



DEPARTMENT OF DEFENSE

Small Business Strategy

October 2019

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Message From The Secretary

The national security of the United States rests on many pillars, whether the Department of Defense's (DoD or Department) ability to modernize American nuclear forces, bolster our missile defense systems, or ensure capabilities against cyber-attacks. In turn, all of these pillars rest in part on DoD's integration of the might, innovation, and daring of small businesses into our mission.

Not only are America's nearly 30 million small businesses the engine of our economy, they also provide critical goods, services, and technologies which actively contribute to the health of the manufacturing and defense industrial base. I am keenly cognizant of the challenges faced by defense contractors in supporting critical national security goals while also sustaining their bottom line. I hope to build a more approachable and visible structure to better support a mutually beneficial relationship between the DoD and small business.

To that end, this Small Business Strategy establishes a game plan for the Department to accomplish this mission by focusing on three strategic goals: creating and implementing a unified management structure across the Department's small business workforce; aligning the Department's small business activities with the 2018 National Defense Strategy (NDS) and supporting documents; and strengthening the DoD's ability to support the warfighter and serve small businesses.

A unified management structure will consist of both the Under Secretaries of Defense for Acquisition and Sustainment and Research and Engineering working together to ensure the United States retains technical superiority over its adversaries. This structure will assist the Department in assessing priorities across stakeholders, identifying opportunities for enhancement, and leveraging the significant efforts of other departments and agencies that also focus on supporting small businesses. Meanwhile, alignment of the Department's small business activities with the objectives of the NDS will ensure our work has a meaningful impact on securing our allies and nation's future. The Department is also working to identify opportunities to improve its day-to-day support of small businesses, maximize the utility of each individual program, and replicate our most successful tactics across lines of effort.

These goals and objectives aim to leverage the might of the millions of entrepreneurs and small business owners across the nation to help secure our future.

Dr. Mark T. Esper
Secretary of Defense

Executive Summary

A strong, dynamic, and robust small business sector is critical to the health of our economy. Small businesses buttress production of the most cutting-edge technologies and advanced capabilities, bolster our national security, and form an important part of our industrial base. The DoD recognizes that small businesses are a crucial component in our nation's effort to meet increased challenges from competitors and adversaries that threaten U.S. technological and industrial dominance.

Despite their importance, small businesses face an uphill battle in participating in defense procurements for a variety of reasons. Government business practices can cause deterioration in capabilities, to the detriment of the small business sector and, in turn, the defense industrial base. An aggregation of laws, regulations, and business practices strain rather than strengthen the relationship between the Department and small businesses. Some of these practices include bundling and consolidating contracts, multiple points of entry into defense markets, and long contracting timelines. These headwinds can reduce incentives for even the most innovative businesses, and undermine the workforce needed to supply the DoD with goods, services, and technology critical to national security. Recognizing these issues, Congress has required the DoD to develop a strategy to “better leverage small businesses as a means to enhance or support mission execution.”¹

This document, the DoD's Small Business Strategy, seeks to answer this call of Congress and redouble the Department's commitment to integrating small businesses into our broader mission. The DoD is building these renewed efforts around three strategic objectives:

Strategic Objective 1: The creation and implementation of a unified management structure across the DoD's small business workforce.

The Department's small business workforce is distributed across the services and within different parts of the Office of the Secretary of Defense. Implementation of a unified management structure consisting of both the Under Secretaries of Defense

for Acquisition and Sustainment (USD (A&S)) and Research and Engineering (USD (R&E)) will optimize the Department's work on small business issues and ensure the United States retains technical superiority over its adversaries. OSBP will lead implementation of a unified management system through the creation of an annual policy guidance document approved by the Deputy Secretary of Defense. Additionally, OSBP will utilize structures like the Technology Transition and Commercialization Community of Practice (TTAC CoP), described more fully below, which foster an integrated means to assess and align priorities, provide broad policy direction, develop small business innovation, identify enhancement opportunities, and leverage the tools of the interagency.

Strategic Objective 2: Ensuring that the Department's small business activities align with the 2018 National Defense Strategy (NDS) and other guiding documents.

The NDS is the Department's foundational document guiding America's military and defense objectives. It provides a framework for the Department's activities and guides the work of the small business workforce. A key goal of the NDS is maintaining a healthy defense industrial base with broad capabilities to produce parts and systems, healthy and secure supply chains, and a skilled workforce. In October 2018, an interagency task force led by the DoD Office of Industrial Policy published a rigorous assessment identifying risks and proposing solutions to maintaining a healthy and resilient defense industrial base.² The findings in this report will also provide a framework for guiding the policies that underpin the DoD's small business work as well as other assessments performed, such as studies and reports that apply to the SBIR/ STTR programs.

¹ H.R. Rep No. 115-874, at 907 (2018).

² This report was conducted pursuant to Executive Order 13806, Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States, available at <https://www.whitehouse.gov/presidential-actions/presidential-executive-order-assessing-strengthening-manufacturing-defense-industrial-base-supply-chain-resiliency-united-states/>

Strategic Objective 3: Strengthening DoD's ability to support the warfighter through supporting small businesses.

Under this strategic objective, the Department will place a renewed focus on maximizing the utility of existing programs, working to improve points of entry into the Department for small businesses, and leveraging the considerable resources of the interagency. These efforts will have two key outcomes: increasing both the number and diversity of small businesses in the defense industrial supply chain, and increasing the DoD's utilization of those businesses.

