The Mid-Tier Challenge or a New Definition for Small

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As an organization that has long advocated for policies that support the growth and development of small businesses, we understand and appreciate SBA's recognition of the "cliff" that many successful small businesses face when they outgrow their size standard and lose access to set-aside contracting opportunities. However, it is also important to recognize that the small business set-aside program serves a broad range of companies—from startups and very small businesses to firms approaching the upper limits of their applicable size standards.

The fundamental question is whether increasing the size standards will truly address the challenges associated with business growth or simply create a new level of competition within the existing small business marketplace. Startups and smaller firms already face many of the same challenges that mid-tier companies encounter when competing in the full and open federal marketplace: limited past performance, fewer resources, challenges accessing capital, and difficulty competing against larger, more established companies.

Small businesses currently compete for a limited share of the overall federal procurement market. If larger companies are permitted to remain in the small business category for a longer period, will the federal government correspondingly increase the amount of procurement dollars or the number of opportunities reserved for small businesses? Or will this policy change simply result in a "food fight" over the same pool of set-aside dollars?

This is an important distinction. If the overall small business set-aside marketplace does not expand, increasing the size standards could unintentionally disadvantage the smallest businesses and startups by placing them in more direct competition with significantly larger and better-resourced firms. In other words, while the policy may help companies avoid the immediate consequences of the size-standard cliff, it may also shift that cliff further down the supply chain—creating new barriers for emerging businesses seeking to establish themselves in the federal marketplace.

SBA and policymakers should therefore consider whether changes to size standards should be accompanied by broader reforms that expand contracting opportunities, create meaningful transition mechanisms for growing firms, and ensure that startups and truly small businesses are not crowded out of the federal procurement system.

The key policy question is not simply how long a company should be allowed to remain "small." It is whether the federal marketplace is structured to support businesses at every stage of growth—from startups to small businesses, to successful firms that graduate beyond the small business size standards and must compete in the full and open market.