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Washington, D.C. 20548

General Government Division

B-285662

June 29, 2000

The Honorable Tom Davis
Chairman, Subcommittee on the District of Columbia
Committee on Government Reform
House of Representatives

The Honorable Stephen Horn
Chairman, Subcommittee on Government
    Management, Information, and Technology
Committee on Government Reform
House of Representatives

Subject: <u>General Services Administration: Vendor Concerns About GSA's On-line Ordering System</u>

This letter responds to your request to follow up on vendor concerns about the General Services Administration's (GSA) on-line ordering system, *GSA Advantage!* (Advantage). These concerns were brought to your attention in April 2000 by an information technology (IT) industry representative. Advantage was the federal government's first electronic catalog on the Internet. It allows agencies to search for products and services and place orders with GSA's federal supply schedule vendors. GSA's Federal Supply Service (FSS) was responsible for the development and implementation of Advantage. As you know, FSS—a component of GSA—provides federal buyers with nonmandatory contract arrangements worth over $10 billion per year for commercial products and services, including IT, through its federal supply schedule contracts. In its effort to improve service and adopt commercial practices, FSS established Advantage in 1996 so that customers could use electronic commerce—the process of buying, selling, and paying electronically over the Internet—to obtain products and services available through the FSS supply schedules.[1] FSS' Office of the Chief Information Officer (CIO) manages the Advantage program.

According to FSS officials, the structure of Advantage reflects the laws, rules, and socioeconomic programs that are unique to federal procurement, and it is designed to enhance competition. Currently, all government agencies with Internet access can use Advantage—top customers of Advantage include the Air Force, the Army, and the U.S. Postal Service. Over 2,000 schedule vendors are on Advantage, and fiscal year 1999 sales were $86

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[1] GSA also is required by law to provide governmentwide on-line computer access to information on products and services that are available for ordering through its multiple award schedules (40 USC § 1501).

million. Fiscal year 2000 sales were over $64 million through the end of May. According to FSS officials, Advantage has won several government and private sector awards for its innovation and quality.

As agreed with your offices, our objectives were to (1) describe the vendor concerns and (2) discuss FSS' views on the concerns and the actions it is taking to improve Advantage. To meet these objectives, we obtained documentation on the concerns from your offices, discussed the concerns with the IT industry representative and selected vendors the IT representative identified, interviewed FSS officials about the concerns, and reviewed various documents provided by FSS officials related to Advantage. We also contacted GSA's Office of the Inspector General (IG) to discuss work it had done on Advantage and reviewed a 1998 IG report on Advantage.[2] We did not attempt to verify the information we collected, resolve the vendor concerns, or determine the extent of vendor dissatisfaction with Advantage. We did our work in May and June 2000 in accordance with generally accepted government auditing standards. We requested comments on a draft of this letter from the Administrator of GSA and the IT industry representative. The oral comments we received are discussed near the end of this letter.

Results

The IT industry representative identified vendor concerns that generally related to three areas: data requirements for Advantage, the quality of Advantage orders, and sales volume through Advantage. An explanation of the concerns, a discussion of FSS' views on them, and information on efforts FSS has under way to improve Advantage follow.

Data Requirements

The IT industry representative was concerned that FSS requires vendors who sell high-end IT equipment, such as servers and mainframe computers, to provide product information, including features and options available on the equipment, for Advantage that is too detailed and is already available on vendors' Web sites.[3] Furthermore, the IT industry representative and vendors we contacted said that buyers of these products are unlikely to purchase them on-line because of the complexity involved in designing system configurations and the multitude of options available with the equipment. According to the vendors, buying these products requires direct contact with the vendors to determine the best configuration. In addition, the IT industry representative and the vendors said that formatting the pricing and product information for Advantage is very labor intensive because the information is continuously changing, necessitating frequent updates on Advantage.

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[2] Audit of the FSS's Efforts to Place Multiple Award Schedule Items on GSA Advantage (Report Number A83307/F/H/V98019, Aug. 31, 1998).

[3] Supply schedule vendors who register with Advantage are responsible for transmitting product and pricing information to FSS. To format data for Advantage, vendors have the option of using electronic data interchange (EDI), which is a standard computer-readable syntax used both in the private and public sectors to electronically send and receive information, or the Schedule Input Program (SIP), which is a data input program that FSS developed for vendors that do not have the capability to use EDI.

As an alternative, the IT industry representative recommended over a year ago that FSS allow vendors to provide basic "reference" information on Advantage and that FSS establish links on Advantage to vendors' Web sites so that buyers can access detailed product information and directly contact vendors. According to the IT industry representative, FSS agreed with this recommendation but has not fully implemented it. FSS officials said they agreed to accept reference information for high-end IT products and to allow buyers to order them directly from vendors' Web sites. FSS' CIO said that FSS has implemented the policy for services contracts, although it is still in the process of developing uniform, well-defined criteria that contracting officers throughout FSS can use for determining which products will require reference information. The CIO recognized vendors' concerns on this issue and said that FSS is striving to come up with criteria that will be agreeable to FSS and the vendor community. The CIO also said that the new criteria should be completed by September 2000. The CIO added that in the interim, FSS contracting officers to date have already allowed vendors to provide reference information for several hundred products.

