

WRITTEN TESTIMONY FOR THE RECORD

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FOR THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

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Chairman Carper, Ranking Member Coburn, and Members of the Committee: The Coalition for Government Procurement (the Coalition) appreciates the opportunity to provide written testimony to address “Strategic Sourcing: Leveraging the Government's Buying Power to Save Billions.” Included in this testimony are specific recommendations that will result in even greater taxpayer savings than the current strategic sourcing approach.

The Coalition is a non-profit association of firms selling commercial services and products to the Federal government. Collectively, our members account for about half the commercial item solutions purchased annually by the Federal government. Members include small, medium, and large businesses from across the commercial marketplace including office supply, furniture, professional services, information technology, and maintenance and repair companies. Our members have been involved in many of the government’s strategic sourcing acquisitions to date. Next year will mark our 35th anniversary as an association. We are proud to have worked with government officials during these years toward the goal of common sense acquisition that delivers best value to customer agencies and the American people.

The Federal government has a significant opportunity to “buy smarter and save” through the adoption of certain strategic sourcing principles. The current strategic sourcing approach used by the government focuses on reducing the supplier base, collecting transactional data, and driving unit prices down. The strategy misses significant opportunities to save taxpayer dollars by:

- Improving the way items are managed,
- Better developing government technical requirements,
- More effectively leveraging volume, and
- Streamlining procurement processes.

Strategic sourcing savings estimates focus on the final prices paid by Federal agencies but do not account for taxpayer investment in the creation and long term management of new strategic sourcing programs government-wide. The government reports large savings due to strategic sourcing efforts to date. The Coalition urges that there be greater transparency in how these savings are calculated. Moreover, as the government looks to increase its use of strategic sourcing, the Coalition recommends a broader approach to achieving savings that: 1) measures and reduces total acquisition costs, 2) addresses the growth of duplicative contracts government-wide, and 3) maintains a competitive Federal supply chain in the long term.

I. Measure Total Acquisition Costs

Strategic acquisition involves effectively managing the total acquisition costs throughout the procurement process. Total acquisition costs include not only the prices paid for products and services, but also transactional and administrative costs incurred by Federal agencies that are less visible. Examples include the costs of planning and conducting acquisitions as well as contract management throughout the life of the contract. Total acquisition cost also focuses on more than the contract process. It considers what the agency buys, and how an item is managed. These costs and opportunities for savings can be far more significant than reductions in the unit price of an item.

Government unique contract and procedural requirements also increase the procurement system's total acquisition costs. The last decade has seen a layering on of government unique clauses, regulations and performance requirements for commercial items. In particular, over the years there has been a significant increase in additional government clauses on commercial item contracts in the Federal Acquisition Regulation. In turn, agencies have also added their own unique requirements that are inconsistent with what is available in the commercial market. These government unique provisions increase risk and operational costs for contractors, resulting in higher

prices for government. Due to the additional costs associated government unique requirements, rather than getting the best competitive pricing for a specific requirement the best the government can achieve is the “best of the worst market pricing.”

The current Federal Strategic Sourcing Initiative (FSSI) involves the use of government-wide Federal Supply Schedule (FSS) Blanket Purchase Agreements (BPAs). The Coalition supports the use of Federal Supply Schedules as a platform for government-wide strategic sourcing initiatives. The current strategies however do not effectively leverage the benefits of the Schedule vehicles.

FSSI BPAs do not include specific customer requirements. The BPAs include a host of costly and complex administrative terms and conditions. Moreover, the process for planning, competing and establishing these FSSI BPAs is very costly. In order to recoup its costs of establishing these BPAs, the General Services Administration (GSA) has included an additional fee to customer agencies, beyond the FSS’s industrial funding fee, for use of the government-wide FSSI BPAs. As a result, a GSA customer agency pays a higher fee for competing orders under the FSSI BPA than when competing orders under FSS contracts. At the same time, competing the order under the FSS contracts will likely result in similar price savings as utilizing a competition under the FSSI BPAs.

A more cost effective strategic sourcing approach would be the promotion and use of agency-specific BPAs that are based on firm requirements and volume commitments. This would allow those closest to the requirements, the end-user agencies, to craft BPAs that are fully responsive to their needs. This approach provides the opportunity to include volume commitments that would enhance competition and deliver greater agency savings. These agency savings in turn could be reported to the Office of Management and Budget as part of FSSI.

With regard to the savings associated with the current FSSI BPAs, the accuracy of strategic sourcing savings estimates available today is unclear. As noted in GAO

Report 12-178 “Strategic Sourcing: Office Supplies Pricing Study Had Limitations, but New Initiative Shows Potential for Savings” published in December 2011, GSA has relied upon a comparison between FSSI BPA pricing and FSS contract level pricing in order to calculate strategic sourcing savings. However, in many respects this is a misleading comparison in that Federal agencies rarely pay the FSS Schedule price for orders with specific requirements. Instead, the final prices paid by the Federal agencies under the FSS program are typically discounted from the FSS contract price through task or delivery order and/or BPA competitions for specific agency requirements. Indeed, there are statutory and regulatory mandates requiring competition for task orders under FSS contracts. A more accurate approach would require the government to calculate strategic sourcing savings by comparing actual prices paid by Federal agencies under task orders and BPAs with FSSI BPA prices.

