

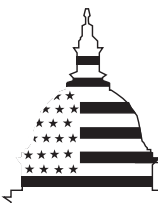
GAO

Report to the Chairman, Committee on
Government Reform, U.S. House of
Representatives

February 2003

ELECTRONIC PROCUREMENT

Business Strategy Needed for GSA's Advantage System



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Highlights of [GAO-03-328](#), a report to the Chairman, Committee on Government Reform, U.S. House of Representatives

ELECTRONIC PROCUREMENT

Business Strategy Needed for GSA's Advantage System

Why GAO Did This Study

The Congress has been seeking to increase federal agency purchases of equipment and services on line. The General Services Administration's (GSA) Advantage Internet-based ordering system is meant for conducting market research and ordering all types of products and services on line. About \$84 million has already been invested in this endeavor. GAO was asked to assess how effectively GSA has managed this investment.

What GAO Recommends

GAO recommends that GSA develop a business strategy that reexamines its objectives for on-line purchasing of products and services, assesses what solutions are most appropriate for meeting these objectives, and develops measures for assessing success. GSA concurs with this report's recommendations.

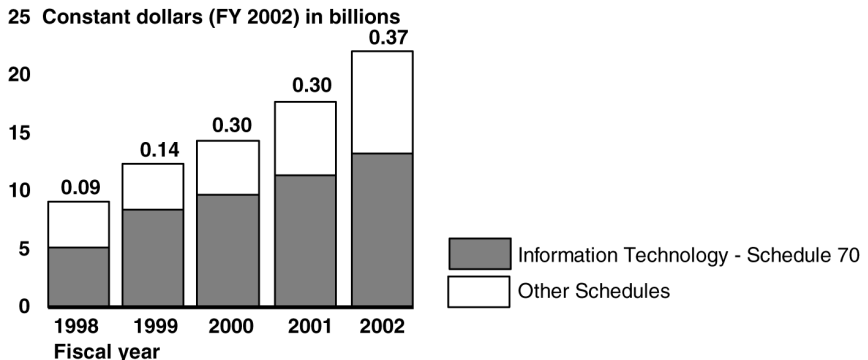
What GAO Found

GSA Advantage has had only limited success as an on-line market research and ordering tool. Market research has been limited primarily to off-the-shelf office products, and sales through Advantage have never exceeded one-half of 1 percent of overall schedule sales. Because of initial design limitations, Advantage has not been effective in acquiring complex products and services, particularly information technology services that make up most of the growth in schedule sales. Recent enhancements may facilitate use of the system for buying complex services, but vendor participation has not been strong. For example, for almost half the requests for quotes, agencies received no responses from vendors. Advantage does not contain all schedule products and services, as required, and some schedule vendors complain about the cost and complexity involved in participating.

While GSA has modified the Advantage system to provide better and more information on products and services, the system is unlikely to succeed without a business strategy. To date, GSA has not yet answered basic questions surrounding Advantage, including (1) if it is technically feasible to make purchases of all products and services on line given the range of activities involved with making more complex acquisitions, (2) if so, whether Advantage is the right system to do this, and (3) if not, whether Advantage could be used for smaller, simpler purchases and as an information source for making larger, more complicated acquisitions.

Moreover, GSA has not thoroughly analyzed other alternatives to Advantage or developed effective measures to assess return on investment and user satisfaction. A business strategy would require GSA to not only reexamine its objectives for on-line purchasing and various solutions, but also develop measures appropriate for gauging success. As such, it would help GSA assess whether continued investment in Advantage is worthwhile and make modifications to the system that will substantially enhance its performance.

Sales under Federal Supply System Schedule Contracts—Fiscal Years 1998 to 2002



Source: GSA.

Note: Numbers on top of columns are the percentages of schedule sales through Advantage.

www.gao.gov/cgi-bin/getrpt?GAO-03-328.

To view the full report, including the scope and methodology, click on the link above. For more information, contact William Woods at (202) 512-4841, WoodsW@gao.gov.

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Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

February 19, 2003

The Honorable Tom Davis
Chairman
Committee on Government Reform
House of Representatives

Dear Mr. Chairman:

Federal agencies ordered about \$22 billion worth of products and services from commercial firms during fiscal year 2002 using the General Services Administration's (GSA) Multiple Award Schedules program. To help federal agencies use the program more efficiently, GSA developed a system called GSA Advantage, which is an Internet-based system for conducting market research and ordering schedule products and services on line. Because of concerns about the effectiveness of GSA Advantage, you asked that we review the performance of the system. In response to your request, we assessed how effective Advantage has been as an on-line system for federal agencies to shop for and order schedule products and services.

Results in Brief

GSA Advantage has had only limited success as an on-line market research and ordering tool. Market research has been limited primarily to off-the-shelf office products, and sales through Advantage have never exceeded one-half of 1 percent of overall schedule sales. Because of initial design limitations, Advantage has not been an effective means for acquiring complex products and services, particularly information technology (IT) services that make up most of the growth in schedule sales. Recent enhancements may facilitate use of the system for buying complex services, but vendor participation has not been strong. For example, for almost half the requests for quotes, agencies received no responses from vendors. Advantage does not contain all schedule products and services, as required, and some schedule vendors complain about the cost and complexity involved in participating.

