



August 1, 2014

Mr. Jeffrey Koses  
Deputy Chief Acquisition Officer/SPE  
GSA Office of Acquisition Policy  
1800 F Street, NW, #2223D  
Washington, DC 20405

Dear Jeff,

The Coalition continues to have concerns regarding the impact of the Price Reduction Clause (PRC) on the ability of contractors to compete in both the commercial and federal markets. The impact is so significant that in 2013 GSA waived application of the clause to facilitate competition for a strategic acquisition by a federal customer. More recently, a Federal Strategic Sourcing Initiative decided to use a non-Schedule contract platform due, in large part, to the costly and restrictive provisions of the PRC. This development is troublesome as it causes unnecessary contract duplication across the federal government. The federal government can no longer afford the administrative burdens and overhead costs associated with the PRC; costs and burdens that are a drag on both Multiple Award Schedule (MAS) contractors and federal end-users.

The Coalition requests that GSA waive application of the clause in its entirety, pending a rewrite of applicable regulations. A waiver of the PRC will reduce transactional and overheads costs for all, promote competition and increase opportunity in the commercial and federal markets. Alternatively, as a first step, we ask that GSA waive application of the clause to pricing offered by a MAS contractor when the contractor is a subcontractor on other federal prime contracts. We believe that such a waiver:

- Would have an immediate positive impact on customer agencies and contractors
- Is consistent with GSA Policy on price reductions to federal agencies
- Can be accomplished within GSA's own authority and
- Is consistent with GSA's waiver of the PRC for subcontracts under the Air Force's commercial office furniture strategic sourcing contracts

As you know, the PRC requires that MAS contractors reduce their GSA contract price if they reduce prices to a commercial customer that was the basis for award. This requirement is problematic for many reasons, but particularly so when the MAS contractor is a subcontractor to a prime on another federal contract. In such cases the Government is the actual end user. Most companies consider this transaction to be a sale to the Government. Absent the PRC, subcontractors will often deeply discount products or services to a prime contractor in order to facilitate the sale to the Government. GSA, however, considers this a "commercial" transaction which could trigger a price reduction. Specifically, the clause is triggered when the federal prime is included in the MAS contractor's basis of award.

This application of the PRC harms both the MAS contractor and ultimately, the federal end user. The contractor is harmed because the clause limits its ability to freely compete. A price on a single opportunity could trigger a price reduction for all future orders under the contract. Moreover, the MAS contractor is competitively disadvantaged when it competes with entities that do not have similar contract liabilities. The PRC in effect, constrains MAS contractors from offering lower prices to a federal prime contractor who in turn passes on the higher pricing to the Federal customer. More significantly, the competition for the subcontract is restricted due to the potential nexus between the subcontract and application of the PRC.


The policy disproportionately impacts medium and small MAS contractors. To the extent a lower federal subcontract price triggers the PRC, small and medium sized MAS contractors will be hamstrung in competing for such requirements. They will be able to go only so far in offering competitive federal subcontract pricing while not triggering the PRC. Under such circumstances small and medium sized MAS contractors will be competing for federal subcontracts with one arm tied behind their backs. These are the very businesses that generally rely heavily on subcontracting opportunities in the federal marketplace.

The federal customer is harmed as it will not receive the best products or services, at the best prices for its specific volume and terms. The practical impact of the GSA policy is to reduce the number of contractors that can compete. MAS contractors that do compete likely will not propose the lowest possible subcontract prices since under the terms of the PRC that price may become the new MAS contract price. In summary, the PRC reduces competition and results in static or higher pricing for subcontracts involving MAS contractors. Ultimately, the taxpayer loses since payment under the federal prime contract will include the prime contractor's increased subcontract costs.

The consequences of this application of the PRC are very similar to those of MAS pricing policies of the early 1990's. At that time, if a MAS contractor offered a lower price to one federal agency, the order price became the effective price on the MAS contract for all agencies. The result of this policy was reduced competition for MAS orders. GSA eliminated this policy in the mid 1990's as part of the reform of the MAS program and in response to critics of the static, uncompetitive pricing structure. The elimination of this policy lead to more dynamic MAS pricing through increased price competition at the order level.

In view of the impact on customers and contractors, we request that GSA waive application of the PRC to pricing offered by a MAS contractor when the transaction involves a MAS contractor performing as a subcontractor on other federal contracts. Please feel free to contact me with any questions about this request. I look forward to discussing this important issue with you.

Sincerely,



Roger Waldron  
President