

Rozycki Associates

*Pointing The Way To Success
In Government Sales*

White Paper #1
Dana Rozycki, Rozycki Associates
Copyright 2003

GSA Opens IT Schedule to State & Local Governments - But Prudent Contractors Should Carefully Evaluate These Changes

On May 7, 2003, the US General Services Administration (GSA) issued an interim rule allowing state, local, regional and tribal governments to purchase directly from Group 70 IT Schedule contracts.

However, it is likely that the adoption of this option will vary widely on a state-by-state basis.

While this program may succeed in the long run, contractors should consider it a long-term effort rather than an immediate solution for state and local sales.

I. Background

The question of whether state/local governments should utilize GSA Schedules goes back at least a decade.

Certain groups have always fought to give states access to the Schedules, while other interests have consistently struggled to prevent it.

Large IT companies have led the charge to open the Schedules to the states, seeking to leverage their existing GSA contracts to target all levels of government from local school boards to state universities. They see great economies of scale in negotiating one centralized contract for use with any government entity in the US.

On the other side have been many small IT companies. Small IT companies, especially hardware and software resellers, fear that by opening Schedules to the states they would lose their protected status as local providers to state governments and be trampled by major federal resellers such as CDW Government or GTSI, dealers operating on razor-thin margins. The companies could easily muscle small local firms out of the way with their rock-bottom GSA pricing.

While it appears that the large business interests have finally won their fight, there is one additional stakeholder whose interests may not have been considered when this legislation was passed: the state and local governments themselves.

PO Box 83
Larchmont, NY 10538
voice: 914/235-3630
fax: 877/482-8962
web: gov-contracs.com

Rozycki Associates

Pointing The Way To Success
In Government Sales

Many state and local governments have already been able to receive GSA Schedule pricing (although not formally use the contracts) in one of two ways:

1. Leverage the GSA contract by adapting it to their own use; this entails issuing a short set of additional terms and conditions that ride on top of the GSA Schedule. This makes the contract legally binding to the state while preserving the deep GSA discounts. California's CMAS program is a prime example of such a program.
2. Simply *asking* for GSA-level pricing; sometimes it's just that simple! Many GSA contractors, knowing that state/local governments will give favorable consideration to GSA-level pricing, will simply offer it if asked (see Note 1 at the end).

However, in spite of the fact that states can often already receive GSA-level pricing, GSA has expanded the scope of the IT Schedules to include the states. It is therefore worth taking a quick look at the proposed regulation.

II. Current Legislation and Rulemaking

The current rule was created in response to the E-Government Act of 2002, which directed GSA to create a process under which state and local governments could purchase IT products and services directly from Group 70 IT Schedules.

The final rule will codify the way Group 70 contracts are to be open to "the 50 states, 3,129 counties, 19,365 incorporated municipalities, 30,386 minor subdivisions, 3,200 public housing authorities, 14,178 school districts, 1,625 public educational institutions of higher learning, and 500 Indian tribal governments", according to the Federal Register notice.

The program is voluntary in that a contractor would not be obligated to accept orders from these customers, and these customers would not be obligated to use the GSA Schedule. The transaction is entirely between the contractor and the state/local agency without the federal government's intervention.

Since the underlying GSA Schedule would be utilized, however, the Industrial Funding Fee would still be due on any sales made.

III. Implications for Contractors

PO Box 83
Larchmont, NY 10538
voice: 914/235-3630
fax: 877/482-8962
web: gov-contracs.com

Rozycki Associates

*Pointing The Way To Success
In Government Sales*

The primary result of opening GSA Schedules to the states has so far been confusion for contractors who are looking for the best ways to target state/local customers. While it is too early to judge the success of this program, here are a few points that contractors should bear in mind:

1. Don't expect your state and local customers to immediately embrace the idea of using federal contracts. Why is this?
 - a. State and local governments have tremendous legions of bureaucrats keenly interested in defending their own purchasing systems.
 - b. These agencies may have long-standing relations with local suppliers that they may not wish to disrupt.
 - c. They may have very strong formal "buy local" preference systems that make it difficult for non-local firms to enter the market, regardless of the contract used, and
 - d. They may perceive this as an intrusion on the state's sovereign right to enter into contracts under its own name. Not all states are enthusiastic about such "gifts" from the federal government.

2. Be prepared to do a massive amount of education for your state and local customers. It is almost certain that the ground-level workers buying your products will have no idea that they can use the GSA Schedule, and may never have heard of the Schedule. This education process could significantly extend your sales cycle.

3. As a GSA Schedule holder, any state/local sales under your contract will be subject to the Industrial Funding Fee payment which you make on a quarterly basis. Sales made to these customers that reference **other** contract vehicles **do not** incur the Industrial Funding Fee. For large sales, this Industrial Funding Fee liability can become significant, and should be considered when deciding whether or not to use the Schedule.

4. Learn from the experiences of other contractors as they test the waters in this program. Make a concerted effort to learn both the upsides and downsides from your fellow contractors.

PO Box 83
Larchmont, NY 10538
voice: 914/235-3630
fax: 877/482-8962
web: govt-contracts.com

Rozycki Associates

*Pointing The Way To Success
In Government Sales*

IV. Summary

In the long run, the opening of the GSA Schedules to state/local buyers may prove to be a very viable program, especially if the whole gamut of Schedules are opened, and not just the Group 70 IT contracts.

Over time, it is inevitable that an ever increasing number of states will begin to utilize Schedule contracts directly. Current contractors can prepare for this by educating their state and local customers on the use of the Schedule.

Companies active in the state and local market that do not have a GSA Schedule should consider obtaining one in preparation for the growth of their use on non-federal levels.

Further Reading

Federal Register notice announcing the interim rules can be obtained at:
<http://www.govt-contracts.com/03-11271.pdf>

View a list of all buyers authorized to use the GSA Schedule at:
<http://www.govt-contracts.com/buyers.htm>

Notes

Note 1 - The ability of a GSA Schedule contractor to discount down to the GSA price will vary depending upon the price relationship that the contractor has agreed to in its Final Proposal Revision during the GSA negotiation.

PO Box 83
Larchmont, NY 10538
voice: 914/235-3630
fax: 877/482-8962
web: [govt-contracts.com](http://www.govt-contracts.com)