Measuring total acquisition cost is critical to understanding how much taxpayers are actually saving and the associated costs and benefits of strategic sourcing programs. That is why the Coalition supports the transparent review of the costs and purported savings associated with establishing the FSSI government-wide BPAs.

II. Reduce Non-value Added Contract Duplication Costs

A significant cost driver for the entire Federal procurement system is contract duplication. Across the Federal enterprise there are too many contract vehicles that offer the same or similar services and products. According to Bloomberg Government, the number of multiple award contracts (MACs) government-wide increased by more than 750 between 2006 and 2011. When both the government and private companies invest in duplicative contracts, the result is increased government and contractor administrative, bid and proposal costs without added value for the American taxpayer. Overlapping, redundant contracts also have to be managed by both the public and private sectors causing inefficiencies within and across Federal agencies and in companies for the life of these contracts.

The bid and proposal costs that contract duplication compounds for companies include, but are not limited to, business development, teaming, capture management, proposal development, pricing, negotiations, and decision-making. The costs of these efforts are multiplied by new procurements and exasperated by the extension of these procurements.

In addition, contract administrative costs include overseeing subcontractors, responding to task and delivery orders, compliance and reporting, as well as marketing for new opportunities. Typically contractors will establish a program office to manage individual contracts. Contractors that hold multiple contracts for the same goods and services must increase investment in these overhead activities to accommodate the unique requirements of each contract. These contract administration functions can account for millions of dollars in non-value added costs. Not only does the government pay for these costs in prices offered by the contractor, but it also covers significant pre-award and post-award costs involved in the administration and management of duplicative contracts.

To reduce the number of duplicative contracts across the Federal enterprise, agencies should utilize pre-existing government-wide contract vehicles like the GSA FSS program and the information technology government-wide acquisition contracts (GWACs). The Coalition strongly supports the use of the agency specific BPAs established throughout the FSS program for strategic sourcing. GSA's FSS program is the most successful shared services model in government. Agencies can compete and order items directly from existing contracts rather than go through the long and costly process of establishing their own contracts. FSS contracts account for over \$50 billion in government purchases annually (including GSA and FSS contracts delegated to the Department of Veterans Affairs). Customer agencies rely on the FSS contracting framework to compete and place tens of thousands of delivery and/or task orders effectively each year. It is a shared services framework that empowers customer agencies and contractors to focus on requirements and pricing at the task order

competition level rather than through lengthy, cumbersome and costly contracting processes and procedures.

Rather than creating new strategic sourcing vehicles for products and services, like the FSSI contracts, the Office of Federal Procurement Policy should direct customer agencies to utilize GSA's FSS program for requirements and avoid creating duplicative multiple award contracts. Competing orders and/or establishing BPAs under the FSS program for agency specific requirements will reduce costs in the Federal procurement system and drive efficiency.

III. Long Term Impact of the Federal Strategic Sourcing Initiative

The Coalition is concerned that the FSSI program will have a negative impact on the Federal supply chain in the long term—by reducing the number of suppliers (in pursuit of short term lower pricing) and by closing the Federal market to businesses nationwide.

Today GSA's FSS program provides more than 20,000 established contracts that bring millions of commercial services and products to the Federal marketplace. The FSS program's continuous open season policy allows companies to enter the Federal market everyday like the commercial marketplace. Under continuous open seasons, companies can submit offers to GSA any work day of the fiscal year. This model provides new commercial firms of all sizes with an ongoing opportunity to participate in the vital Federal marketplace. In particular, continuous open seasons provide opportunities for small businesses seeking to enter the federal market. As a result, competition is enhanced, and the government gains access to the latest commercial services and products.

The current practice of closing FSS contracts to new offers after a FSSI contract is established shuts out potential new entrants and innovation from the Federal market. This departure from the policy of continuous open seasons makes it difficult for new

companies, especially small businesses, to enter the Federal market and limits competition which is the basis for driving lower prices. Symbolically, it also represents a lack of faith in the dynamic competition of the commercial marketplace.

Finally, of great concern is the potential move by GSA and OMB to government-wide mandatory use contracting vehicles. Mandatory use represents a closing of the federal market to commercial firms. This is especially a concern for small businesses that rely on the government market. Mandatory use is also high risk to the government as it creates the potential for contract breach liability if a customer agency acquires items from other than the mandatory contractors. Significantly, in the 1990's certain FSS contracts were mandatory use for all government. GSA paid these mandatory use contractors millions of dollars in contract breach claims as a result of customer agencies acquiring items from other sources.

