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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

B-114807

NOV 27 1973

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The Honorable Arthur F. Sampson
Administrator
General Services Administration

Dear Mr. Sampson:

We have surveyed the policies and procedures of the Federal Supply Service in awarding Federal Supply Schedule contracts to fill the needs of Government agencies for certain common-use items. We are evaluating the information obtained during the survey to determine what areas appear to offer a high potential for improvement. One of these areas, agency use of Federal Supply Schedules, is currently under review.

The purpose of this letter is to present for your consideration a suggestion to limit the number of Schedule contracts awarded for similar products, in order to (1) increase competition and obtain better prices and (2) simplify agencies' use of Federal Supply Schedules.

In negotiating Schedule contracts for similar competitive items, there is no limit to the number of responsive and responsible suppliers that can be awarded contracts provided they offer a discount from their catalog prices that the Federal Supply Service determines to be reasonable. To measure reasonableness the Federal Supply Service generally requires suppliers to offer a discount at least equal to the largest discount given to any other customer. Since most suppliers can obtain a contract if they desire, competition among them is relatively limited.

To get an indication of the number of contractors supplying similar products, we selected and analyzed 5 of the 51 Schedules of negotiated contracts. The 5 Schedules listed 97 items for which contracts had been awarded. The number of contractors available to supply each item is summarized below.

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Number of contractors	Number of items
1 to 5	49
6 to 10	25
11 to 20	11
21 to 30	5
31 to 40	5
41 to 60	2
	97

There were 872 contractors available to supply the 97 items. To order from the Schedules, an agency must maintain an inventory of current Schedules, including amendments, and contractor catalogs, price lists, or brochures.

A 1972 Federal Supply Service study of purchases made in the Boston area pointed out that, because of the number of Schedule contractors for similar products, (1) agency resources often were not adequate to maintain a complete and current library of the Schedules and (2) many agencies bought desired items locally rather than search through the numerous Federal Supply Schedules.

We found that for a number of products competing contractors had a relatively equal sales distribution. No one contractor received a significant majority of the sales. This indicated that purchasing agencies may not have had a strong preference or need for a specific competitive product. To determine the feasibility of limiting the number of contracts for similar products, we selected from the Schedules and analyzed 24 high-dollar-volume items. Eleven of the 24 items--comprising $40 million of $134 million in annual sales--had relatively equal sales distribution. Shown below is an example of one of the eleven items.

Contractor	Sales	
	Amount (millions)	Percent
A	$1.0	19
B	0.7	13
C	0.5	11
D	0.5	10
E	0.5	9
F	0.3	7
G	0.4	7
38 others	1.2	24
Total 45	$5.1	100

It appears that limiting the number of contracts for similar products would alleviate the need for agencies to maintain large numbers of Schedule-related catalogs and would encourage increased competition among suppliers. Suppliers would be informed that those who initially offered the largest discounts would receive preference in contract awards, but those who offered smaller discounts might not receive contracts. Increasing competition by limiting the number of suppliers would be in keeping with the basic Federal requirement that all purchases and contracts, whether by negotiation or by formal advertising, be made on a competitive basis to the maximum practicable extent.

Contracts would be awarded successively to the responsible supplier offering the largest discount and then to the next highest offerors, until a sufficient number of contracts had been awarded to meet the Government's procurement requirements and to provide a reasonable degree of product selectivity. This procedure should provide suppliers with an incentive to submit their largest discounts at the outset so that they would receive favorable consideration for a contract award. Agencies would still be required, in accordance with Federal Procurement Regulations, to select from contractor catalogs the lowest priced items that met their particular requirements.

Federal Supply Service officials stated that it had not been their policy to select or otherwise limit the number of negotiated Schedule contracts. They agreed that limiting the number of contracts, when practicable, had merit and they planned to test this concept in future procurements.

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We shall appreciate receiving your comments on this suggestion and shall provide any additional information you request.

Sincerely yours,

R. W. Gutmann

R. W. Gutmann
Director