaining the approval of the user activity or specification preparing activity to utilize commercial specifications often proved to be a problem. In ten out of the thirty-three CCAP acquisitions studied, this was a problem. As an example, in the textile area the specification preparing

activities tended to advance the concept of some minimum number of launderings (usually 25) for such items as towels, bedsheets and undergarments as a quality measure. Attempts were made by the contracting activity to have this requirement relaxed, but the specification preparing activities generally refused to compromise. As a result, the product obtained was less commercial in nature than it would have been had the laundering requirement been relaxed. This anomaly tended to introduce bias into a pilot study that was designed to compare acquisition of commercial products to acquisition of products obtained utilizing Government specifications. One specification preparing activity did agree to relax the laundering requirement when the "Market Acceptability" clause was utilized, which indicates that the specification preparing activities are logically concerned about maintaining product quality either via a Government screening mechanism or a commercial screening mechanism. Therefore, contracting activities must lean toward greater utilization of the "Market Acceptability" clause or other commercial quality assurance techniques in order to obtain the acquiescence of the specification preparing activities on total relaxation of Government specification requirements.

e. Potential Problems Raised by the Small Business Administration

During the CCAP study, the Small Business Administration raised the issue of the Federal Government's



continued commitment to small business. In a letter addressed to the Office of Federal Procurement Policy, the SBA made the following observation about the "Buy Commercial" program:

This agency supports the effort to encourage implementation of this policy when it is properly applicable and small business interests are given full consideration in the acquisition process, including the employment of set-asides when their criteria are met. However, the repeated emphasis given the policy by top Government officials gives rise to a legitimate concern that contracting officials, zealously responding to the emphasis, might apply the policy too broadly rather than with the selectivity needed to assure its success. Such an approach could cause them to inadvertently overlook the Government's preferential policy for small business and its attendant provision for setting aside procurements for exclusive small business competition. /16/

SBA's concern is based primarily on the contracting officer's interpretation and application of the "Buy Commercial" philosophy to future acquisition. As additional emphasis of this concern, SBA further states:

Under the proposed criteria, small suppliers, whose dedication to service solely the needs of the Government has negated any necessity to develop commercial counterpart items and avenues of distribution, may be denied opportunities to bid on items they have ably supplied in the past. /16/

The focal point of SBA's concern appears to be in the wording of the "Market Acceptability" clause, which essentially states that in order for a company to meet the criteria, more than one-half of its sales must be within the private sector. SBA is addressing the case of the small business which has concentrated its efforts on obtaining Government contracts over the years, and as a result is not prepared to compete on a commercial basis. These quasi-Government

companies, and the industries they represent, are unknown primarily because no Government agency maintains data on companies based on the percentage of business done with the Federal Government. Therefore, it is difficult for SBA to make a solid case for this constituency. DOD's response to the general issues raised by SBA tend to reflect a macro-perspective of the problem. The chairman of the "Buy Commercial" Task Group expressed DOD's view via a memorandum which stated:

Total purchases from small business concerns will most likely increase under ADCP through greater use of commercial outlets that are predominantly small business. However, initially there may be some adverse impact on small business manufacturers, that are exclusively or predominantly manufacturing products of special design, whenever an off-the-shelf product is available to fill the need at a lower total cost. [17]

Analysis of the above statement tends to indicate that DOD is less concerned with the constituency that the SBA addressed previously, and more concerned with reducing costs.

SBA expressed more specific concerns for small business in a subsequent letter to the Office of Federal Procurement Policy [18]. In this letter four broad areas were addressed as having a potential negative impact on certain segments of the small business community.

(1) The Shifting from Government Specifications to Commercial Specifications. SBA reports that certain small businesses in the food service equipment industry are already experiencing severe hardship as a result of the shift from Government specifications to commercial



specifications in that area. Large businesses with "brand name" products are projected as the immediate benefactors, since their products are generally well known and tested in the commercial sector. SBA's contention is that the small firm which has devoted all of its resources toward supplying products in accordance with Government specifications will be abruptly eliminated from competition because of the shift to commercial specifications. SBA proposes a two-year moratorium on full implementation of the "Buy Commercial" policy as a means of alleviating the negative impact on selected firms. During that two-year period, those firms would have the opportunity to change their mode of operation and hopefully become more competitive with firms marketing products primarily to the private sector. The Small Business Administration further proposed to provide special assistance to those firms during the two-year adjustment period. The question that SBA has raised in regard to shifting from Government specifications to commercial specifications is essentially moral in nature. In essence, the question can be stated as follows: Does the Federal Government have a moral obligation to render special consideration or treatment to those small businesses which have chosen to remain an integral part of the Defense Industrial Base, and if so, to what extent? This is a complex question at best, in view of the fact that an abrupt shift to a commercial acquisition program may provide instant positive results to DOD in terms of increased competition and lowered acquisition

costs. Delaying the implementation for two years on the other hand will result in a potential sacrifice of the cost savings which would accrue if the program were implemented immediately. The benefit of reduced acquisition costs, and increased competition must be weighed against the possible cost of imposing severe hardship and possible bankruptcy on some unknown number of small firms who rely heavily upon the sale of products manufactured in accordance with Government specifications.

(2) There is a lack of clarifying policy guidance for field level contracting activities participating in CCAP. This concern is based on the fact that SBA field representatives have reported some instances where field contracting activities requested and received permission from the small business representative to deviate from the Small Business Set Aside Program. This action reportedly resulted in the Government paying higher prices for the products and a loss of revenue to the small businesses concerned. In regard to this issue, SBA's position is:

GSA and DOD need to issue a much more affirmative policy statement to their buying centers instructing them to continue all small business set asides and preferences even under the ADCP purchase. [18]

The Small Business Administration has expressed a valid concern in reference to the welfare of selected segments of the small business community. However, in the case of the thirty-three CCAP acquisitions reviewed there was one instance where the Small Business Set Aside provision was



waived [19:1]. In this instance the Small Business Representative agreed to an unrestricted acquisition as a test case. By allowing the unrestricted acquisition to occur, the contract award was made to a large firm who bid \$52,689 less than the lowest bidding small firm [19:2]. No other evidence was discovered which would substantiate the SBA assertion that the Small Business Set Aside Program has been or will be jeopardized during implementation of the "Buy Commercial" policy. To the contrary, the "Buy Commercial" Task Group has addressed this problem in some detail, and issued the following policy statement:

If there are a sufficient number of small business manufacturers marketing a "state-of-the-art" product that satisfies the need at a reasonable price it should be set aside. [17]

This statement would tend to indicate that DOD's commitment to the Small Business Set Aside program will not change with the implementation of the "Buy Commercial" policy. The Set Aside program however, will warrant continual monitoring by both DOD and SBA during the transition phase.

(3) DOD Utilization of the Commercial Distribution System. The DOD policy on distribution of commercial products as expressed in a directive is as follows:

Use commercial distribution channels in supplying commercial products to users when it is economically advantageous to do so and the impact on military readiness is acceptable. [20:2]

The Small Business Administration expressed concern over this policy in terms of its potential effect on the small

business community:

In some instances, this may actually work to the advantage of large manufacturers because of their distributorships and other dispersed outlet capabilities. [18]

The Small Business Administration believes that the ultimate effect of this policy will be a reduction in the small business share of the Government market, because of their inability to provide the Government with an extensive distribution network. No hard data is available which would support or deny SBA's allegation. The Small Business Administration's suggestion that a study be conducted in this area appears to be reasonable in view of the possible impact on the mix of small and large businesses obtaining Government contracts.