Through thoughtful recalibration of and recommitment to the DoD's relationship with small businesses, our nation can capitalize on the immense opportunities to improve national security and address the challenges within the defense industrial base. This Strategy outlines an enterprise-wide approach, which will pave the way for our nation's continued prosperity and security for decades to come.



Focus On Strategic Objective #1: Implementing A Unified Management Structure

The DoD workforce is comprised of individuals within the components who support small business equities throughout the Department. This structure offers specialization opportunities and the ability to be flexible and respond to the specific needs of each mission, and supports an enterprise-wide focus on small businesses. As a result of Section 901 of 2017 National Defense Authorization Act, the DoD small business workforce is comprised of individuals who support small business equities throughout the Department, including under both the Under Secretary for Research & Engineering (R&E) and the Under Secretary for Acquisition and Sustainment (A&S). Implementing a unified management structure for the DoD small business workforce will enable DoD to maintain these critical benefits while improving communication and coordination of small business efforts across the Department.

The Office of Small Business Programs (OSBP) is leading the effort to synchronize the Department's small business workforce through implementation of a unified management structure. The OSBP will bring together DoD officials who spearhead various DoD initiatives, manufacturing and industrial base policy leaders, and those involved in the procurement technical assistance program, among others. This especially includes collaboration with the Small Business and Technology Partnership Office within the Office of the Undersecretary of Defense for (R&E), which administers the Small Business Innovation Research (SBIR) Program, the Small Business Technology Transfer (STTR) Program, and the Rapid Innovation Fund (RIF). OSBP will continue to hold regular meetings of the DoD's small business workforce and will begin publishing guidance which will be authorized by the Deputy Secretary of Defense.

OSBP's implementation of the unified management structure aims to deliver critical capabilities envisioned by Congress with the following scope:

Assessing and aligning priorities across DoD's stakeholders

The current structure allows variability among disparate stakeholders when it comes to prioritization of projects and funds. OSBP aims to provide a forum for components of the DoD small business workforce to converge and align priorities among each other.

Providing broad, consistent policy direction:

OSBP will begin publishing guidance regarding the policies that underpin implementation of the DoD's small business activities. This guidance will interpret the NDS and its impact on the work of the small business workforce. The guidance may also identify new opportunities and challenges for future versions of the NDS and other strategic guiding documents. Additionally, use of the Technology Transition and Commercialization Community of Practice will provide an integrated means to assess and align priorities, provide broad policy direction, develop small business innovation, identify enhancement opportunities, and leverage the tools of the interagency.

Developing DoD's small business workforce

OSBP already organizes a number of activities aimed at fostering additional capacity among the DoD's small business workforce. For example, OSBP's annual "Small Business Training Week" brings together small business professionals and acquisition leaders across the DoD to provide critical training, education, and collaborative learning opportunities for the DoD small business workforce.

Identifying opportunities for overall enhancement

Since the small business workforce is seated within different parts of the DoD and has diverse skillsets and perspectives, OSBP will present a unique opportunity for sharing ideas across defense components and DoD agencies. For instance, OSBP routinely hosts small business professionals from the DoD components and agencies as part of rotational work assignments, which allow these leaders to gain first-hand knowledge of OSBP priorities and initiatives and to provide feedback as to how these priorities will be implemented in the field.

Harnessing the tools of the federal interagency and at the state government level:

At present, significant resources are devoted to strengthening and supporting small businesses—from the Small Business Administration to the Department of Commerce to the Department of the Treasury. OSBP serves as a DoD resource for sharing regulatory updates from other federal agencies, and democratizing strategic communications and upcoming advocacy opportunities, including export-focused conferences or government-sponsored events. A unified management structure will better enable OSBP to take advantage of the valuable resources of the federal and state governments and make them available to the DoD small business workforce.

Focus On Strategic Objective #2: Aligning DoD's Small Business Activities With National Security Priorities

As outlined in the FY 2019 NDAA, the Secretary of Defense shall ensure programs and activities of the DoD be carried out so as to further national defense programs and priorities set forth in Section 801 of the FY 2018 NDAA. One key aspect of Section 801 states that defense acquisition efforts should be guided by the National Security Strategy, along with the need to ensure that DoD's investment strategy supports future and current armed forces, and that the Department focuses on acquisition of quality products that satisfy end-user needs while improving mission capability and operational support in a timely manner and at a reasonable price. As such, this Small Business Strategy will focus on aligning DoD small business programs and goals with the strategy and goals set forth in three main guiding documents:

- *The National Security Strategy* (2017)³:
 - The National Security Strategy (NSS) is a document prepared by the executive branch for Congress, as mandated by the *Goldwater-Nichols Act*. It outlines major national security concerns and communicates how the administration plans to address them.
 - The NSS identifies a number of priorities that inform this small business strategy, including leading in research, technology, invention, and innovation; promoting and protecting the U.S. National Security Innovation Base; and renewing America's competitive advantages and capabilities—including investing in a healthy defense industrial base.
- *The National Defense Strategy* (2018)⁴:
 - The National Defense Strategy (NDS) is produced by the Office of the Secretary of Defense, signed by the Secretary of Defense, and provides capstone strategic guidance for the Department, including the Armed Services. The NDS translates and refines the NSS into broad military guidance. As of 2018, the NDS is the successor to the Quadrennial Defense Review.
 - The NDS outlines a key defense objective, among others: establishing an unmatched 21st century National Security Innovation Base that effectively supports Department operations and sustains security and solvency. It prioritizes the need to modernize key capabilities, from nuclear forces to missile defense to identifying space and cyberspace as warfighting domains. It also highlights the need to cultivate civilian workforce talent to achieve mission success.
- Executive Order 13806⁵ and the associated report entitled *Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States*⁶ (2018):
 - Based on the recognition that the erosion of American manufacturing has had a detrimental effect on national security, the President published Executive Order 13806, which—among other requirements—mandates a rigorous assessment identifying risks and proposing solutions to maintain a healthy and resilient defense industrial base.
 - Executive Order 13806 Report also calls out the need for ongoing or future initiatives in which small businesses can play a role. These include: updates to export control policies, streamlining of acquisition processes, expansion of direct investment in the lower tier of the industrial base, diversifying away from

