The Impact of indifference by GSA and Congress on agencies, small businesses and taxpayers

"Hey, it's the Federal, or State, Government. What can you do?" This is the all-too-frequent response by people who know the processes, the results caused by these processes and the obvious and easy solutions.

Saving money and promoting small businesses is NOT a zero-sum game, they CAN co-exist. In fact, it's quite easy when true competition and recognition of innovation are made part of the process. We do this in our personal lives yet the GSA's Federal Strategic Sourcing Initiative (FSSI) and our Congress do not seem to recognize this as being important for the spending of federal dollars. This indifference to the facts and apathy are destroying opportunities for small business, wasting limited and dwindling agency resources, all while putting the health and safety of our citizens at risk. Our industry is frustrated because the answers are already there – the right questions just have to be asked.

Currently, FSSI and Congress are pursuing changes in procurement that are purported to leverage volumes, reduce product and administrative costs and utilize best practices. Unfortunately, the changes undertaken will achieve little of their goals and actually create significant problems for customers/agencies, taxpayers, and vendors of all sizes and types. Worse, facts and tangible examples already prove this; yet, they are being ignored or summarily dismissed. Why aren't the relevant questions about hidden incentives, best practices, data availability and reports from CDC and CM being asked? Why, if the GSA is serious about change, are they continuing the same process?

The obvious conclusion is that the process is more important than the results.

There is a simple solution and it's been offered repeatedly to those responsible for making the right decisions – transparent pricing to eliminate hidden incentives, focus on real results, use of industry best practices and finally compliance.

The two contracts currently being changed by FSSI collectively, represent over $10B in annual spend. Direct and immediate savings from the solution above will provide over a BILLION dollars annually in price alone; with additional savings in reduced labor and administrative costs. All accomplished while increasing opportunities for small and medium businesses AND improving the health and safety of our workers and children. Apply this transparent savings approach to other areas of government spend, like IT and pharmaceuticals at the state and federal levels, and we're talking money that will go a long way to reducing the impact of sequestration while reducing the deficit.

Again, it's not a zero-sum proposition and the benefits are real and immediate when the right questions are asked.

Key Facts

Many key facts have been discounted in the process to date. Below are those with the most impact:

- Customers (i.e. agencies) of similar contracts are too often unhappy with both price and service of mandatory contracts that don't meet their needs or expectations;

- Costs are higher than they should be because large vendors/distributors leverage these contracts to give themselves favorable trade terms not available to others bidding on similar customers and contracts;
- Best practices in product selection, usage and inventory management are intentionally not part of the evaluation criteria but are the services offered by the distributors;
- Specific "rules and tools" for compliance to legislative, contract and other programs are nearly non-existent;
- The GSA has claimed the data doesn't exist – so not true it would be laughable if not so serious.

The bidding process is NOT competitive. If it were, then distributors would be bidding on the value and price of ***their*** services, not product prices. A truly competitive bid would have the real manufacturer prices available to all distributors and known by the customers. These are prices ONLY available to the federal government so any unjustified variation is restraint of trade. Agencies/Customers would know they are getting the best price possible based on their own volumes and incentives used to favor one distributor or one product over another would be eliminated. These incentives, and hidden gross margins 50% higher than competitors, are part of the status quo FSSI is promoting at the expense of customers and competitors. Transparency in pricing eliminates this inequity and opens up opportunities for all bidders, large and small, and reduces the true costs of set-asides. There is a reason distributors who are public companies brag about their "above average" margins, their "growing trade allowances" and their fantastic stock appreciation – they leverage contracts, like the ones here, to THEIR advantage, not the customers or taxpayers. All of this information is publicly available.

The vast majority of requirements defined by FSSI are actually an affront to the innovations in supply chain over the last 40 years. Every manufacturer has a best practice on which products to buy and how to use them to the best results, called "cost-in-use" programs. With 85% of the cost of cleaning a labor expense, manufacturers have spent millions of dollars and man-hours developing processes to reduce labor and product costs that are used every day by hospitals, restaurants, hotels and schools. Not important for FSSI, but an industry best practice for years. Nearly every distributor offers a type of "best practice" in inventory management, ordering, payments, etc., yet none of these are identified in the bid request. What is promoted is the use of additional levels of technology that each charge a fee to customers and/or vendors that, in aggregate range from 3% to 7%, fees that are built into the prices ultimately paid by taxpayers.

Contract and legislative compliance is a failure, as shown by the few audits performed and many analyses publicly available using public data. A recent audit of a large DoD contract showed a complete failure to comply with requirements to refund volume incentives by manufacturers. The vendor response was they had no intention of complying because they never had the accounting functionality. The immediate impact was higher food costs for our service men and women in combat zones who are now facing elimination of one of their most treasured *comforts*, a hot meal when they return to base at night. There are many other audits and analyses of other contracts that prove these problems are common and pervasive.

And if further proof is needed, many customers (i.e., agencies) of similar government contracts have unambiguously shown their frustration by buying "off contract" when possible, typically supported with proof that are able to obtain better pricing and service levels on their own. Low compliance, in this case, is a direct result of a contract that was so broadly written and poorly executed that customers felt they had no choice. The process was followed, but the results were unacceptable.

The GSA's plan is to award a single contract with a few small "set-asides" to deflect criticism. However, with few exceptions, these groups, all small businesses, would rather be afforded the opportunity to bid on as much as they can service given a level playing field – a field leveled ONLY with transparent pricing and consideration of each bidder's innovation and value to the customer.

The GSA team has argued that they are doing a great job of following the process and have identified selective "data" to support their compliance with the process. The process was designed to generate desired results and trust. The real results are anything but and trust is non-existent, just ask our industry. ISSA, our trade group is more active in opposing the GSA effort than they've ever been because of the long and short-term negative impacts.

Simple Solution

These facts clearly show there isn't a level playing field in the bidding process; customers (and taxpayers) pay more than they need to and there is no interest in using facts and audits to evaluate both the process and the results. What components are missing in the GSA contracts?

- Transparency in pricing from manufacturer to distributor to ensure a level playing field similar to Costco's Business Prescription Plan manufacturer national account teams – clearly an existing best practice;
- Outcomes/results versus products, the minor cost component;
- Compliance to legislative and contract requirements;
- Metrics and data to not only prove the above three points but to also show a commitment to communicating to all interested parties.

No one believes that these questions CANNOT be asked and all it takes is GSA and Congress asking if any of these conclusions are true. Are there pricing "shenanigans" going on between the manufacturers and distributors that restrict competition like there were in the 1990's, which, resulted in a class action settlement? Do manufacturer "national direct account teams" exist and what is the value to the customers and the manufacturer? Are there studies from the CDC and healthcare researchers that should be considered when making decisions about the health and safety of Americans? What are the best practices in legislative and contract/audit compliance and should they be part of the RFP process?

It's time to ask Congress to not sit idly by, showing indifference, letting the GSA go down this clearly destructive path. Edmund Burke said, "The only thing necessary for evil to triumph is for good men to do nothing." Apathy and indifference are evil to America and we hope there are enough "good men and women" in Congress to do something, the right thing. It is their responsibility and begs the question, "is it ethical to do nothing?"