### III. RESULTS OF THE SMALL BUSINESS QUESTIONNAIRE

#### A. BACKGROUND AND ASSUMPTIONS

The Government's implied hypothesis is that the "Buy Commercial" program will benefit the small business community as a whole by fostering increased competition for Government contracts. Discussions with officials at SBA headquarters and OFPP revealed that there was some concern among these officials for a special category of small businesses. These firms are characterized by the fact that they have developed and existed almost entirely on Government contracts for a substantial number of years. These companies, in many instances, produce products that are similar in nature to commercial off-the-shelf products but, with one exception, are produced in accordance with Government specifications. As an example, there are small businesses which produce undershirts, towels, Worcestershire sauce and various other commodities almost exclusively for the Government, in accordance with Government specifications. Since the majority of their sales are made to the Government, these companies usually have an organizational structure somewhat different from that of a similar company competing in the commercial market place. One major difference in the organizational structure of these Government-oriented companies is the lack of a substantial commercial marketing or distribution capability. Companies which

concentrate primarily on obtaining Government contracts are usually more concerned with ensuring that Government contracting activities have a bidders' list on which the name of their firm appears, than they are with mounting a substantial marketing campaign. Therefore, these companies may be very competitive in terms of bidding on and receiving Government contracts, but they may have little or no experience competing with firms that market primarily in the private sector. Recognizing that such businesses exist, an effort was made by the researcher to determine who they were and in what industries they existed. Because no data base capable of yielding the desired results could be located within the various Federal agencies, a method was developed to collect and analyze data concerning this problem.

It was reasoned that those companies which had or were participating in the bidding process under the CCAP acquisitions would have greater firsthand knowledge of the "Buy Commercial" program and its possible effects than any other within the small business community. As a result, it was assumed that the candid opinions of a sample of these firms would provide an answer to the research question (Will the small business community as a whole benefit from the Government's shift in acquisition policy from the use of Government specifications and standards to the "Buy Commercial" concept?) In order to obtain a proper sample, lists of companies who had been solicited to participate in the CCAP bidding process were obtained from DPSC, Philadelphia, DGSC,



Richmond and DISC, Philadelphia (when combined, these activities account for more than one-half of all CCAP acquisitions made to date). The sample obtained was comprised primarily of firms in the clothing and textile industry, selected segments of the chemical industry and general hardware industry. Some 150 companies were selected to participate in the survey and questionnaires were mailed to the potential respondents in late December 1978.

#### B. QUESTIONNAIRE DESIGN

The questionnaire was designed to elicit the opinions of small businesses about themselves and about the small business community as a whole, taking into consideration the major implications of the "Buy Commercial" program. Questions one through four were included for the purpose of obtaining a profile of the respondents and as an aid in stratifying the sample. The remainder of the questions required respondents to answer based on their own opinions. Therefore, any conclusions drawn from the questionnaire must be viewed in this light. Prior to designing the questionnaire, it was anticipated that the respondents would fall into three major categories: (1) those firms who did no business with the Government, (2) those firms who did less than 50% of their business with the Government, and (3) those firms doing more than 50% of their business with the Government. It was hypothesized that each group might view the "Buy Commercial" program in a different manner, based

on the potential gains or losses they could discern within the program for their own firms.

#### C. STRATIFICATION TECHNIQUE

Respondents within the sample were stratified into three groups, based on the average percentage of annual sales made to the Federal Government during the years 1976, 1977, and 1978. The following group designations were assigned based on that stratification method:

##### 1. Group A

Those small business who reported making zero sales to the Federal Government during the three-year period.

##### 2. Group B

Those small businesses who reported making greater than zero, but less than 50% of their sales to the Federal Government during the three-year period.

##### 3. Group C

Those small businesses who reported making 50% or greater of their sales to the Federal Government during the three-year period.

Hereafter, the respondents to the questionnaire will be referred to by the designations assigned above.

#### D. RESPONSES TO THE QUESTIONNAIRE

Out of a total of 150 questionnaires mailed out, seventy responses were returned. Twenty-three respondents drafted letters declining to respond to the questionnaire due primarily to a professed lack of knowledge of the "Buy



Commercial" program. From the forty-seven respondents completing the questionnaire, the following distribution was obtained:

Group A (zero sales to Government)----- 9

Group B (up to 50% sales to Government)-----28

Group C (50% or greater sales to Government)-----10

Due to the expressed research objective of maintaining respondent anonymity, no attempt was made to follow-up on those eighty firms which did not respond.

#### E. PROFILE OF RESPONDENTS

Respondents were profiled within group designations as an aid to performing an analysis of their respective responses. Table I provides a summary of respondent profiles.

TABLE I  
PROFILE OF RESPONDENTS

	GROUP A	GROUP B	GROUP C	
	\$4.5	\$3.93	\$2.0	(All dollars in millions)
Average annual sales for 1976, 1977 and 1978				
Average annual percentage of sales made to the Federal Government during 1976, 1977 and 1978	0%	6.8%	75%	
Average annual percentage of sales made to sources other than the Federal Government during 1976, 1977 and 1978	100%	93.20%	25%	
Industries represented, or types of products marketed				Tools, Clothing, Electrical Supplies, Chemicals, Containers and Gloves
	GROUP A	GROUP B	GROUP C	TOTAL PERCENT
Prior knowledge of "Buy Commercial" program				
1. Never heard of it	7	8	1	16 34
2. Aware of it	1	14	6	21 45
3. Very familiar with it	1	6	1	8 17
4. Currently participating	0	0	2	2 4
Totals	9	28	10	47 100



F. ANALYSIS OF THE PERCEIVED IMPACT OF THE "BUY COMMERCIAL" PROGRAM ON COMPETITION FOR GOVERNMENT CONTRACTS

In examining the area of competition, the objective was to ascertain the perceived impact of the "Buy Commercial" program on competition for Government contracts within selected industries and the small business community as a whole. Two questions on the questionnaire addressed this area.

- 6a. The "Buy Commercial" program will result in increased competition for Government contracts among small business.
- 6b. The "Buy Commercial" program will result in increased competition for Government contracts in my industry.

<u>Strongly</u> <u>Agree</u>	<u>Agree</u>	<u>No</u> <u>Opinion</u>	<u>Disagree</u>	<u>Strongly</u> <u>Disagree</u>
1	2	3	4	5

Respondents were requested to indicate the extent of their agreement or disagreement with the above statements by circling the appropriate number. Responses to these two questions are contained in Table II. Overall, 77% of the respondents agreed that competition within the small business community for Government contracts would increase and 68% agreed that competition within their own industry would increase if the "Buy Commercial" program were implemented. Comparing the responses of Group C to those of Groups A and B however, revealed a significant difference. Group A and B firms tended to view the "Buy Commercial" program as a stimulus for increasing competition (100% for the former and 82% for the latter). Group C respondents on the other

hand, tended to view the competition stimulus idea less optimistically. Only 40% of Group C respondents thought that competition for Government contracts would increase, while 50% thought that it would not. The outlook of Group C on increased competition within their respective industries was even more pessimistic, approximately 60% believed that competition would not increase in their own industry as a result of the program.

TABLE II

6a. THE "BUY COMMERCIAL" PROGRAM WILL RESULT IN INCREASED COMPETITION FOR GOVERNMENT CONTRACTS AMONG SMALL BUSINESS.