³ National Security Strategy of the United States, December 2017. <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>

⁴ 2018 National Defense Strategy of the United States of America, January 2018. <https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf>

⁵ President Donald Trump, Executive Order 13806, July 2017. <https://www.whitehouse.gov/presidential-actions/presidential-executive-order-assessing-strengthening-manufacturing-defense-industrial-base-supply-chain-resiliency-united-states/>

⁶ Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States, Report to President Donald J. Trump by the Interagency Task Force in Fulfillment of Executive Order 13806, September 2018. <https://media.defense.gov/2018/Oct/05/2002048904/-1/-1/1/ASSESSING-AND-STRENGTHENING-THE-MANUFACTURING-AND-DEFENSE-INDUSTRIAL-BASE-AND-SUPPLY-CHAIN-RESILIENCY.PDF>

certain dependencies on sources, acceleration of workforce development, and enhancing efforts to explore next generation technology.

The OSBP is spearheading a number of efforts that are aligned with priorities of these guiding documents. These include workforce education and development and maximizing the use of existing programs for innovation, commercialization, manufacturing, and sustainment. These initiatives and implementation plans are detailed below.

Workforce Education and Development

Workforce education and professional development are key components of leveraging small business capabilities, and adequate training of the acquisition workforce, including small business professionals, will be the Department's primary focus. The acquisition process is driven by people. If the Department is not attracting and retaining the right talent to the acquisition workforce, expanding career paths, and investing in training these professionals to enable their cross-functional competencies, improving small business participation in DoD acquisition will be extremely challenging. It is critical for program managers and contracting officers to understand the capabilities that small businesses can provide, and to have a strong grasp of small business programs and authorities. This requires a cultural shift to ensure small businesses are recognized for their value-add to achieving the mission of the Department. Therefore, additional acquisition workforce training on key small business innovation programs is needed to enable a better understanding of the benefits of those programs.

Well-trained small business professionals who contribute at all stages of the acquisition process will help raise the visibility of small business contributions, capabilities, and expertise within the defense enterprise. Small business professionals conduct outreach throughout the industrial base, including to large prime contractors, small businesses, nonprofits, and academic institutions. This outreach involves long-range acquisition forecasting (LRAF) data tools, industry conferences targeted to various industry segments, and small business categories, reviews of capability statements, facilitation of partnerships among industrial base participants, and matchmaking of capable small businesses with buying commands. Implementation of certification training for small business professionals includes current best practices in industry and small business contracting and will build a clearly defined pipeline of talent into the small business workforce. Finally, a key effort is to conduct effective market research and work with Procurement Technical Assistance Centers (PTACs) to identify

potential companies in areas critical to our national security. These efforts will enable a robust, capable small business industrial base to diversify and expand the supply chain.

Furthermore, the Department will continue to provide technologies and tools to the small business and acquisition workforce using the latest open source technologies and tools to support daily operations. This will simplify the identification of suppliers for requirements, increase outreach to attract companies to be a part of the small business industrial base, and leverage technologies that can streamline acquisition workforce functions.

Implementation: The Department will professionalize the small business workforce by developing an appropriate certification training curriculum. Specifically, OSBP will also work across relevant internal agencies, including with the Defense Acquisition University, on broader continuing education training courses on small business programs and authorities that can be included in the training of program managers and contracting officers.

Maximize the Use of Existing Programs and Authorities (Innovation & Commercialization)

The Department has several small business and innovation programs that specifically drive towards the strategic goals of enabling innovation, attracting small businesses and reducing barriers to entry. These small business programs include SBIR, STTR, RIF, Manufacturing Technology Program (ManTech), Manufacturing Innovation Institutes (MIIs), the Rapid Reaction Technology Office (RRTO), National Security Innovation Network (NSIN), and Defense Innovation Unit (DIU) that fall under the USD (R&E) purview. In addition, other programs of which small businesses are primary beneficiaries include the Mentor Protégé Program (MPP) and the Indian Incentive Program which fall under the USD (A&S) purview. Each of these programs focuses on a specific segment of the small business industrial base and certain technology maturation levels. Proactively enabling these programs to work together to drive technology transfer into defense programs is critical to engaging small businesses to increase their contributions to the objectives of the NDS.

The Department recently established an initiative called the Technology Transition and Commercialization Community of Practice (TTAC CoP) within the USD R&E Office of Strategic Technology Protection and Exploitation, which brings several of these programs together to coordinate and collectively tackle the

Department's most critical technology challenges (See Figure 1). Through this initiative, the Department is breaking the silos between these programs, so that they can leverage each other's focus areas to develop required technologies and to look within each program to see how regulations, policy, and procedure can be changed to reduce red tape. This will allow for more rapid acquisition and attract more commercial companies whose technologies can be leveraged by the Department.

