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Small Business Contracting Under Category Management

Summary

Category management is an initiative led by the Office of Management and Budget (OMB) to help federal agencies collectively save money on the goods and services they purchase. A key feature of the policy is the grouping of commonly purchased goods and services into 10 categories used across the government (plus nine unique defense-spending categories for use by the Department of Defense). For example, there is a government-wide purchasing category for professional services and another for transportation and logistics. The initiative encourages agencies to make more of their purchases using government-wide contracts, to benefit from administrative cost savings, volume discounts, and contract vetting.

As a policy, category management is intended to improve efficiency for agencies when contracting with private businesses and has done so by certain measures. There are questions, however, about its impact on small businesses and on the diversity of the federal supplier base. Some Members of Congress, executive agencies, and industry representatives have pointed to a potential trade-off between improving prices for federal buyers and ensuring a diverse federal supplier base that includes a sufficient share of small businesses.

History of Category Management

Although category management (CM) was initiated in 2014 and has been implemented across federal agencies since 2016, a preceding policy known as the Federal Strategic Sourcing Initiative (FSSI) dates back to a procurement policy reform effort established in 2005. Led by the General Services Administration (GSA) and the Department of the Treasury, FSSI pursued better prices for agencies by encouraging spending through fewer, but larger, contracts. CM is broader than FSSI, but encompasses some of its practices and tools.

When CM was officially launched in 2014, it expanded on FSSI concepts, emphasizing procurement efficiency and transparency. OMB’s Office of Federal Procurement Policy led this effort and published guidance for Chief Acquisition Officers and senior procurement executives in a December 2014 memorandum, “Transforming the Marketplace: Simplifying Federal Procurement to Improve Performance, Drive Innovation, and Increase Savings.” Since then, OMB has updated directives related to CM but largely maintained its features (see “Policy Outcomes and Revisions”).

Policy Implementation

To track implementation and effectiveness, OMB examines CM performance metrics or Key Performance Indicators (KPIs). The following two KPIs have drawn particular attention: (1) the amount of contract dollars that fall within

a kind of spending known as “spend under management” or SUM; and (2) the amount of contract dollars awarded through contracts labeled as Best-in-Class (BIC).

Generally defined, SUM covers spending on contracts that are actively managed using CM—a designation that applies to three out of four “tiers” of possible types of contracts. See **Table 1** for the CM contract tiers. The three SUM tiers include certain agency-wide contracts (“tier 1”), certain multi-agency contracts (“tier 2”), and government-wide contracts that have been deemed BIC (“tier 3”). The Federal Supply Schedule, for example, is a multi-agency contract that is considered a tier 2 contracting vehicle. The non-SUM tier (“tier 0”) includes contracts that are administered in a decentralized way and do not align with the CM framework.

BIC contracts are OMB-recommended contracting vehicles that are thought to maximize the government’s leverage as a customer due to various characteristics, such as performance, data collection, reporting, or other contract terms. They have met specific OMB criteria required for the BIC label. In some cases, BIC contracts are not only recommended, but “mandatory,” for buyers.

Table 1. Category Management (CM) Contract Tiers by Spend-Under-Management (SUM) Designation

Tier	SUM Designation	Contract Type Description
0	Not SUM	Decentralized, non-CM-aligned
1	SUM	Agency-wide
2	SUM	Multi-agency
3	SUM	Best-in-Class (BIC)

Source: Developed by CRS with information from GSA’s Acquisition Gateway, an online tool and information source for federal buyers.

Notes: This organization of contract features by SUM designation is known as the “Tiered Maturity Model.”

OMB has sought growth in SUM amounts and the dollars obligated through BIC contracts by tracking these measures. It has also directed agencies to reduce tier 0 contract awards. Measuring and appraising agencies’ SUM achievements and BIC contract usage appears to have increased both of these KPIs.

Critics of CM have argued that small business pathways in the federal contracting market were reduced because of the CM focus on BIC contracts, which tend to exclude small businesses based on their size and complexity. Some also claim that reducing tier 0 contract opportunities in favor of more SUM necessarily limits small business prospects. On

the other hand, others argue that the share of award dollars contracted to small business remains substantial enough for the government to reach its statutorily required small business contracting goals, and that data on BIC contracts show commendable levels of small business participation.

Policy Outcomes and Revisions

Evaluations of the overall effectiveness of CM have focused on (1) whether the government as a whole has eliminated redundancies, and (2) how much it has likely saved when purchasing the “commonly purchased” goods and services covered by CM categories. There are some indications that the government has purchased more efficiently since implementing CM and saved money as a result. In 2020, a Government Accountability Office (GAO) study concluded that CM “saved the federal government billions of dollars, and in some instances, enhanced agencies’ mission capabilities.”

Some contend that CM’s cost savings have come partially at the expense of small businesses, despite the amount of contract award dollars flowing to small businesses. In particular, they assert that the increase in SUM and BIC contracts has harmed small businesses and eroded the number of small businesses in the federal supplier pool. Testimony before congressional committees and investigations by GAO have highlighted SUM and BIC contracting as potentially unfavorable for small business contractors. Both small business advocates and those interested in the federal supplier market have expressed concerns as a result.

Reacting to findings that small business participation in federal contracting, by some measures, has declined with the advent of CM, OMB released revised guidance in a December 2021 memorandum, “Advancing Equity in Federal Procurement.”

The guidance allows agencies to receive SUM recognition for contracts awarded to “certified and self-certified socioeconomic small businesses” (i.e., 8(a) program participants and other small disadvantaged businesses, women-owned small businesses, service-disabled veteran-owned small businesses, and small businesses working in HUBZones). In addition, the guidance requires agencies to prioritize “socioeconomic and small business goals ... over the achievement of BIC contract goals if achievement of both goals is not possible.” This could lead to a reversal of contracting priorities for some agencies under CM. Furthermore, OMB’s decision to “no longer measure reductions in unmanaged (Tier 0) spend” could reduce the pressure on agencies to work to eliminate some of their most small business-accessible contracts.

OMB’s December 2021 memorandum also creates a new metric to track: the number of “entrants to the federal marketplace.” This policy update responds to evidence that although agencies generally continue to reach small business contracting goals in terms of the amounts they award to small businesses, the number of small business contractors, and specifically new firms, has declined since 2005.

Acting on the above issued guidance, some federal agencies have issued memos of their own to their procurement executives and developed strategies to comply with CM while supporting contracting opportunities for small businesses. For example, the Department of Commerce and Department of Defense memos describe plans to achieve SUM and utilize BIC contracts without compromising small businesses’ participation as contractors.

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