6b. THE "BUY COMMERCIAL" PROGRAM WILL RESULT IN INCREASED COMPETITION FOR GOVERNMENT CONTRACTS IN MY INDUSTRY

Response	GROUP A		GROUP B		GROUP C		TOTAL		PERCENT	
	6a	6b	6a	6b	6a	6b	6a	6b	6a	6b
AGREE	9	7	23	21	4	4	36	32	77	68
DISAGREE	0	2	3	5	5	6	8	13	17	28
NO OPINION	0	0	2	2	1	0	3	2	6	4
TOTAL	9	9	28	28	10	10	47	47	100	

The foregoing two questions tended to confirm the Government's assumption that competition for Government contracts would increase as a result of the "Buy Commercial" program. Some of the companies which had never before bid on Government contracts indicated that they would do so if the "Buy Commercial" program became a reality.



G. ANALYSIS OF THE PERCEIVED EFFECT OF THE ELIMINATION OF GOVERNMENT SPECIFICATIONS ON PRICES AND PRODUCT QUALITY

The basic Government policy in regard to pricing is to pay a fair and reasonable price for goods and services received from the private sector. As previously discussed, a number of critics have questioned whether the Government is paying a higher than reasonable price for goods and services because of the existence of overly detailed Government specifications and standards. The following questions specifically addressed the impact of Government specifications and standards on price and quality of goods obtained from the private sector.

- 6c. The elimination of Government specifications will result in the Government obtaining lower prices under the "Buy Commercial" program.
- 6d. I expect that my firm will lower prices to the Government if Government specifications are eliminated.
- 6e. The quality of the products that the Government receives will decline if Government specifications are eliminated.
- 6f. The quality of the products that I supply the Government will decline if Government specifications are eliminated.

<u>Strongly</u> <u>Agree</u>	<u>Agree</u>	<u>No</u> <u>Opinion</u>	<u>Disagree</u>	<u>Strongly</u> <u>Disagree</u>
1	2	3	4	5

Respondents were requested to indicate the extent of their agreement or disagreement with the above statements by circling the appropriate number. Responses to these four questions are contained in Tables III and IIIA.

### 1. Group A Responses

Group A firms overwhelmingly agreed (89%) that the Government would obtain lower prices overall as a result of eliminating Government specifications. But, on the related question (6d) of whether or not an individual firm would be able to reduce its prices as a result of the elimination of Government specifications the responses were evenly divided between "agreement" and "disagreement." This would tend to indicate that there is a great deal of uncertainty among these firms as to the impact of Government specifications on costs within their own operations. This is logical, in view of the fact that Group A firms are unaccustomed to producing products in accordance with Government specifications. Two-thirds of this group did not believe that the Government would receive inferior products as a result of eliminating Government specifications. The related question (6f) was also a major area of disagreement for these firms, 78% did not believe that the elimination of Government specifications would cause their own firm to supply a lower quality product. Again, this response must be tempered by the fact that Group A firms are presently not producing any products in accordance with Government specifications and as a result, probably have less firsthand knowledge of specification quality requirements than Groups B and C.

### 2. Group B Responses

Group B firms agreed (79%) that the Government would obtain lower prices overall as a result of eliminating



Government specifications. In responding to the related question (6d) of whether an individual firms would lower its own prices as a result of the elimination of Government specifications, 54% agreed that they would. Seventy-five percent of this group did not believe that the Government would receive a lower quality product if specifications were eliminated. In responding to the related question (6f), 93% indicated that the quality of product their firm supplied would not decline if specifications were eliminated.

TABLE III

- 6c. THE ELIMINATION OF GOVERNMENT SPECIFICATIONS WILL RESULT IN THE GOVERNMENT OBTAINING LOWER PRICES UNDER THE "BUY COMMERCIAL" PROGRAM.
- 6d. I EXPECT THAT MY FIRM WILL LOWER PRICES TO THE GOVERNMENT IF GOVERNMENT SPECIFICATIONS ARE ELIMINATED.
- 6e. THE QUALITY OF THE PRODUCTS THAT THE GOVERNMENT RECEIVES WILL DECLINE IF GOVERNMENT SPECIFICATIONS ARE ELIMINATED.
- 6f. THE QUALITY OF THE PRODUCTS THAT I SUPPLY THE GOVERNMENT WILL DECLINE IF GOVERNMENT SPECIFICATIONS ARE ELIMINATED.

Response	GROUP A		GROUP B		GROUP C		TOTAL		PERCENT	
	6c	6d	6c	6d	6c	6d	6c	6d	6c	6d
AGREE	8	4	22	15	7	7	37	26	79	55
DISAGREE	1	4	4	12	2	2	7	18	15	39
NO OPINION	0	1	2	1	1	1	3	3	6	6
TOTAL	9	9	28	28	10	10	47	47	100	

TABLE IIIA

Response	GROUP A		GROUP B		GROUP C		TOTAL		PERCENT	
	6e	6f	6e	6f	6e	6f	6e	6f	6e	6f
AGREE	2	1	6	1	6	5	14	7	30	15
DISAGREE	6	7	21	26	3	5	30	38	64	81
NO OPINION	1	1	1	1	1	0	3	2	6	4
TOTAL	9	9	28	28	10	10	47	47	100	



### 3. Group C Responses

Group C firms agreed (70%) that the Government would obtain lower prices overall by eliminating specifications. On the related question (6d) Group C firms indicated that they would lower their individual prices if Government specifications were eliminated. However, these firms were less optimistic about holding the line on product quality (assuming that prices were lowered). Sixty percent indicated that the Government would receive a lower quality product overall, and 50% indicated that the quality of the product that they supplied would decline if Government specifications were eliminated. Some of the comments made by Group C firms tended to indicate that they thought they were presently supplying the Government with the best possible product as manufactured to Government specifications. They perceived a significant quality sacrifice if the Government decided to eliminate Government specifications, price reduction notwithstanding.

### 4. Overall Group Response

Overall, 79% of the respondents tended to agree that the Government would obtain lower prices by eliminating Government specifications. More than one-half (55%) indicated that they would lower their individual prices as a result of this policy. Only 36% believed that the overall product quality would decline, and an even lower percentage (15%) didn't think that their particular product would decline in quality. With the exception of Group C

respondents who tended to view the program with consternation, the consensus was that the Government would benefit from reduced prices, but would not necessarily suffer a concomitant degradation in product quality. The nature of these responses tends to confirm the findings of the Commission on Government Procurement and other groups who previously addressed this issue, namely that the Government could rely to a greater extent on commercial specifications and off-the-shelf products.

#### H. ANALYSIS OF PERCEIVED IMPACT OF THE "MARKET ACCEPTABILITY" CLAUSE ON SMALL BUSINESS

The "Market Acceptability" clause represents a new approach to contracting for goods and services from the private sector. Unlike the "Brand Name or Equal" clause, this approach is largely untested. As a result, the effects on the small business community are basically unknown. In order to make up for the lack of familiarity with this clause, the cover letter accompanying the questionnaire gave a concise definition of the clause as set forth by OFPP. Respondents were asked to react to the following three questions based on their own knowledge of the clause and/or the definition contained in the cover letter.



- 6i. The "Market Acceptability" clause will hurt those small businesses whose primary customer has been the Federal Government, since those firms have no established place in the commercial market.

<u>Strongly</u> <u>Agree</u>	<u>Agree</u>	<u>No</u> <u>Opinion</u>	<u>Disagree</u>	<u>Strongly</u> <u>Disagree</u>
1	2	3	4	5

10. In terms of obtaining Government contracts, do you believe that the "Market Acceptability" clause provides an advantage to (please circle the appropriate response and comment on the reason for your response).