These existing programs can also leverage new methodologies for their outreach and market research such as prize challenges, hackathons, and public-private partnerships. Additionally, for the Department's innovation programs, flexibility in partnership agreements between intermediaries and small businesses producing desired technologies will help smooth entry into the defense innovation base and provide additional opportunities for mentoring and support for these firms. Finally, expanding the utilization of contracting authorities such as Other Transactional Authority (OTAs) will be explored for rapidly supporting the development and maturation of technologies from small businesses and non-traditional suppliers that fit into the priority research and development technology areas identified by the Undersecretary for Research and Engineering.

Implementation: The Department will establish direct communication channels with industry on entry points to defense innovation programs. The Department will also aggressively implement existing statutory requirements to incentivize the use of small business programs and reduce contracting timelines while also exploring additional incentives and commercialization metrics that can be developed across its research and development programs. The Department will increase small business participation in other Research Development Test & Evaluation programs and develop measures that will ensure the continuing synergies between these programs to collectively mature and transition technologies that fit the priority areas of the Department.

Maximize the Use of Existing Programs and Authorities (Manufacturing & Sustainment)

Access to capital, specifically for production capacity, is an issue for small businesses across the defense industrial base. Where

small businesses produce military-critical products, Congress has provided several authorities under which the government can assist industry in gaining access to affordable capital.

- The Defense Production Act (DPA) of 1950⁷ is an important authority provided to the Department of Defense for supporting the expansion of manufacturing capacity of U.S. industry, including small businesses, in the “national technology and industrial base”⁸ by allowing the government to assist in scaling production capacity. In conjunction with Executive Order 13603⁹, which confers the President's authority included in the DPA to agencies responsible for executing provisions within the act, Title III of the DPA authorizes the Department to incentivize the domestic industrial base in support of national defense.¹⁰ For both the defense industrial base and innovation base, DPA Title III authorizes financial incentives including subsidies, purchase guarantees, direct loans, and loan guarantees to support production of materials and goods essential to the national defense.¹¹

In addition to DPA Title III, the Industrial Base Analysis and Sustainment (IBAS) program enables investments to close gaps in defense manufacturing capabilities and create and sustain reliable sources that are critical to the Department's focus on readiness and lethality. Specifically, IBAS works to improve the health of the defense industrial base by addressing critical capability shortfalls, particularly in avoiding costs associated with stopping and restarting production when capabilities are needed in the immediate future.

As Congressman Chabot noted in a April, 2019 statement before the House Committee on Small Business, data has shown a decrease in the number of small businesses registered to do business with the federal government.¹² OSBP is working with the leaders of the DPA Title III and IBAS programs to reinvigorate the small business participation in the industrial base, with a focus on manufacturing. The Department will review DPA Title III programs, policies, and procedures for small business matters and will implement its strong statutory priorities and preferences for small businesses. Additionally, the Department will examine how these programs might be able to support mid-size businesses which are no longer able to take advantage of traditional contracting preferences, yet are not large enough to compete with major traditional defense contractors.

⁷ (P.L. 81-774, 50 U.S.C. Appx §2061 et seq.

⁸ Chapter 148 of Title 10, United States Code (U.S.C.)

⁹ Executive Order 13603, “National Defense Resource Preparedness,” 77 Federal Register 16651, March 22, 2012.

¹⁰ 50 U.S.C. Appx. §§2091(a), 2092(a), 2093(a)

¹¹ 50 U.S.C. Appx. §2091(a)(1). The beginning of 50 U.S.C. Appx. §2092(a) includes the same basic text as §2091(a)(1).

¹² Chabot, Steve Chairman, Committee on Small Business, testimony before House Committee on Armed Services, April 14, 2015. <https://www.govinfo.gov/content/pkg/CHRG-114hhrg94745/html/CHRG-114hhrg94745.htm>

Implementation: Attracting and enabling small businesses to address manufacturing and industrial base challenges is a focus area of the Executive Order 13806 Report. The Department will measure and evaluate small business participation in the DPA Title III and IBAS capital investment programs. Additionally, the Department will establish a baseline of existing small business participation in these programs and develop more effective and efficient ways to expand that access where it will make the most significant impact as the Department seeks to meet its national defense objectives.

Focus On Strategic Objective #3: Strengthening DoD's Ability To Serve Small Businesses

Engaging on Policy and Process

Developing the right types of legislation, regulation, and policy is essential to attracting small businesses to do business with the Department of Defense and to reducing obstacles to small business growth. Through a robust effort to streamline acquisition regulations and policies, the Department will seek to elevate the visibility of small businesses to the acquisition workforce and ensure that consideration of small business capabilities is given at the earliest stages of the acquisition process. The Department will ensure that small business professionals participate in acquisition strategy development and peer reviews when appropriate, which will support identification of commercialization opportunities from programs such as SBIR, STTR and RIF for future procurements. This involvement also ensures that small business solutions for defense missions are fully considered at the prime and sub-contracting levels and that the Department is not overpaying for duplicative development, excessive overhead, or unnecessary product or service offerings available from small businesses.

Engagement by small business professionals at the earliest stages of the acquisition process will enable the Department to find solutions to barriers to entry for small businesses. These barriers include consolidation and bundling of contracts, retroactive mandatory contract designations, lack of on-ramps in category management vehicles, unduly restrictive past performance requirements, obstacles to joint venturing, unimplemented statutes on small business teaming

arrangements or limitations on subcontracting, restrictive advertising on portals other than FedBizOpps, and use of interagency contract vehicles or strategic sourcing agreements for which small businesses do not qualify. Early engagement by small business professionals will also enable the development of mechanisms to hold prime contractors accountable for meeting their small business subcontracting plans such as including small business subcontracting past performance during source selection.