The limited success of Advantage reflects the lack of a business strategy for the system. Such a strategy normally would examine such issues as the type of schedule products and services best suited for on-line market research and ordering, whether Advantage is the best system to accomplish these functions in a manner consistent with the needs of

customer agencies and the capabilities of the vendors, and how the performance of that system could be measured. After developing such a strategy, GSA would have greater assurance that its system is the most feasible solution to accomplish its objectives, and would have a sound basis for setting policies for Advantage. We are recommending that GSA develop a comprehensive business strategy for the Advantage program. GSA agrees with this report's recommendations.

Background

GSA's mission includes providing policy leadership and expertise in the acquisition of products and services for use by federal agencies. To help carry out its mission, GSA's Federal Supply Service (FSS) assists federal agencies in acquiring supplies—such as furniture, computers, tools, and equipment—and a variety of services through its commercial acquisition business line. This GSA business line gives agencies access to several million commercial products and services available either through schedule contracts or as stock items from a GSA warehouse.

GSA launched Advantage in October 1995. The system was envisioned as an on-line system for agencies to order stock items from GSA's warehouses with a government payment card. Initially, Advantage offered only stock items. In February 1996, Congress passed the Clinger-Cohen Act, which required the Administrator of GSA to develop a system capable of providing governmentwide, on-line Internet access to information on all FSS schedule products and services. GSA decided that Advantage, although in its infancy, was the only Internet-based, on-line ordering system that potentially could meet the requirements of the act,¹ and began using Advantage to satisfy this requirement. GSA began adding schedule services to Advantage in February 2000.

Despite efforts to include more products and services on Advantage, only 35 percent of all vendors participated in the program at the beginning of fiscal year 2001. GSA therefore issued a mandate that all schedule vendors participate in Advantage and offer all their products and services through the Advantage system. For off-the-shelf products, vendors typically upload

¹ The Clinger-Cohen Act called for the economic and efficient procurement of IT and other commercial items using a system that provides on-line access to price, features, and performance information on all products and services found in FSS schedules, and that provides on-line ordering capability. Although GSA Advantage continues, the statutory requirement for the system was repealed by Section 825(c)(1) of the Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, 116 Stat. 2616.

three types of information: product price, features, and performance. In some cases, they offer quantity discounts. For services, vendors typically upload the labor rates contained in their schedule contracts, along with other information.

GSA has added various functions and enhancements to Advantage during the last 7 years, such as reference files to increase the amount of information available to customer agencies. In total, GSA has spent about \$84 million to develop, implement, and maintain its Advantage system.

Agencies Use Advantage More for Market Research than for Ordering, and Mostly for Standard Office Products

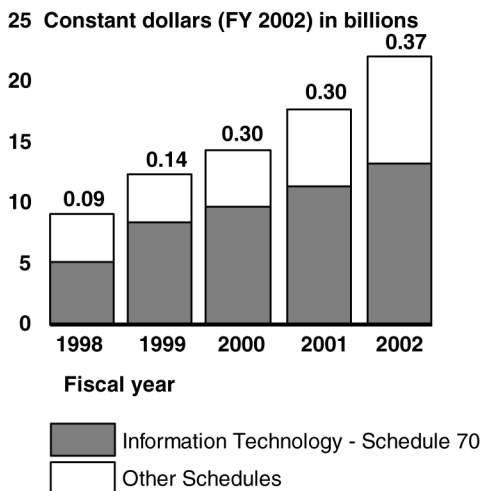
Customer agencies do a great deal more comparative shopping than ordering through Advantage. During a 7-month period in fiscal year 2002, comparative shopping on Advantage ranged between 27,000 and 50,000 site searches each day.² Most of this market research through Advantage involved office products and equipment. For example, during the same 7-month period, the top searched-for products included office supplies like binders, pens, copier paper, and envelopes, and office equipment like laptops, fax machines, chairs, and shredders. Searches for services were far less frequent than for products, and most often were for training, security, maintenance, and consulting.

Sales through Advantage represent a very small portion of total schedule sales. As shown in the figure, overall schedule sales have grown considerably in the past 5 years—from about \$8.5 billion to almost \$22 billion. Sales through Advantage during this period, however, have never exceeded one-half of 1 percent of total schedule sales. For fiscal year 2002, for example, there were 129,370 schedule orders through Advantage for a total of \$81,579,970, representing 0.37 percent of total schedule sales. Most sales through Advantage are for standard office products. For example, for fiscal year 2002, the top 10 schedule items in order of sales frequency included file folders, self-stick pads, multiuse paper, double pocket portfolio, inkjet toner, copy paper, binder clips, and 3-ring binders. Our review of Advantage orders from 1997 through 2002 shows a similar

² This calculation does not include holidays and weekends.

pattern of purchases of standard office products. According to GSA, schedule sales through Advantage have averaged about \$500 per order.³

Figure 1: Sales under FSS Schedule Contracts—Fiscal Years 1998 to 2002



Source: GSA.