Small business, because \_\_\_\_\_

Large business, because \_\_\_\_\_

Does not provide an advantage to either \_\_\_\_\_

11. Do you believe that the Government has an obligation to provide special consideration or assistance to those small businesses that might be hurt by the "Market Acceptability" clause?

No \_\_\_\_\_

Yes \_\_\_\_\_

Responses to these three questions are summarized in Tables IV, V, and VI respectively.

TABLE IV

6i. THE "MARKET ACCEPTABILITY" CLAUSE WILL HURT THOSE SMALL BUSINESSES WHOSE PRIMARY CUSTOMER HAS BEEN THE FEDERAL GOVERNMENT, SINCE THOSE FIRMS HAVE NO ESTABLISHED PLACE IN THE COMMERCIAL MARKET.

Response	GROUP A	GROUP B	GROUP C	TOTAL	PERCENT
AGREE	4	16	8	28	60
DISAGREE	3	5	2	10	21
NO OPINION	2	7	0	9	19
TOTAL	9	28	10	47	100

TABLE V

10. IN TERMS OF OBTAINING GOVERNMENT CONTRACTS, DO YOU BELIEVE THAT THE "MARKET ACCEPTABILITY" CLAUSE PROVIDES AN ADVANTAGE TO (PLEASE CIRCLE THE APPROPRIATE RESPONSE AND COMMENT ON THE REASON FOR YOUR RESPONSE).

Response	GROUP A	GROUP B	GROUP C	TOTAL	PERCENT
SMALL BUSINESS	2	7	0	9	19
LARGE BUSINESS	3	8	5	16	34
NEITHER	4	13	5	22	47
TOTAL	9	28	10	47	100



TABLE VI

11. DO YOU BELIEVE THAT THE GOVERNMENT HAS AN OBLIGATION TO PROVIDE SPECIAL CONSIDERATION OR ASSISTANCE TO THOSE SMALL BUSINESSES THAT MIGHT BE HURT BY THE "MARKET ACCEPTABILITY" CLAUSE?

Response	GROUP A	GROUP B	GROUP C	TOTAL	PERCENT
YES	2	11	8	21	45
NO	7	17	2	26	55
TOTAL	9	28	10	47	100

1. Analysis of Group A Responses

No clear consensus emerged among this group concerning the effects of the "Market Acceptability" clause on small business. Forty-four percent agreed that the clause would have a negative effect, but 34% thought that it would not (Table IV). Keeping in accord with this trend, Group A respondents basically perceived that neither small nor large businesses would gain by the clause (44%), although 34% thought large businesses would make gains, as compared to only 22% who thought that small businesses would gain (Table V). Group A firms were less sympathetic toward the plight of small businesses which might be hurt by the clause. Seventy-eight percent indicated that the Government should not render special assistance to such companies. Analyzing some of the comments from this group, the consensus seemed to be that those small businesses unable to compete on a commercial basis should not be in business.

## 2. Analysis of Group B Responses

Fifty-seven percent of Group B respondents agreed that the "Market Acceptability" clause would be detrimental to small businesses heavily involved in providing products to the Government. On the question of which community (large or small business) would gain an advantage however, Group B respondents tended to believe that the status quo would be maintained. A resounding 61% thought that the Government should not provide special assistance to those firms that might be hurt by the clause.

## 3. Analysis of Group C Responses

Group C firms differed significantly from Groups A and B on whether they would be hurt by the "Market Acceptability" clause. Eighty percent agreed that the clause would have a negative impact on their business. Consistent with this pessimistic outlook, Group A firms viewed large businesses as gaining an advantage over small businesses as a result of the clause (50%), while none of them thought that small businesses would make any gains. Predictably, 80% believed that the Government should provide some form of special assistance to those companies hurt by the clause. Some of the specific comments made in this regard are listed below.

Large businesses will gain an advantage because they have a greater advertising and distribution capability.

The government should help to finance small businesses caught in this bind, until such time that they are able to compete with the commercial firms on an equal basis.



The Government should rigorously enforce the Small Business Set Aside Program, in order to ensure that it isn't compromised by over-reactive contracting officials.

One firm gave a specific example in reference to the clothing industry.

We believe that the "Market Acceptability" clause will benefit big business because they have retail outlets capable of furnishing figures demonstrating the market acceptability of their shirts. We would have to have sample materials knit and finished by outside concerns (with no idea of what the Government might accept) and submit these samples which would have no retail background and demonstrated acceptability in the commercial market.

The majority of the comments made by Group C firms were along this vein, although a small percentage (20%) thought that the Government had no special obligation to these firms, and as a result should not provide assistance beyond what is already in existence.

#### 4. Analysis of Overall Group Responses

Overall, the respondents agreed that those small businesses relying most on Government contracts would be hurt by the "Market Acceptability" clause (60% agreed with this position). In spite of this realization however, 55% did not believe that the Government should give special consideration to those businesses. The consensus appeared to be that if those firms could not adjust to the new environment, they should be eliminated by the natural economic process in the commercial market place.

I. ANALYSIS OF THE PERCEIVED IMPACT OF THE "BRAND NAME OR EQUAL" CLAUSE ON SMALL BUSINESS

The "Brand Name or Equal" acquisition method is referred to in DAR as follows:

The term "brand name product" means a commercial product described by brand name and make or model number or other appropriate nomenclature by which such product is offered for sale to the public by the particular manufacturer, producer or distributor.

Brand name or equal purchase descriptions should set forth those salient physical, function, or other characteristics of the referenced products which are essential to the needs of the Government. [3:1-1206-2]

This clause is already being used by Government contracting activities. Therefore, it is assumed that the respondents were more familiar with it than the "Market Acceptability" clause. Respondents were requested to respond to the following question:

9. In terms of obtaining Government contracts, do you believe that the "Brand Name or Equal" concept provides an advantage to

Small business, because \_\_\_\_\_

Large business, because \_\_\_\_\_

Neither \_\_\_\_\_

The responses to the above question are summarized below:

Small business has an advantage	34%
Large business has an advantage	28%
Neither has an advantage	38%

In analyzing the overall responses there is not a clear-cut consensus in either direction. It appears however, that the respondents tended to view the clause in either a neutral sense or as a slight edge in favor of small business.



Groups A and B commented that "the small businesses would benefit only if the Government established and maintained a broad definition of equality between products. Narrow interpretation of equality would tend to bias contract award in favor of large business, since they possessed the majority of brand name products." Group C respondents to the contrary, tended to view large businesses as having the advantage by a sizeable margin. Only 10% of this group saw small business as having an advantage, whereas 60% viewed large business as the benefactor. Group C respondents also tended to believe that big companies marketed most of the brand name products, and as a result, this would give them an edge in the bidding process, notwithstanding the fact that a small business may be capable of proving its non-brand name product equal to the brand name product. In comparing the outlook of the groups toward the "Brand Name or Equal" clause with the "Market Acceptability" clause, it appears that the latter has less credibility with the small business respondents. Only 19% of the respondents thought that the "Market Acceptability" clause would provide an advantage to small business, whereas 34% thought that the "Brand Name or Equal" clause would provide such an advantage. This difference may be attributable to the lack of familiarity the respondents have with the "Market Acceptability" clause, but it may also be due to the wording of the "Market Acceptability" clause which seems to favor large business.