The Department will ensure defense acquisition guides and directives include small business-related policies and best practices. Furthermore, the establishment of accountability measures will ensure that small business legislation and regulations are properly implemented across the Department. For example, Federal Acquisition Regulation 19.502-2 states that, "purchases shall be set aside for small business unless the contracting officer determines there is not a reasonable expectation of obtaining offers from two or more responsible small business concerns that are competitive in terms of market prices, quality and delivery." This requirement is commonly called the "rule of two," and it applies to all purchases that exceed the micro-purchase threshold. The Department will utilize this regulation to increase the use of small business set-asides that will promote competition and result in fair market prices for defense procurements. This is particularly effective in areas where small businesses provide services, commercial items, and construction services that enable and sustain the warfighter.

Additionally, the Department will continue to ensure that procurements within the Simplified Acquisition Threshold are reserved exclusively for small businesses to the maximum extent practicable and reduce barriers to entry within these procurements. These smaller acquisitions use a more streamlined acquisition process and can be a powerful tool for acquiring prototypes or other innovative solutions developed by small, non-traditional vendors. Finally, the Department will continue facilitating prompt payments to small business concerns by the DoD and by large prime contractors. According to the Executive Order 13806 Report, unreliable cash flow to small businesses makes the U.S. defense industrial base more fragile and less secure. These policy and process initiatives should serve to increase small business participation in small business friendly sectors, increase competition on defense procurements, and ensure that there is a Department-wide emphasis on small business consideration from the earliest stages of the acquisition process.

Implementation: The Department will track the involvement of small business professionals in acquisition strategies and peer reviews for major procurements. The Department will also track data on competition rates for procurements and will engage senior leaders to ensure maximum practicable opportunity is given to small businesses throughout defense procurements. The Department will develop tools that will measure the impact of policy initiatives on small business performance. As small business acquisition changes are incorporated into policy and implemented, the Department will continue to use the Federal Procurement Data System, and related data reporting systems (i.e., Electronic Subcontracting Reporting System), to measure their effectiveness. Primary performance indicators will include the share of total Department prime contract obligations awarded, total Department subcontract obligations awarded, and acquisition process efficiency and effectiveness including contract award timelines. The Department will also work to reduce overly burdensome policies that create barriers to entry for small businesses, focus on holding prime contractors accountable for small business subcontracting performance, and continue to hold relevant senior executives accountable for small business inclusion in procurements.

Utilizing Tools, Technologies, and Data

Identifying capable small business suppliers is critical to attracting the most innovative small businesses to the defense industrial base. This requires a robust set of tools that acquisition professionals can utilize to streamline how they conduct market research, track performance management, and run comparative analytics across organizations within the Department and across the federal government.

The Department will continue development and deployment of these tools for the acquisition professional workforce. There are several functions that the acquisition professionals carry out daily that can be e-enabled using the latest open source technologies. This will help identify suppliers for requirements, increase outreach to attract companies to be a part of the manufacturing industrial base, reduce barriers for entry to small businesses, and create more entry points for small businesses into defense markets. These types of technologies and tools will enable a deeper understanding of the supply chain and promote shared market research and vendor analytics across the Department's organizations. They will also permit small business professionals and other members of the acquisition workforce to simplify how they manage their engagement with small business to achieve mission requirements.

The use of data analytics is critical to understanding the industrial base and measuring success. The Department will utilize data analytics to effectively measure performance. An example is identifying the North American Industry Classification System (NAICS) and Product Service Codes (PSC) that fit into priority areas of the NDS and the Department's mission priorities and consistently looking at the trend lines to see how the Department is performing against those specific products or technologies. If those NAICS codes or PSCs do not exist, the Department will work with the Department of Commerce to create new NAICS codes that best capture these requirement areas or work to develop appropriate PSCs that best capture the areas on which the Department wants small businesses to focus. Another important issue the Department will address is to work with the Small Business Administration (SBA) to ensure that NAICS code small business size standards are driven by data analysis and market trends.

Additionally, small businesses frequently cite inconsistent or unsuitable use of NAICS codes and PSCs as a notable barrier to entry. For example, if a product buy is assigned a NAICS wholesale trade or retail store code instead of a manufacturing code, small business manufacturers would normally not qualify for the contract. Absent two or more potential small business offerors, the contract would not be set aside for small business. Small firms cannot find contracting opportunities if they are miscoded, and the Department and PTACs become unable to provide consistent information to industry. Miscoding also impairs the Department's ability to analyze the match between industry capabilities and mission requirements, because it forces the Department's buyers to look at incorrect industries. Unduly narrow or unduly broad codes can have the same effect. For example, many multiple-award contracts cover requirements suitable to more than one NAICS code.

To address these issues, SBA published a final rule¹³ that was effective on December 31, 2013 that provided direction for the use of multiple NAICS codes on multiple-award contracts. However FAR implementation, current contract writing systems, and the FPDS-NG reporting system do not yet allow for assignment of multiple NAICS codes to a contract that allows for division of a multiple award contract for divergent goods and services into discrete categories (which could be by contract line item numbers, special item numbers, functional areas, sectors, or any other means for identifying various parts of a requirement identified by the contracting officer), each of which is assigned a NAICS code with a corresponding size standard. Once fully implemented in the FAR and the contract writing and reporting systems, there will be greater flexibility in tailoring more accurate NAICS codes to solicitations and

¹³ See 78 FR 61114 to revise 13 CFR 121.402

awards and assuring small business concerns receive awards for which they are eligible.

