



April 21, 2017

Jeff Calhoun
Branch Chief, Integrated Workplace Acquisition Center
General Services Administration
100 S Independence Mall W
Philadelphia, PA 19106-2320

Subject: Schedule 71 Maximum Order Threshold (MOT)

Dear Jeff,

The Coalition for Government Procurement appreciates the opportunity to submit the following comments regarding the Maximum Order Threshold (MOT) on Schedule 71.

The Coalition for Government Procurement (The Coalition) is a non-profit association of firms selling commercial services and products to the Federal Government. Our members collectively account for tens of billions of dollars of the sales generated through the GSA Multiple Award Schedules (MAS) program, VA Federal Supply Schedule (FSS), the Government-wide Acquisition Contracts (GWAC), and agency-specific multiple award contracts (MAC). Coalition members include small, medium, and large business concerns that account for more than 55% of the sales on Schedule 71. The Coalition is proud to have worked with Government officials for more than 35 years towards the mutual goal of common sense acquisition.

Function of the Maximum Order Threshold

Historically, the MOT has served two purposes. First, for all government orders over the MOT the buyer was required to take additional steps to ensure competition and request an additional discount from the vendor. Second, it provided a threshold for which non-Schedule orders larger than the MOT will not trigger the Price Reductions Clause (PRC). This process was altered in 2011 with the changes in MAS ordering.

Under the updated ordering procedures, the MOT was replaced by the Simplified Acquisition Threshold (SAT) as the level at which government buyers are required to ensure competition and request additional discounts. These changes were implemented to comply with Section 863 of the National Defense Authorization Act (NDAA) for 2009, which aimed to increase competition in the Schedules.

With these changes implemented, the only remaining purpose of the MOT is to provide a regulatory exception to the PRC. The Coalition has advocated since the implementation of the new MAS ordering procedures in 2011 that GSA set all MOT's for the Schedules program at \$150,000. This change would support the statutory decisions to increase competition in the

Schedules and reduce the burden on contractors which will lead to better prices for government buyers.

Competing in the Commercial Marketplace

GSA has historically set individual MOTs for each Special Identification Number (SIN) classification, and required that the PRC be monitored at this level. This creates a significant burden for Schedule contractors. Simply put – SINs do not exist in the commercial marketplace. Opportunities are competed at the project level, where it is common to provide a single discount for the entire opportunity with a mix of products. Monitoring the PRC at the SIN level is unnatural. The Coalition believes that a single MOT should be established for the schedule. Meaning, that MOT can be met by combining all products within a single project. This would hold true for both a government order, as well as a commercial order.

Price Reductions Clause

The Coalition has long advocated for the removal of the PRC, because it is anti-competitive, discourages companies from using the Schedules, and does not lead to better pricing for buyers. Ultimately, competition at the task order drives competitive pricing. Because it beyond the scope of this working group, the Coalition is not expecting the removal of the PRC from Schedule 71, but lowering the MOT to \$150,000 for all orders is an important step towards reducing the burden of the PRC for contractors. Setting that MOT to \$150,000 would mean that all commercial orders over \$150,000 would not trigger the price reductions clause – significantly reducing the compliance burden for Schedule 71 contractors.

In an analysis of price reductions conducted between October 2013 and August 2014, GSA found that 3 percent of price reductions on Schedule were the result of the tracking customer feature of the PRC. The same study showed that almost 80 percent of price reductions were the result of market forces. The PRC, and by extension the current structure of MOT's above \$150,000, do not lead to better prices for government buyers. If anything, the current structure of the PRC leads to higher compliance costs, which are passed onto buyers in the form of higher prices.

Moreover, Schedule contractors report that price reductions are driven in response to specific requirements at the task order level. In fact, when the Coalition asked its members about what drives price reductions for their Federal customers under the Schedules program, *member companies of all sizes overwhelmingly reported that competition in response to known requirements is the most significant driver of reduced pricing for customer agencies.* Despite Schedule contractors' constant effort monitoring the basis of award customer for potential price reductions to the government, actual price reductions as a result of the PRC rarely materialize.

Summary

Due to the changes to MAS ordering procedures and the changes in the commercial market since the creation of the PRC:

- Higher MOT does not benefit customer buyers

- Higher MOT increases the PRC burden for vendors, which in turn leads to higher compliance costs that are passed on to the government in the form of higher prices
- SINs do not exist within the commercial market place, driving increased complexity and costs in regards to monitoring commercial transactions.
- The PRC no longer has practical utility and does not lead to lower prices

The Coalition recommends that the IWA Center set the Schedule 71 MOT at \$150,000 for all orders. This change would reduce the burden of Schedule contractors which will in turn lead to better prices for customer agencies. GSA's leadership has accepted that the PRC is outdated.¹ Additionally, the Coalition remains hopeful that alternatives can be developed, but in the meantime setting the MOT to \$150,000 for all orders would be an effective way to minimize the burden of the PRC. Minimizing the burden of the PRC will ultimately lead to better pricing, encourage more companies to enter the Federal market, and drive competition at the task order level.

Thank you for considering the Coalition's comments concerning the Maximum Order Threshold on Schedule 71. If there are any questions, please contact me at (202) 331-0975 or rwaldron@thecgp.org.

Sincerely,



Roger Waldron
President

¹ "For many years, the tracking customer feature of the PRC was a critical mechanism for enabling GSA and its customers to maintain good pricing from original equipment manufacturers who held the vast majority of FSS contracts. However, changes in the Federal market have lessened the impact of the tracking customer mechanism over time." GSAR Case 2013-G504 Transactional Data Reporting