J. ANALYSIS OF THE PERCEIVED OVERALL IMPACT OF THE "BUY COMMERCIAL" PROGRAM ON SMALL BUSINESS

In order to evaluate the overall perceived impact of the program, four specific questions were directed toward that end. It was reasoned that the responses to these four questions when combined with the responses to prior questions, would provide an overall outlook on the program from the perspective of the small businessman. The following four questions were considered relevant to this approach.

6g. Overall, the small business community will benefit from the "Buy Commercial" program.

6h. My firm will benefit from the "Buy Commercial" program.

<u>Strongly</u> <u>Agree</u>	<u>Agree</u>	<u>No</u> <u>Opinion</u>	<u>Disagree</u>	<u>Strongly</u> <u>Disagree</u>
1	2	3	4	5

7. If the "Buy Commercial" program becomes law, what do you perceive its impact will be on your share of the Federal Government contract market?

Increase \_\_\_\_\_

Decrease \_\_\_\_\_

No Change \_\_\_\_\_

8. How do you think the "Buy Commercial" program will affect the mix of small and large businesses currently obtaining Government contracts?

Small business will receive a larger share \_\_\_\_\_

Large business will receive a larger share \_\_\_\_\_

No Change \_\_\_\_\_

The responses to the above questions are summarized in Tables VII and VIII.



TABLE VII

6g. OVERALL, THE SMALL BUSINESS COMMUNITY WILL BENEFIT FROM THE "BUY COMMERCIAL" PROGRAM.

6h. MY FIRM WILL BENEFIT FROM THE "BUY COMMERCIAL" PROGRAM

Response	GROUP A		GROUP B		GROUP C		TOTAL		PERCENT	
	6g	6h	6g	6h	6g	6h	6g	6h	6g	6h
AGREE	6	4	21	19	3	2	30	25	64	53
DISAGREE	2	1	6	8	6	8	14	17	30	36
NO OPINION	1	4	1	1	1	0	3	5	6	11
TOTAL	9	9	28	28	10	10	47	47	100	

TABLE VIII

7. IF THE "BUY COMMERCIAL" PROGRAM BECOMES LAW, WHAT DO YOU PERCEIVE ITS IMPACT WILL BE ON YOUR SHARE OF THE FEDERAL GOVERNMENT CONTRACT MARKET?

8. THE "BUY COMMERCIAL" PROGRAM WILL CAUSE SMALL BUSINESS SHARE OF GOVERNMENT CONTRACTS TO

Response	GROUP A		GROUP B		GROUP C		TOTAL		PERCENT	
	7	8	7	8	7	8	7	8	7	8
INCREASE	3	5	13	12	1	1	17	18	36	38
DECREASE	0	1	7	7	6	7	13	15	28	32
NO CHANGE	6	3	8	9	3	2	17	14	36	30
TOTAL	9	9	28	28	10	10	47	47	100	

### 1. Analysis of Group A Responses

Sixty-seven percent of Group A respondents agreed that the "Buy Commercial" program would benefit the small business community, but less than one-half (44%) thought that it would benefit their firm personally. In responding to what the program might mean to the share of the Government market which small businesses presently hold, 55% thought that the small business share of the market would increase, as compared to just 34% who thought their own share of the market would increase. Sixty-six percent thought that their own share of the Government market would not change. The 34% agreement factor is significant, in view of the fact that Group A respondents either by design or change, are currently not participating in the Government contracts market. This is an indication that those firms plan to enter the market if the "Buy Commercial" policy is adopted. This of course would satisfy one of the main objectives of the Federal Government (an increase in competition).

### 2. Analysis of Group B Responses

Seventy-five percent of Group B respondents agreed that the small business community would benefit from the "Buy Commercial" program, while another 68% thought that their own firm would benefit directly. Forty-six percent of this group believed that the small business share of the Government contract market would increase, while only 25% thought that it would decrease. On the whole, this group



tended to be more optimistic about increasing their own share of the market than Groups A or C. This difference in outlook may be attributed to the unique position that Group B occupies in the Government and commercial contracts market. They already have the expertise required to obtain Government contracts, whereas Group A firms do not. Group B firms also qualify under the "Market Acceptability" clause, whereas Group C firms do not, therefore Group B firms have an advantage in flexibility, in that they can move more freely between the Government and commercial markets without making major investments or organizational changes.

### 3. Analysis of Group C Responses

Group C respondents tended to maintain the general pessimistic outlook noted in their previous responses. For example, 60% thought that the small business community would not benefit from the "Buy Commercial" program, and 80% indicated that their firm would not benefit directly. Regarding the issue of market share, 70% thought that small business share of the Government contract market would be reduced as a result of the program. Only 10% believed that an increase would occur.

### 4. Overall Analysis of Responses

Overall, the respondents agreed (64%) that the small business community would benefit from the "Buy Commercial" program. Another 53% thought that their firm would benefit directly. In regard to market share, 68%

thought that small business share of the market would either remain the same or increase and 72% thought that their own share of the market would remain the same or increase. With the exception of Group C, the respondents expressed an optimistic outlook toward the program as a whole.



#### IV. CONCLUSIONS AND RECOMMENDATIONS

##### A. CONCLUSIONS

In order to fully answer the research questions posed earlier, it was necessary to review the positions and opinions of those groups directly involved with the program. DOD was selected as the representative Government agency because of the size of their acquisition budget (\$99.8 billion during FY 1978) [1:485] and because of the "Buy Commercial" pilot program (CCAP) which was being conducted by the Defense Logistics Agency. The opinions of the SBA and a selected cadre of small businesses were also sampled in order to determine their perception of the program. Overall, 63% of the small businesses sampled thought that the "Buy Commercial" program would benefit the small business community (Table VII). The major exception to this general consensus was expressed by those small firms currently doing more than half their business with the Government (Group C respondents). Group C firms were heavily involved with producing custom built products to Government specifications. As a result, their perception of the "Buy Commercial" program tended to be less optimistic than the outlook of Groups A and B. For example, only 30% of Group C respondents thought that the small business community would benefit from the "Buy Commercial" program. Group C respondents were also more in favor of Federal Government

assistance to small businesses than Groups A and B. For example, 80% of Group C respondents thought that the Government should provide some form of special assistance, as compared to 20% for Group A and 40% for Group B (Table VI).

Based on the responses obtained it can be concluded that the Group C firms view the "Buy Commercial" program as a threat to their existence. The potential elimination of Government specifications combined with the advent of the "Market Acceptability" clause has contributed to their underlying attitude of pessimism. Those Group C firms that are unable to compete with the commercially oriented firms may indeed face a bleak financial future if the "Buy Commercial" program is applied rigorously throughout the Federal Government acquisition process. Sixty percent of all firms responding thought that the "Market Acceptability" clause would hurt Group C firms (Table IV). The Small Business Administration expressed similar concern for these firms in a letter to OFPP [18]. Finally, DOD recognized the problem in a memorandum issued by the Chairman of the "Buy Commercial" Task Group [17]. There is agreement then among government officials and small businesses responding to the questionnaire that Group C firms will experience some difficulty. However, the same agreement does not exist in terms of proposed solutions to the problem. Proposals for coping with the problem have ranged from imposing a two-year moratorium on implementation of the program [18], to providing some form of financial assistance to affected



firms (suggested by some of the respondents to the questionnaire), to taking no action whatsoever. Which, if any, of these proposals the Government may select will undoubtedly depend upon the facts which are presented in support of the various positions.