Implementation: From a performance management perspective, the Department will work with the military departments and defense agencies to develop goals on new portfolio groups of NAICS and PSCs. This will enable these organizations to gather data and measure progress towards increasing small business participation from industries in critical technology areas important to their respective missions. The Department will continue to implement goals and create incentives to include technologies from programs such as SBIR, STTR and RIF. Other areas for consideration for incentives include technologies from other program such as ManTech and the MIIs. This initiative would result in measurable and actionable data and demonstrate the importance of these programs to the Department's priorities and mission. The Department will also explore updating contract writing and reporting systems to allow assignment of multiple NAICS codes to a contract.

Improve Outreach and Communications

The Department must strengthen its relationships and communication methods with the larger acquisition community and small businesses seeking to do business with the Department of Defense in order to foster small business growth. The Procurement Technical Assistance Program (PTAP) plays a primary role in the Department's efforts to identify and engage with small companies entering or participating in the defense supply-chain and provides the education and training businesses need to participate in defense procurements. Through the Defense Logistics Agency, the Department of Defense provides funding to Procurement Technical Assistance Centers (PTACs) that serve as a resource for businesses to obtain information and training related to contracting and subcontracting opportunities with the Department of Defense, other federal agencies, and state and local governments. There are currently ninety-three PTACs operating in Washington, DC, Puerto Rico, Guam and in forty-eight States. Six of the ninety-three PTACs were established specifically to provide services to federally recognized Indian tribes and Alaska Native entities, their members and reservations.

By working with other federal technical assistance programs, which collectively serve over one million small businesses annually¹⁴, and through public-private partnerships and industry collaboration, PTACs can be a highly effective means to conduct outreach and engage the nation's small business technology and

supplier base. As a primary interface with small businesses in the field, PTACs, with the support of other federal small business resource partners, work directly with private sector, university, non-profit and local partners to conduct the type of outreach activities necessary to develop long-term relationships with the small business community and the larger defense industry. To further this success, the Department will create a unified communications structure that will help PTACs better understand the Department's future requirements and forecasting and work more closely with small business professionals.

Another essential component to outreach success is engagement from senior leadership across the Department in promoting the objectives of this Strategy. This includes activities and initiatives, such as outreach events and internal policy guidance within their respective organizations, to ensure maximum practical opportunities are provided to small businesses. The TTAC CoP will also engage small businesses and provide a clear picture into the entry points of the Department innovation programs. This level of engagement will help small businesses understand where the Department is headed with its future requirements, so they can best align their business models and investments.

The Department will also improve procurement forecasting efforts for industry. Providing accurate forecasting to the maximum extent possible is an effective way to communicate to industry about future requirements and direction. The Department will continue to develop its forecasting tools in order to effectively communicate with small businesses, so that they can develop their business models in a way that best contributes to the Department's innovation mission.

Implementation: The Department will increase synergy between OSBP and PTACs to improve outreach and communication to ensure small businesses are aligned with and furthering the National Defense Strategy. The Department will work with PTACs to develop a way to leverage the data they collect through industry engagements across the Department for more targeted outreach. The Department will also provide its forecasting activities to PTACs where possible and work to increase small business access to contracting and program offices through the small business workforce and PTACs. Additionally, the Department will encourage contracting officers, program managers and other requirements owners to attend industry events and matchmaking sessions where they can directly engage small businesses. The Department will work with small business professionals to develop metrics for industry engagement to ensure effectiveness towards meeting mission requirements.

¹⁴ U.S. Small Business Administration (SBA), Fiscal Year 2019 Congressional Budget Justification and FY2017 Annual Performance Report. https://www.sba.gov/sites/default/files/aboutsbaarticle/SBA_FY_19_508-Final-FINAL.PDF

Address Small Business Cybersecurity Challenges

Protecting the nation's cyber infrastructure from increasingly sophisticated threats posed by foreign competitors and adversaries remains a critical national security priority for the Department of Defense. The U.S.'s private sector partners within the defense industrial base are continually assessing and mitigating cybersecurity vulnerabilities. However, the importance of small business within that base and the cyber risks posed to the supply chain remains a significant concern. Supporting cyber resilience within the small business industrial base is key to enabling these companies to address industrial base gaps across the Department.

According to a research survey by Enterprise Strategy Group (ESG) of 400 cybersecurity and information technology professionals working at small organizations (i.e., 50 to 499 employees) in North America, two-thirds of the organizations surveyed experienced at least one cybersecurity incident (e.g., system compromise, malware incident, distributed denial of service, targeted phishing attack, data breach) over the past two years.¹⁵ In August 2017, the Council of Better Business Bureaus conducted a poll of 2,000 consumers and a survey of about 1,100 businesses in North America. According to their survey, about 10 percent of respondents could not tell if they had been a target of a cyberattack, supporting the notion that threats are becoming more sophisticated over time and that attacks are underreported.¹⁶

The Department has a strategic interest in supporting the cyber resiliency of this supply chain. According to the Executive Order 13806 report, many small businesses lack the resources to implement cyber security measures because they lack the resources and training readily available to larger companies. At the same time, in 2017, cyber-attacks cost small and medium-sized businesses an average of \$2,235,000.¹⁷ Several studies show that the biggest contributor to security incidents is a general lack of understanding about cyber risk and a lack of adequate cybersecurity training for non-technical employees resulting in poor or absent security preparation and hygiene.¹⁸

To address these concerns, the OSBP will work with Department cybersecurity components and utilize both regulatory and voluntary programs to improve the collective cybersecurity readiness of the small business industrial base, with a focus on small manufacturers. The Department will support Defense Federal Acquisition Regulation Supplement (DFARS) regulatory compliance by small federal contractors with respect to adequate security, cyber incident reporting, and malicious software reporting, and supporting damage assessment.¹⁹ Small business offices will also support the broader acquisition community in meeting its DFARS requirements for the implementation of cybersecurity measures set forth by the National Institute for Standards and Technology (NIST).²⁰ The Department will utilize a bottom-up approach to regulation compliance by providing tailored small business solutions supporting NIST requirements in order to remedy individual shortfalls in cybersecurity.