Quality of Orders

The IT industry representative and selected vendors were also concerned that Advantage orders often have errors that necessitate follow-up discussions and the submission of paper or faxed purchase orders. They believed that the problem stemmed from the length of time it can take to get FSS to approve price changes and update price and product information on Advantage. As a result, buyers often submit orders with prices that vendors consider outdated or for products that may have changed or been discontinued. According to the vendors we contacted, this is a particular problem with IT products because as indicated earlier, prices can change daily, and new products are always becoming available. One vendor said that in addition to orders with outdated prices, the orders sometimes do not reflect the terms and conditions of the vendor's contract. For example, the vendor has received orders from overseas, although the vendor's contract specifies that no shipments will be made overseas. This vendor also has received orders for quantities under the minimum order amount specified in the vendor's contract.

FSS officials said that they have no information indicating a major problem with errors on orders. These officials said that the information printed on Advantage orders is based on the information transmitted by the vendors. The CIO said that FSS updates the information on Advantage daily and has corrected prior problems that may have caused errors on orders. To determine if errors in orders were a problem, FSS officials contacted a major IT vendor. This vendor reported that for the month of May 2000, 1 of the 76 Advantage orders it received contained an error. The vendor did not provide any information on how this error rate compares with orders that are not placed through Advantage. We did not determine to what extent, if any, errors in orders are a problem. Nonetheless, the CIO said that FSS is willing to discuss any problem that vendors are having with Advantage to find a solution. Related to the concerns raised by one vendor about terms and conditions, the CIO acknowledged that overall, FSS needs to determine how to better serve its overseas customers. However, the CIO said that information on vendors' terms and conditions is included on Advantage for the buyer to review.

Sales Volume

Another concern was that despite the resource investment that IT vendors incur in placing products on Advantage, sales volume through Advantage has been low. For example, the IT industry representative estimated that Advantage sales typically have accounted for less than 1 percent of IT vendors' total schedule orders. The vendors we contacted indicated that given their resource investment in Advantage, sales were disappointing. FSS officials said that they believe sales are not the only reason for having a Web site. According to these officials, Advantage exists for buyers to do research, as well as purchase items, and that Advantage usage statistics indicate that many buyers locate products through Advantage and then place orders through more traditional means. These officials also said that it is not their intent to require all orders to go through Advantage and that many companies have Web sites that generate only a fraction of their total sales.

Efforts to Improve Advantage

FSS is taking steps to improve Advantage in part as a result of the 1998 GSA IG report on Advantage and the feedback that it has gotten from vendors. Vendors contacted by the IG had concerns similar to those discussed in this letter. For example, the IG reported that GSA was experiencing difficulties in placing schedule products on-line and that vendors had concerns about data formatting and transmission issues. Some vendors contacted by the IG felt that Advantage duplicated their own Web sites and that Advantage was not very cost-effective for them. The IG recommended that FSS develop a comprehensive plan that would outline the critical actions needed for achieving Advantage's objectives. In response to the IG report, FSS contracted with Arthur Andersen to assist in developing an action plan for improving Advantage. The action plan is based on Arthur Andersen's strategic methodology for assisting organizations that are looking to enhance their electronic commerce capabilities. The methodology, which FSS plans to follow, was tailored to help FSS reassess the vision of Advantage and systematically review the environment—including the vendor community's needs—and develop opportunities for Advantage.

Overall, FSS officials said they are committed to making Advantage easy and effective for vendors while providing a world class Web site for buyers that is efficient to use. They said that their efforts ultimately are intended to increase competition and address the socioeconomic programs of the federal government, such as programs designed to enhance participation by small and minority-owned businesses and handicapped individuals. The officials added that they have made many changes in response to issues raised by vendors, such as eliminating the requirement for product codes with each item submitted. They also established a vendor support center to assist vendors 5 days a week, 12 hours a day and are willing to meet with vendors to discuss problems. The IT industry representative and the vendors we contacted said that despite the concerns raised, FSS has generally taken positive steps toward improving Advantage for vendors and that the vendor community has a good working relationship with FSS.

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IT Industry Representative and Agency Comments

On June 16, 2000, the IT industry representative told us that the information contained in a draft of this letter was accurate. Similarly, on June 20, 2000, FSS' GAO Liaison informed us that FSS officials had reviewed the draft letter and believed that it was an accurate portrayal of the issues.

We are sending copies of this letter to Representative Eleanor Holmes Norton, Ranking Minority Member of the House Subcommittee on the District of Columbia; Representative Jim Turner, Ranking Minority Member of the House Subcommittee on Government Management, Information, and Technology; and, the Honorable David J. Barram, Administrator of GSA. We will make copies available to others on request. If you have any questions, please contact me on (202) 512-8387 or at ungarb.ggd@gao.gov.
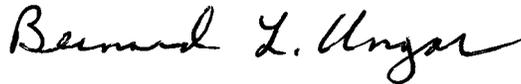
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