From the Government's point of view, the "Buy Commercial" program has the potential to meet all of its desired objectives. As supported by the responses to the questionnaire, the program will probably result in increased competition for Government contracts, and lower prices without a major sacrifice in quality. For these reasons, the program should be implemented at the earliest possible date. Specific problems involving Group C firms will emerge as the program is implemented, but until such time, it will be difficult to develop a single approach for handling them. A specific recommendation for coping with this dilemma is contained in the recommendations to this thesis.

At this point, it is useful to readdress the research questions which were set forth at the outset of the thesis. For edification purposes, each question will be repeated and addressed separately.

1. Will the small business community, as a whole, benefit from the Government's shift in acquisition policy from the use of Government specifications and standards to the "Buy Commercial" concept?

In order to properly address this question, it is necessary to stratify the small business community along the

lines indicated in Chapter III of this thesis. As a whole, it appears likely that the small business community will benefit, in that more small firms will be encouraged to compete for Government contracts. However, those small firms that rely on Government contracts for more than half of their revenue will probably incur financial setbacks as a result of commercial firms offering off-the-shelf products at a lower price.

2. If a negative effect will result, what are the characteristics of such an effect?

As discussed above, those firms that rely on Government contracts for more than half of their revenue will be negatively affected by the program.

3. What modifications to the current "Buy Commercial" policy could be made in order to enhance accomplishment of the policy's objectives relative to the small business community and the Federal Government?

Given that the objectives of the program are to reduce costs, increase competition and reduce the proliferation of Government specifications, the "Market Acceptability" criteria should be reworded so as not to exclude firms which market products primarily to the Government. To do otherwise would be to restrict competition. More specific recommendations for enhancing the "Buy Commercial" policy are contained in the Recommendations section of this thesis.



## B. RECOMMENDATIONS

1. That the SBA make an effort to identify those small firms that might suffer major financial setbacks as a result of the "Buy Commercial" program. The following specific steps could be taken to make this recommendation a reality.

a. The Small Business Administration or some other Government agency should develop and maintain a data file of small businesses doing business with the Federal Government. This file should be capable of yielding a listing of small businesses stratified by industry and percentage of sales made to the Government during the preceding year. By accessing this file, SBA or any other interested party or agency could extract a listing of firms based on the percentage of sales made to the Government. Presently, SBA and other Government agencies are unable to determine the specific firms and industries which might be negatively affected by the "Buy Commercial" program, because there is no existing data base capable of providing that information.

b. The Small Business Administration should solicit comments from small businesses on the "Buy Commercial" program by: (1) conducting a survey similar to the survey contained within this thesis and (2) placing an advertisement in the Commerce Business Daily requesting comments on the program from small firms.

The rationale for taking the above courses of action is to be able to establish and project an identifiable small business constituency within the larger small business

community. In the absence of an identifiable constituency, it is easy for the needs and problems of small groups of firms to become submerged in the interest of the majority. This appears to be the case with the "Buy Commercial" program.

2. That OFPP redefine "Commercial Market Acceptability" to make it applicable not only to those firms which have substantial commercial sales, but also to those firms which have substantial Government sales. It is noted that the DOD Instruction 5000.37 (Acquisition and Distribution of Commercial Products) does make such a provision for those small firms who do not market products to the private sector. As indicated earlier in this thesis, there is a substantial number of small firms who have supplied the Government with products over the years, while neglecting to develop a cadre of commercial customers. Many of these firms are capable and competitive, providing they are not eliminated from bidding by the "Market Acceptability" criteria. In order to emphasize the Government's continued commitment to the small firms discussed above, the OFPP should address this issue specifically in an updated version of the 24 May 1976 Policy Memorandum.

3. As the "Buy Commercial" program is implemented throughout the Federal Government, the Small Business Set Aside program should be carefully monitored in order to ensure that the small business share of government contracts do not decrease. With the high level emphasis on buying



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THE POTENTIAL IMPACT OF THE GOVERNMENT'S 'BUY COMMERCIAL' POLIC--ETC(U)

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more commercial products, there is a possibility that contracting activities may emphasize "Buy Commercial" at the expense of small business set asides. Alertness on the part of the SBA and small business representatives at contracting activities can play a major role in ensuring that the Set Aside program remains viable.

4. The Small Business Administration should develop a contingency plan for providing advisory and financial assistance to firms which may be negatively impacted by the "Buy Commercial" program. There is general agreement between DOD, SBA, OFPP and the small business community that those small firms which are most dependent on Government contracts will be negatively affected by the "Buy Commercial" program. Since the number of potential firms involved and the extent of the potential damage is unknown, it would be beneficial to all concerned if the contingency plan were developed at the earliest practicable date. This plan could later be modified to cope with whatever specific problems developed. This approach is an alternative to SBA's recommendation to delay implementation of the "Buy Commercial" program for two years, because it allows the Government to immediately reap the benefit of buying commercial products while protecting the interest of those small businesses negatively impacted by the program. In an era of ever decreasing buying power, the Government can ill afford to delay implementing any program which offers

a potential major cost savings. At the same time however,  
long time commitments to the small business community  
should not be sacrificed.



APPENDIX A

LT Willie Woods, SC, USN  
SMC #1061  
U.S. Naval Postgraduate School  
Monterey, California 93940  
22 December 1978

President or General Manager:

Dear Sir:

I am a student in the Acquisition/Contract Management Graduate Education program at the Naval Postgraduate School, Monterey, California. I am presently engaged in a research project designed to determine the potential impact of the Federal Government's "Buy Commercial" program on selected segments of the small business community. I am specifically interested in this program from a Department of Defense perspective. Your firm was selected as a participant in this study from a government-maintained bidder's list. Several other firms in your industry were also chosen, along with firms from other non-related industries. The results of this study will be distributed to the Small Business Administration and Defense Logistics Agency Headquarters. The identity of your firm and your responses to this survey will be held in confidence and no attempts will be made to identify any individual firms. Your honest and candid response to questions contained in the survey will determine the ultimate value of the study. Thank you for your participation.

As you may or may not know, the Office of Federal Procurement Policy issued the following directive to Government agencies in May 1976: "The Government will purchase commercial off-the-shelf products when such products will adequately serve the Government's requirements, provided such products have an established commercial market acceptability. The Government will utilize commercial distribution channels in supplying commercial products to its users." In response to this policy, in late 1976 the Department of Defense (DOD) initiated a pilot program designed to determine the feasibility of implementing the policy on a DOD-wide basis. This pilot program was dubbed "Commercial Commodity Acquisition Program" (CCAP) and it is scheduled to terminate in late 1978. Under the CCAP program, Federal and military specifications are to be waived and items are to be procured utilizing commercial specifications and standards. Your firm may have already competed for one of these contracts, in which case you are probably very familiar with the details of the program.

The enclosed survey is designed to elicit your response to the program both in terms of your own firm and in terms of the small business community as a whole. One of the controversial clauses in the "Buy Commercial" program is the "Market Acceptability Clause", which is quoted below. In the event that you are not familiar with the program, the following definition may be used as a basis for your response to the pertinent questions on the survey.



"Established commercial market acceptability relates to commercial products that are currently marketed in substantial quantities for the general public and/or industry. These marketed items involve commercial sales that predominate over Government purchases. To have become acceptable in the market place, products must have been priced competitively and performed acceptably, as judged by a wide range of users."

Upon completion of the enclosed survey, please return it in the enclosed self addressed/postage paid envelope. The results of this study will be tabulated and analyzed during February and March 1979, therefore it is requested that you complete and return the survey by 30 January 1979.