Implementation: The Department will work through the OSBP and the ManTech program to develop mechanisms to create roadmaps and threat assessments for small businesses and small manufacturers. These efforts will engage U.S. Cyber Command and NIST, as well as academic and industry partners as appropriate. The Department will provide guidance, and support for small businesses to conduct voluntary self-assessments for cyber preparedness, and will support the development of tools, technologies, and trainings to support the cyber resiliency of these companies. The Department will also seek reauthorization of the Mentor Protégé Program to include supporting and resourcing the appropriate aspects of these initiatives. Additionally, the Department will establish a process through which small businesses within the defense industrial base can engage with experiential and online content focused on practical applications of cybersecurity hygiene within defense supply chains.

¹⁵ Oltsik, Jon. "The State of Cybersecurity at Small Organizations." CSOOnline.com. IDG Communications, Inc. 16 August 2018. www.csoonline.com/article/3298437/security/the-state-of-cybersecurity-at-small-organizations.html

¹⁶ Fanelli, Bill, et al. "2017 State of Cybersecurity Among Small Businesses in North America." BBB.org. Council of Better Business Bureaus. August 2017. www.bbb.org/globalassets/shared_media/state-of-cybersecurity/updates/cybersecurity_final-lowres.pdf

¹⁷ "2017 State of Cybersecurity in Small & Medium-Sized Businesses (SMB)." Keepersecurity.com. Ponemon Institute. September 2017. <https://keepersecurity.com/assets/pdf/Keeper-2017-Ponemon-Report.pdf> 16651, March 22, 2012.

¹⁸ Oltsik, par. 8.

¹⁹ 48 CFR § 252.204-7012.(2016). Print. [80 FR 51745, Aug. 26, 2015, as amended at 80 FR 56930, Sept. 21, 2015; 80 FR 81474, Dec. 30, 2015; 81 FR 73000, Oct. 21, 2016]

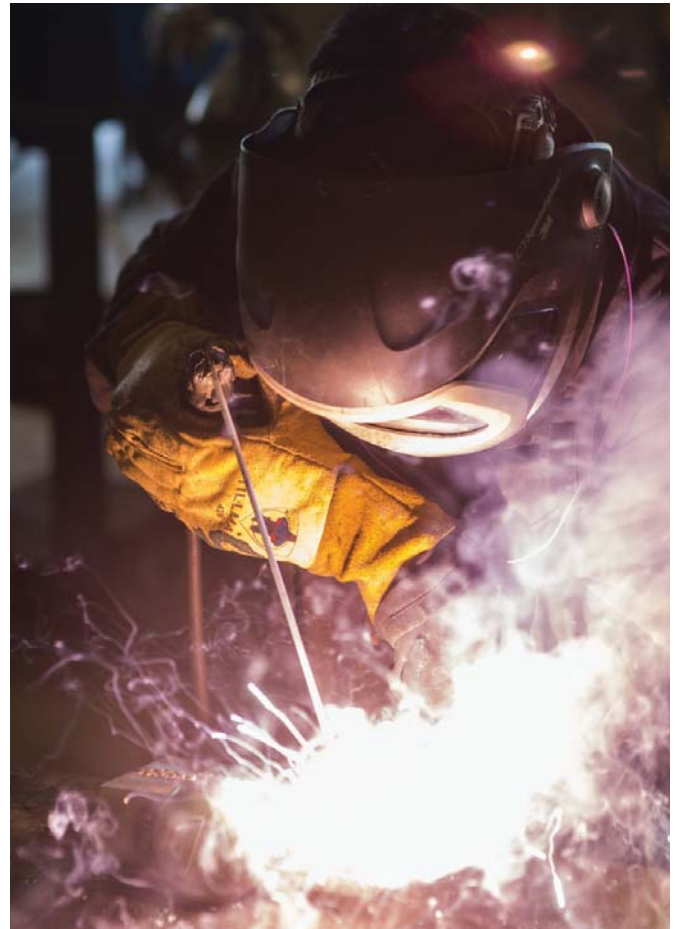
²⁰ Ross, R., et al. "Protection Controlled Unclassified Information in Nonfederal Systems and Organizations." 2016. NIST Special Publication 800-171. Revision 1. <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.800-171r1.pdf>

Protect Small Business Intellectual Property

Intellectual property protections are significant drivers in the success of innovators and entrepreneurs producing critical technology solutions in support of national defense. These protections are increasingly important as the Department seeks to grow the participation of commercial companies and innovators that are not currently within the defense supply chain to meet manufacturing and industrial base gaps. Small businesses and inventors face unprecedented threats and challenges by near-peer nation adversaries that are aggressively seeking technologies and intellectual property developed within the United States. Additionally, while small business owners and entrepreneurs enjoy statutory protection to preserve their intellectual property rights when contracting with the federal government, they generally do not have the knowledge or resources possessed by large businesses when negotiating use terms, often placing them at a significant disadvantage. When theft or infringement of those rights occur, small businesses are left at an even greater disadvantage.

