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The Comptroller General
of the United States

Washington, D.C. 20548

Decision

Matter of: Swintec Corporation
File: B-225657
Date: April 3, 1987

DIGEST

Where evidence of substantial sales of typewriter ribbons to the government at newly reduced prices (quantity discounts) is provided by a vendor to the contracting officer prior to bid opening, as permitted by the solicitation, the contracting officer properly evaluated the vendor's bid to reflect the price reduction in effect prior to bid opening.

DECISION

Swintec Corporation protests the award of an indefinite quantity single-award Federal Supply Schedule contract for electric/electronic typewriters to IBM Corporation under invitation for bids (IFB) No. FCGE-D3-75372-S, issued by the Federal Supply Service, General Services Administration (GSA). Swintec principally contends that the contracting officer improperly considered a price reduction (quantity discount) by IBM for typewriter ribbons that resulted in IBM being evaluated as the low offeror.

We deny the protest.

The IFB, issued on November 3, 1986, stated that award would be made, item by item, on the basis of lowest life cycle costs (LCC). LCC is the anticipated ownership costs of the typewriter, including the cost of "down-time," repairs, parts, supplies, and the like, evaluated over a 10 year period. While the IFB contained a very complex formula for determining LCC, we need only note here that the cost of the typewriter and the cost of the typewriter ribbon were important factors in evaluating LCC. The IFB, in a footnote to the LCC provisions, stated that the "normal cost to GSA of the ribbons . . . will be the value used to compute the LCC." The IFB also provided that for purposes of the LCC evaluation, ribbon cost is either the lowest priced ribbon on the

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Federal Supply Schedule or the bidder's "book price" to the government, whichever is lower, provided the following conditions are met if the book price is used:

1. Evidence of substantial sales to the government at the book price is provided to the contracting officer prior to the solicitation's closing.
2. The bidder will guarantee the book price to the government on an "open market purchase basis" for the term of the contract and will offer the ribbon for award under the Federal Supply Schedule ribbon contract at the same or lower price.

Bid opening was scheduled for December 3, 1986. According to Swintec, on November 24, 1986, a Swintec representative called the contracting officer to obtain information on IBM's ribbon prices. The contracting officer referred the Swintec representative to a GSA technical staff member, who, in turn, informed the Swintec representative that IBM's ribbon price was \$2.38 each. While Swintec apparently received other conflicting price quotations concerning IBM's ribbon price, the record shows that the oral advice given by the GSA technical staff member about IBM's ribbon price was correct information at that time. Swintec proceeded to calculate its own bid based on GSA's oral advice as to IBM's ribbon price. On November 28, 1986, IBM wrote to the contracting officer, informing her that IBM had established new prices for its ribbons as follows:

<u>2-dozen</u>	<u>3-dozen</u>	<u>12-dozen</u>
\$2.63	\$2.47	\$1.17

IBM also stated that it would include these reduced prices in its Federal Supply Schedule ribbon contract. On December 3, 1986, the day of bid opening, IBM submitted to the contracting officer purchase orders, invoices, and credit memoranda to "support and verify" the new prices previously established in its November 28 letter. Six bids were received and IBM was evaluated as the low offeror despite its higher typewriter cost (\$335 per typewriter versus \$248 for Swintec) principally because of its ribbon costs which were evaluated by GSA using the reduced gross quantity price (\$1.17 per ribbon). This protest followed.

Swintec advances several arguments in support of its position that the contracting officer erred in using \$1.17 as the IBM ribbon "book price" in computing the LCC. First, Swintec claims that IBM was improperly permitted by GSA to reduce its

prices without notice to Swintec under circumstances which call into question the integrity of the procurement process. However, we note that the solicitation permitted any and all bidders to reduce their ribbon prices prior to bid opening provided the bidders presented evidence of substantial sales at the reduced book prices. Here, IBM guaranteed the reduced book price for the life of the contract and will include the new book price in its FSS ribbon contract.^{1/} While Swintec was not notified about the reduced IBM ribbon price and relied on the prior oral advice about IBM's ribbon price from GSA's technical staff, we know of no requirement for an agency to inform or otherwise update a bidder as to another competitor's reduction in price prior to bid opening. If Swintec did not offer its best price because of its assumption that IBM's prices would not change, it did so at its own risk.

Second, Swintec argues that IBM did not have "substantial sales" at the reduced price as required by the solicitation because the price of \$1.17 is applicable only to ribbon sales in lots of one gross or more and Swintec's own experience as the incumbent for the present requirement is that only 7.1 percent of sales are made in such lots (Swintec, as the incumbent, did not offer a quantity discount for ribbons).

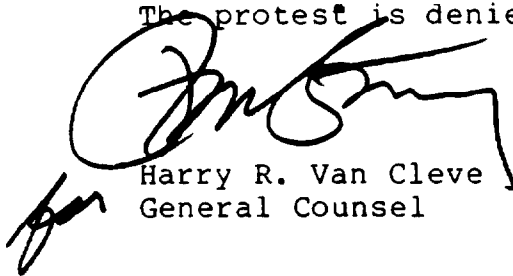
The record shows that, between November 24, when it established the new book price, and December 3, the day of bid opening, IBM sold 489 dozen ribbons at the new prices, 475 dozen of the amount at the \$1.17 price. IBM states that 475 dozen constitutes 13 percent of IBM's total 1986 sales of this ribbon to the government. IBM also applied the new prices retroactively to sales to the government in October and November 1986; GSA, however, did not rely on this retroactive adjustment in its determination that substantial sales had in fact occurred. While we think that sales of 475 dozen were reasonably determined by GSA to be substantial, Swintec argues that IBM's sales at the new price did not represent their normal, regular, customary price for the item during a representative period. Swintec argues that IBM during October and November 1986, prior to the price change, sold only a small percentage of its ribbons in quantities of one gross or more and therefore gross lots do not represent "normal sales." IBM has supplied the following sales information for the period:

^{1/} Swintec also argues that IBM's reduced price is not a "book price." This is a matter of semantics since IBM is offering the item to the government at this price and, as we find below, has had substantial sales at the reduced price.

<u>Month</u>	<u>No. of Ribbons at Gross Price</u>	<u>Percent of Ribbons at Gross Price</u>
Sept.	2,988	59%
Oct.	1,438	56.4%
Nov. 1-23	1,428	50.3%
Nov. 24-Dec. 3	5,700	97%

We think that the solicitation provision referring to "normal cost" to GSA, when read in conjunction with the substantial sales requirement, simply means any price of a vendor for a certain quantity of an item at which substantial sales had occurred and from which the government would derive substantial benefit if the item were purchased typically at that quantity.^{2/} IBM met this requirement. Even prior to the price reduction, most ribbons were purchased by the government from IBM at the gross price. Moreover, the fact that previously only 10-13 percent of individual transactions were on a gross lot basis does not mean either that the majority of the ribbons purchased in the past were not purchased at the lower quantity discount price or that federal agencies will not take advantage of IBM's substantially reduced gross price in the future. This is apparent from the 84 percent gross lot transaction sales to numerous federal agencies that occurred upon IBM's establishment of its substantially reduced gross lot price. We therefore think that GSA reasonably evaluated the IBM bid on the basis of its reduced gross lot price.

The protest is denied.



Harry R. Van Cleve
General Counsel

^{2/} GSA reports that it typically uses the gross price for LCC analysis because this is the quantity for the majority of ribbons purchased if there is a quantity discount. Swintec never offered a quantity discount and therefore its own sales experience is not necessarily typical.