If any questions of interpretation arise, please phone me at (408) 384-7004.

Sincerely,

W. E. WOODS

Please respond candidly to each question on this survey.

If there is insufficient space for your response on the front of this form, please continue responses on the reverse.

You may raise and answer any additional questions that you consider pertinent by attaching an addendum to this survey.

The term "Government" on this survey refers to the "Federal Government" only.

1. Please state whether your firm is a "Small" or "Large" Business in terms of bidding on Federal Government contracts (circle the correct response).

a. Small business

c. Minority Business

b. Large business

2. What are the primary types of products that your firm sells to the Government (e.g. T-shirts, cotton gloves, leather gloves, towels, sodium chloride, etc.)

a. \_\_\_\_\_

b. \_\_\_\_\_

c. \_\_\_\_\_

3. Please list your approximate total sales during the following years (in thousand of dollars):

a. 1976: \_\_\_\_\_

b. 1977: \_\_\_\_\_

c. 1978: \_\_\_\_\_



4. What percentage of your total annual sales (approximately) were made to the Government during the following years:

a. 1976 \_\_\_\_\_

b. 1977 \_\_\_\_\_

c. 1978 \_\_\_\_\_

5. How familiar are you with the Federal Government's "Buy Commercial" program?

a. Never heard of it prior to this survey

b. I am aware of the program, but I am not familiar with the details of the program

c. I am very familiar with the program in that I have read literature on the subject or received briefings on it

d. I have or am currently participating in the program

6. The following opinions and attitudes have been expressed about the "Buy Commercial" program. Based on the brief description in the cover letter or your knowledge of the program, please indicate the extent to which you agree or disagree with the following statements (please circle the appropriate number following each statement).

	STRONGLY AGREE	AGREE	NO OPINION	DISAGREE	STRONGLY DISAGREE
a. The program will result in increased competition for Government contracts among small business	1	2	3	4	5
b. The program will result in increased competition for Government contracts in my industry	1	2	3	4	5
c. The elimination of Government specifications will result in the Government obtaining lower prices under this program	1	2	3	4	5
d. I expect that my firm will lower prices to the Government if Government specifications are eliminated	1	2	3	4	5
e. The quality of the products that the Government receives will decline if Government specifications are eliminated	1	2	3	4	5



STRONGLY AGREE	AGREE	NO OPINION	DISAGREE	STRONGLY DISAGREE
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f. The quality of the products that I supply the Government will decline if Government specifications are eliminated

1 2 3 4 5

g. Overall, the small business community will benefit from this program

1 2 3 4 5

h. My firms will benefit from this program

1 2 3 4 5

i. The "Market Acceptability" clause will hurt those small businesses whose primary customer has been the Federal Government, since these firms have no established place in the commercial market

1 2 3 4 5

7. If the "Buy Commercial" program becomes law, what do you perceive its impact will be on your share of the Federal Government contract market (please circle the appropriate response, and comment on the reason for your response)

a. I expect my share of the market to increase, because:

b. I expect my share of the market to decrease, because:

c. I do not expect my share of the market to change, because:

8. How do you think the "Buy Commercial" program will

affect the mix of small and large businesses currently obtaining Government contracts (please circle the appropriate response, and comment on the reason for your response)

a. I believe that small businesses will receive a larger share of the Government market, because:

b. I believe that large businesses will receive a larger share of the Government market, because:

c. I don't believe that the program will significantly alter the present mix of small and large businesses obtaining Federal Government contracts, because:

9. In terms of obtaining Government contracts, do you believe that the "Brand Name or Equal" concept provides an advantage to (please circle the appropriate response and comment on the reason for your response)

a. Small business, because:

b. Large business, because:

c. Does not provide an advantage to either

10. In terms of obtaining Government contracts, do you believe that the "Market Acceptability" clause provides an advantage to (please circle the appropriate response and comment on the reason for your response)



a. Small business, because:

b. Large business, because:

c. Does not provide an advantage to either

11. Do you believe that the Federal Government has an obligation to provide special consideration or assistance to those small businesses that might be hurt by the "Market Acceptability" clause:

a. No, since I don't believe that the clause will hurt the small business community.

b. Yes, I believe that the Government does have an obligation to provide assistance to small businesses (please specify the type of assistance you deem necessary).

## APPENDIX B

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## GENERAL PROVISIONS

<i>Class. Section Code</i>	<i>Industry</i>	<i>Employment Size Standard (Number of Employees)*</i>
<b>MAJOR GROUP 20—FOOD AND KINDRED PRODUCTS</b>		
2026	Milk, fluid .....	500
2032	Canned specialties .....	1000
2043	Cereal breakfast foods .....	1000
2046	Wet corn milling .....	750
2052	Cookies and crackers .....	750
2062	Cane sugar refining .....	750
2063	Beet sugar .....	750
2076	Vegetable oil mills, except cottonseed and soybean .....	1000
2079	Shortening, table oils, margarine and other edible fats and oils, not else- where classified .....	750
2085	Distilled, rectified, and blended liquors .....	750
<b>MAJOR GROUP 21—TOBACCO MANUFACTURERS</b>		
2111	Cigarettes .....	1000
<b>MAJOR GROUP 22—TEXTILE MILL PRODUCTS</b>		
2211	Broad woven fabric mills, cotton .....	1000
2261	Finishers of broad woven fabrics of cotton .....	1000
2271	Woven carpets and rugs .....	750
2295	Fabrics, not rubberized .....	1000
2296	Tire cord and fabric .....	1000
<b>MAJOR GROUP 26—PAPER AND ALLIED PRODUCTS</b>		
2611	Pulp mills .....	750
2621	Paper mills, except building paper mills .....	750
2631	Paperboard mills .....	750
2646	Pressed and molded pulp goods .....	750
2654	Sanitary food containers .....	750
2661	Building paper and building board mills .....	750
<b>MAJOR GROUP 28—CHEMICALS AND ALLIED PRODUCTS</b>		
2812	Alkalies and chlorine .....	1000
2813	Industrial gases .....	1000
2816	Inorganic pigments .....	1000
2819	Industrial inorganic chemicals, not elsewhere classified .....	1000
2821	Plastics materials, synthetic resins, and nonvulcanizable elastomers .....	750
2822	Synthetic rubber (vulcanizable elastomers) .....	1000
2823	Cellulose man-made fibers .....	1000
2824	Synthetic organic fibers, except cellulosic .....	1000
2833	Medicinal chemicals and botanical products .....	750
2834	Pharmaceutical preparations .....	750
2841	Soap and other detergents, except specialty cleaners .....	750
2865	Cyclic (coal tar) crudes and cyclic intermediates, dyes, and organic pigments (lakes and toners) .....	750
2869	Industrial organic chemicals, not elsewhere classified .....	1000
2873	Nitrogenous fertilizers .....	1000
2892	Explosives .....	750
<b>MAJOR GROUP 29—PETROLEUM REFINING AND RELATED INDUSTRIES***</b>		
2952	Asphalt felts and coatings .....	750
<b>MAJOR GROUP 30—RUBBER AND MISCELLANEOUS PLASTICS PRODUCTS</b>		
3011	Tires and innertubes .....	1000
30111	Passenger car and motorcycle pneumatic tires (casings) ****	
30112	Truck and bus (and off-the-road) pneumatic tires****	
3021	Rubber and plastics footwear .....	1000
3031	Reclaimed rubber .....	750

See footnotes at end of list.