The defense industrial base depends on the innovation and participation of small businesses and entrepreneurs. As a result, ensuring small businesses have the education and tools necessary to protect their intellectual property is critical to their success, which in turn is critical to the nation's overall safety and security. Recent efforts by the U.S. Patent and Trademark Office, the U.S. Small Business Administration entrepreneurial development programs, and other agencies and industry partners have successfully educated small business owners and entrepreneurs about intellectual property and helped them to understand their rights.²¹ Ensuring small businesses have access to the education and resources they need to understand and protect their intellectual property rights serves not only to protect current and future technology solutions, but helps small businesses grow and succeed in the larger defense market.

Implementation: The Department of Defense will work with federal government and industry partners to include information about current intellectual property education programs in its outreach and communications efforts to small businesses seeking to do business with the Department. The Department will also train small business professionals on intellectual property considerations as they engage with small businesses on defense procurements and research programs.



²¹ "STOPfakes Roadshows," STOPfakes.gov - Intellectual Property Rights Resources and Assistance. January, 1 2019. www.stopfakes.gov/roadshows

The International Trade Administration's Office of Intellectual Property Rights (OIPR) educates U.S. businesses, particularly small businesses about protecting IP at home and abroad, but there are also several other examples of federal efforts to support intellectual property rights education and training for small businesses. See: "Basic Facts About Trademarks: What Every Small Business Should Know." January 1, 2019. <https://www.uspto.gov/learning-and-resources/uspto-videos/basic-facts-about-trademarks-what-every-small-business-should>. See also: "Course 9: SBIR Data Rights" SBIR.gov." January, 1 2019. www.sbir.gov/tutorials/data-rights

Conclusion

Our nation increasingly faces significant challenges from competitors and adversaries that threaten the technological and industrial dominance the United States has maintained for decades. China and Russia have become strategic economic and political adversaries, posing both military and economic security threats to the United States and our allies. Despite a diminishing labor market and declining economy, Russia has made significant investments in its military capabilities, and China regularly uses predatory investment and intellectual property tactics to disrupt financial markets to undermine our supply chain. America's adversaries are rapidly expanding the military production output of their industrial complexes. In today's interconnected and globalized society, it is critical that the United States take a proactive approach toward making the right investments to strengthen our industrial base, bringing innovation and commercial technologies to strengthen our defense supply chain, and accelerating our technological superiority over our adversaries.

A dynamic, robust, and modernized small business participation in the industrial base is critical to the United States' efforts to maintain its technological superiority, military readiness, and lethality. This Strategy pursues a wide variety of methods to unlock small business capabilities, change the culture of the Department towards small business, and improve acquisition processes to simplify and enhance how small companies do business with the Department of Defense. In the execution of this Strategy, the Department will increase and improve workforce training, focus key innovation programs on small business participation, increase commercialization, develop the right tools for acquisition professionals, and streamline policy and regulations where appropriate. This multi-faceted effort will encourage every organization of the Department of Defense to support and promote these initiatives to create a more synchronized, modernized, and agile small business industrial base.

The Department of Defense believes in the ability of small businesses to provide innovative solutions to meet manufacturing and industrial base gaps and lead the way in the modernization of the defense industrial base. The importance of increasing small business participation within defense procurements is more than just meeting statutory requirements, it is critical to our national security, the protection of the warfighter, and the resilience of our nation's economy. Through implementing this Strategy, the Department will embed best practices across the Department of Defense that spur maximum small business innovation, increase entry points for small businesses into defense markets, and streamline regulation and policy to ease the process of our nation's innovators to contribute to Department mission requirements. These efforts will enhance our national security and invigorate a small business industrial base that can serve as the economic engine of the nation for decades to come.

Contact Information

For more information about the Office of Small Business Programs, please contact us at www.business.defense.gov.

Acronyms

A&S	Acquisition and Sustainment
AT&L	Acquisition, Technology, and Logistics
DFARS	Defense Federal Acquisition Regulation Supplement
DIU	Defense Innovation Unit
DOD	Department of Defense
DPA	Defense Production Act
ESG	Enterprise Strategy Group
FAR	Federal Acquisition Regulation
HUBZone	Historically Underutilized Business Zone Program
IBAS	Industrial Base Analysis and Sustainment
IT	Information technology
LRAF	Long-range acquisition forecasting
ManTech	Manufacturing Technology Program
MD5	National Security Technology Accelerator
MIBP	Manufacturing and Industrial Base Policy
MII	Manufacturing Innovation Institute
MPP	Mentor Protégé Program
MRL	Manufacturing readiness levels
NAICS	North American Industry Classification System
NDAA	National Defense Authorization Act
NDS	National Defense Strategy
NIST	National Institute for Standards and Technology
OSBP	Office of Small Business Programs
OTA	Other Transactional Authority
PSC	Product Service Code
PTAC	Procurement Technical Assistance Center
PTAP	Procurement Technical Assistance Program
R&E	Research and Engineering
RIF	Rapid Innovation Fund
RRTO	Rapid Reaction Technology Office
SBA	Small Business Administration
SBIR	Small Business Innovation Research
STEM	Science, technology, engineering, and mathematics
STTR	Small Business Technology Transfer
TRL	Technology readiness levels
TTAC	Technology Transition and Commercialization
CoP	Community of Practice



DEPARTMENT OF DEFENSE

Small Business Strategy

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