IV. Recommendations

As the government increases its use of strategic sourcing, the Coalition recommends the following to maximize savings and increase efficiencies in the Federal procurement system:

1. **Reduce Contract Duplication:** The Office of Management and Budget should require Federal agencies to utilize pre-existing government-wide contract vehicles to procure services and products like FSS contracts and the information technology government-wide acquisition contracts to the maximum extent practicable.
2. **Measure and Reduce Total Acquisition Costs:** Include total acquisition cost when calculating the savings achieved through strategic sourcing. The total acquisition cost should include the government's administrative costs for planning, conducting acquisitions, data collection, and contract management.
3. **Put "Commercial" back in Commercial Item Contracting:** Identifying and eliminating government-unique requirements in favor of commercial practices

will greatly reduce the additional costs involved in doing business with the Federal government and drive more competitive pricing for agencies and the American taxpayer.

4. **Utilize BPA Best Practices:** Adopt the best practices outlined in Attachment 1 with a focus on utilizing agency-level strategic sourcing BPAs with specific volume commitments rather than generic government-wide contracts.

V. Conclusion

Mr. Chairman and Members of the committee, the Coalition for Government Procurement is encouraged that you are focusing on how strategic sourcing principles can best be used to leverage the buying power of the Federal government. Implemented appropriately, strategic sourcing presents a significant opportunity to drive considerable cost savings and improve the efficiency and effectiveness of the Federal procurement system. We appreciate the opportunity to offer written testimony on this important subject and stand ready to provide you with additional input at your request. Thank you.



Best Practices for Establishing Blanket Purchase Agreements

The GSA Schedule program provides agencies with an excellent platform to acquire commercial services, solutions and products at reasonable prices. Agencies can forge relationships with commercial partners and further leverage their buying power by establishing Blanket Purchase Agreements (BPAs). The regulatory requirements for establishing BPAs are set forth in FAR 8.4. In addition to complying with the regulatory requirements, there are specific strategies that have proven to be successful in allowing an agency to structure BPAs in a manner that increases the ability of GSA Schedule contractors to respond in a more competitive manner. This paper sets forth best practices that have resulted in BPAs that are successful for both federal agencies and GSA Schedule contractors.

Overview

Commercial contractors overwhelmingly report that they offer their best terms and prices to customers who provide the most detailed information about their requirements and usage. Commercial customers that get the best deals share the following traits. They have:

1. Known, requirements which they share with potential suppliers
2. Commitment to acquire a specific volume
3. Centralized program management
4. Strategies for partnering with suppliers

Specific information about the factors listed above, when included in a statement of work, have great potential to enhance the Government and industry's ability to provide best value to the taxpayer.

Specific requirements, volume commitments and/or guaranteed minimums for BPAs will lead to enhanced competition and better pricing. Generic BPAs that rely on subsequent task order competitions introduce a level of complexity and cost that is counterproductive.

Best BPA Practices

The following practices have resulted in BPAs that improve efficiency and enhance real competition while providing best value to the government.

1. Focus on requirements. BPAs should be structured with a focused set of requirements to enhance effective competition and pricing. Real requirements lead to real price competition in the FSS ordering process.

- BPAs reflecting single agency requirements should be preferred over multiple agency or government-wide BPAs. Single agency BPAs allow the government to state specific, realistic, authentic requirements that can be accurately priced.
- Include maximum as well as minimum requirements. This information enables bidders to provide targeted pricing and avoid the need to build in cushions to cover risks and changes that may never materialize.
- Include a sound estimate of the government's anticipated usage

2. Include real economic incentives for competition. Commercial pricing policies commonly extend favorable pricing to customers with terms and guarantees that offer the company an economic benefit. Economic incentives include:

- A commitment to acquire a guaranteed minimum volume.
- Absent a guaranteed minimum the BPA can include a list of required users
- If an agency cannot commit to a guaranteed minimum or list of required user, the BPA should be evaluated based on technical requirements only; price can be established based on competition among technically qualified BPA holders at task order level

3. Pay attention to BPA management. Major BPAs should have a program manager assigned to ensure effective execution, implementation and administration. Too often BPAs are established without a focused management plan for effective use. Program Managers can be particularly effective in:

- Establishing robust communication between the contractors and end users to continually improve the contract administration
- Eliminating unnecessary administrative requirements that add unnecessary costs to the process
- Monitoring agency ordering
- Periodically reviewing BPAs to ensure continued best value.

4. To the extent allowable, involve industry partners in the development of acquisition strategy. The Government should use industry meetings and statements of work to share statements of the agency objectives. In some cases, agencies are focused entirely on negotiating low price and may miss opportunities to acquire new commercial solutions that could improve

the delivery of services or provide cutting edge technology. Agencies may also be focused on lowering the unit price of products or services without considering more significant opportunities to lower the total cost of operations by changing what or how they buy. Fully incorporating industry discussions early in the process can open opportunities for suggestion new, cost saving strategies from commercial partners.

5. Eliminate “generic BPAs” (no stated users, no minimum volume, broad statement of requirements). Generic multiple award BPAs that rely on subsequent task order competitions add an extra level to the FSS ordering process that is unnecessary and should be avoided. These BPAs represent vertical contract duplication and increase costs for both government and industry. Moreover, any price competition when establishing these BPAs is illusory. Subsequent BPA task order competitions for specific requirements establish the real price paid by the government—it is more efficient to compete these requirements directly against GSA Schedule contracts.