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## GENERAL PROVISIONS

Classification Code	Industry	Employment Size Standard (Number of Employees)*
<b>MAJOR GROUP 32—STONE, CLAY, GLASS AND CONCRETE PRODUCTS</b>		
3211	Flat glass -----	1000
3221	Glass containers -----	750
3229	Pressed and blown glass and glassware, not elsewhere classified -----	750
3241	Cement, hydraulic -----	750
3261	Vitreous china plumbing fixtures and china and earthenware fittings and bathroom accessories -----	750
3275	Gypsum products -----	1000
3292	Asbestos products -----	750
3296	Mineral wool -----	750
3297	Nonclay refractories -----	750

## MAJOR GROUP 33—PRIMARY METAL INDUSTRIES

3312	Blast furnaces (including coke ovens), steel works, and rolling mills -----	1000
3313	Electrometallurgical products -----	750
3315	Steel wire drawing and steel nails and spikes -----	1000
3316	Cold rolled sheet, strip and bars -----	1000
3317	Steel pipe and tubes -----	1000
3331	Primary smelting and refining of copper -----	1000
3332	Primary smelting and refining of lead -----	1000
3333	Primary smelting and refining of zinc -----	750
3334	Primary production of aluminum -----	1000
3339	Primary smelting and refining of nonferrous metals, not elsewhere classified -----	750
3351	Rolling, drawing, and extruding of copper -----	750
3353	Aluminum sheet, plate and foil -----	750
3354	Aluminum extruded products -----	750
3355	Aluminum rolling and drawing, not elsewhere classified -----	750
3356	Rolling, drawing, and extruding of nonferrous metals, except copper and aluminum -----	750
3357	Drawing and insulating of nonferrous wire -----	1000
3398	Metal heat treating -----	750
3399	Primary metal industries, not elsewhere classified -----	750

## MAJOR GROUP 34—FABRICATED METAL PRODUCTS, EXCEPT MACHINERY AND TRANSPORTATION EQUIPMENT

3411	Metal cans -----	1000
3431	Enameled iron and metal sanitary ware -----	750
3482	Small arms ammunition -----	1000
3483	Ammunition except for small arms, not elsewhere classified -----	1500
3484	Small arms -----	1000

## MAJOR GROUP 35—MACHINERY, EXCEPT ELECTRICAL

3511	Steam, gas, and hydraulic turbines; and turbine-generator set units --	1000
3519	Internal combustion engines, not elsewhere classified -----	1000
3531	Construction machinery and equipment -----	750
3537	Industrial trucks, tractors, trailers and stackers -----	750
3562	Ball and roller bearings -----	750
3572	Typewriters -----	1000
3573	Electronic computing equipment -----	1000
3574	Calculating and accounting machines, except electronic computing equipment -----	1000
3585	Air conditioning and warm air heating equipment and commercial and industrial refrigeration equipment -----	750

See footnotes at end of list.

## GENERAL PROVISIONS

Classification Code	Industry	Employment Size Standard (Number of Employees)*
<b>MAJOR GROUP 36—ELECTRICAL AND ELECTRONIC MACHINERY, EQUIPMENT, AND SUPPLIES</b>		
3612	Power, distribution, and specialty transformers .....	750
3613	Switchgear and switchboard apparatus .....	750
3621	Motors and generators .....	1000
3622	Industrial controls .....	750
3624	Carbon and graphite products .....	750
3631	Household cooking equipment .....	750
3632	Household refrigerators and home and farm freezers .....	1000
3633	Household laundry equipment .....	1000
3634	Electric housewares and fans .....	750
3635	Household vacuum cleaners .....	750
3636	Sewing machines .....	750
3641	Electric lamps .....	1000
3651	Radio and television receiving sets, except communication types .....	750
3652	Phonograph records and prerecorded magnetic tapes .....	750
3661	Telephone and telegraph apparatus .....	1000
3662	Radio and television transmitting, signaling, and detection equipment and apparatus***** .....	750
3671	Radio and television receiving type electron tubes, except cathode ray .....	1000
3672	Cathode ray television picture tubes .....	750
3673	Transmitting, industrial, and special purpose electron tubes .....	750
3692	Primary batteries, dry and wet .....	1000
3694	Electrical equipment for internal combustion engines .....	750
<b>MAJOR GROUP 37—TRANSPORTATION EQUIPMENT</b>		
3711	Motor vehicles and passenger car bodies .....	1000
37111	Passenger cars (knocked down or assembled)**** .....	1000
3721	Aircraft***** .....	1500
3724	Aircraft engines and engine parts***** .....	1000
3728	Aircraft parts and auxiliary equipment, not elsewhere classified .....	1000
3731	Shipbuilding and repairing ***** .....	1000
3743	Railroad equipment .....	1000
3761	Guided missiles and space vehicles .....	1000
3764	Guided missiles and space vehicle propulsion units and propulsion unit parts .....	1000
3769	Guided missile and space vehicle parts and auxiliary equipment, not elsewhere classified .....	1000
3795	Tanks and tank components .....	1000
<b>MAJOR GROUP 39—MISCELLANEOUS MANUFACTURING INDUSTRIES</b>		
3996	Linoleum, asphalted-felt-base, and other hard surface floor coverings, not elsewhere classified .....	750

[See footnotes on following page.]



## GENERAL PROVISIONS

## FOOTNOTES FOR PRECEDING LIST

\* The "number of employees" means the average employment of any concern and its affiliates based on the number of persons employed during the pay period ending nearest the last day of the third month in each calendar quarter for the preceding four quarters.

\*\* Reserved.

\*\*\* The size standard for SIC 2911 is set forth in 1-701.1(2)b2.

\*\*\*\* The size standard for SIC 30111, 30112, and 37111 are set forth in 1-701.1(2)b3 and 4.

\*\*\*\*\* Guided missile engines and engine parts are classified in SIC 3764 and 3724. Missile control systems are classified in SIC 3662.

\*\*\*\*\* Includes maintenance as defined in the Federal Aviation Regulations (14 CFR 1.1) but excludes contracts solely for preventive maintenance as defined in 14 CFR 1.1. As defined in the Federal Aviation Regulations: "Maintenance" means inspection, overhaul, repair, preservation, and the replacement of parts, but excludes preventive maintenance. "Preventive maintenance" means simple or minor preservation operations and the replacement of small standard parts not involving complex assembly operations."

\*\*\*\*\* Shipbuilding and repairing industry includes establishments primarily engaged in building and repairing all types of ships, barges, canal boats, and lighters, of 5 gross tons and over, whether propelled by sail or motor power or towed by other craft. Establishments primarily engaged in fabrication or repairing structural assemblies or components for ships, or subcontractors engaged in ship painting, joinery, carpentry work, electrical wiring installation, etc., are not included. The size standard for Boatbuilding and Repairing (establishments primarily engaged in building and repairing all types of boats, except rubber boats, under 5 gross tons) is 500.

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14. Jasper Glove Company, Inc. Letter to Defense Personnel Support Center, Subject: Protest of Award of Contract for Work Gloves, 8 September 1978.
15. Supreme Manufacturing Company Letter to Defense Personnel Support Center, Subject: Award of Contract for Non-Specification Undershirts, 16 August 1978.
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17. Attachment 4 to Chairman ADCP Task Group Unclassified Memorandum to ADCP Task Group Members, Subject: Acquisition and Distribution of Commercial Products and the Small Business or Labor Surplus Area Set Aside Program, 12 October 1978.
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