Note: Numbers on top of columns are the percentages of schedule sales through Advantage.

Accommodating Buys of Complex Services Has Been Problematic

As shown in the figure, most of the growth in overall schedule sales has been in spending for IT under GSA's schedule 70 contracts. Most of this growth in IT spending has been for IT services, which now account for about 65 percent of IT spending. Yet an inherent limitation in using Advantage is that the system was not designed for making complex purchases, such as procurements of IT services.

The information available on Advantage regarding complex services typically consists of general descriptions of labor categories, such as a

³ Advantage sales also include purchases of stock items from GSA's two remaining warehouses. GSA's stock program, which comprised about 55 percent of the Advantage sales (in fiscal year 2002), has had a 4-year decline in sales overall due to a changing customer base and the increased use of governmentwide purchase cards. In fact, FSS has closed all but two warehouses and transitioned from a government-owned and operated supply distribution network to a system of alliances with private companies to provide the goods and services. Without alternative strategies such as a virtual store through Advantage that would allow GSA to provide the products to the agencies using direct delivery rather than storing and shipping them from a warehouse, agency officials told us the stock program sales might continue to decline.

program manager or network analyst, and loaded labor rates.⁴ In a prior report, we pointed out that this information alone is not sufficient to enable agencies using GSA's schedules to select the best value provider of IT services.⁵ Rather, agencies must consider the number of hours and mix of labor categories proposed by the schedule contractors to perform specific tasks. Special ordering procedures issued by GSA require agencies acquiring complex services to obtain this information by providing a statement of work to at least three schedule contractors asking for either fixed or ceiling prices for the work specified.

In 2001, GSA added a capability to Advantage, known as E-buy, which enables agencies to provide a statement of work to vendors and request responses on-line. This modification provides a means to share information between customer agencies and vendors on a range of products and services, including the more complex IT services. During fiscal year 2002, the first full fiscal year of operation, agencies used E-buy to place a total of 64 orders. By comparison, customers placed an average of about 1,240 non-E-buy orders each day through Advantage during the same period.

Due to the limited initial use of E-buy, GSA revised the function in July 2002 to make it more user-friendly. During the next 2 months of operation (July-August 2002), agency usage of the revised system increased, but there were other implementation problems. About 12 percent of requests for quotations (RFQs) were sent to fewer than three vendors. For each RFQ issued, agencies received an average of only 1.3 responses. For almost half the RFQs (about 46 percent), the agencies received no responsive quote from any vendor.

GSA officials have expressed disappointment in the low usage of E-buy in its first year of operation, and are concerned about the lack of vendor responses following revisions to the system. The officials also pointed out, however, that Advantage and its E-buy enhancement should improve agency buyers' market research capabilities.

⁴ Loaded labor rates include salary, fringe benefits, overhead, and profit.

⁵ U.S. General Accounting Office, *Contract Management: Not Following Procedures Undermines Best Pricing Under GSA's Schedule*, [GAO-01-125](#) (Washington D.C.: Nov. 28, 2000).

Lack of Full Vendor Participation Due to Concerns About Cost and Use

Despite GSA's mandatory vendor participation policy, not all vendors list all their products and services on Advantage. Out of approximately 9,800 schedule contracts, about 1,200 contracts (12 percent) were not on Advantage as of September 2002. Even some vendors who supply off-the-shelf products—which are most likely to be ordered on line—decline to participate. For example, one vendor who sells scales and butcher supplies is not on Advantage because the vendor's primary customers do not use the system. Another vendor indicated that it uploaded only certain products from its catalog; it has not uploaded the services it offers because its principal service customers do not use Advantage. Other vendors report that it can cost several thousand dollars to upload data on Advantage, particularly for complex products and services. Such expenditures do not make sense, they say, if customers are not using Advantage to make purchases.

An underlying reason why some vendors are reluctant to list all of their complex products and services on Advantage is because the system does not contain sufficient descriptive information to permit agencies to make informed buying decisions. To address this issue, GSA added a capability called e-catalog reference files, which allows vendors to supplement the information about their products or services by providing links to the vendors' own Web pages. Although this capability provides more information about vendor products and services, the descriptions vary widely in quality.

Performance Reflects the Lack of a Business Strategy

GSA has not conducted the type of analysis central to developing a comprehensive business strategy for Advantage. Specifically, GSA has not analyzed customer requirements, identified the products and services most likely to be purchased on line by agency customers, assessed the technological feasibility of meeting customer requirements through an on-line system, or considered alternatives to Advantage. In addition, GSA has not established performance goals for Advantage or a system for measuring results. Each of these is an important element of a comprehensive business strategy.

GSA officials acknowledge the lack of a business strategy for Advantage. According to these officials, GSA initiated the Advantage project before the agency began performing the kind of rigorous analysis it undertakes before initiating a major system today. They recognized that a business strategy would have enabled GSA management to answer two important questions: (1) how much and what kind of products and services could be

expected to be purchased by federal customers on line and (2) whether Advantage is the right system to facilitate such on-line purchases.

Conclusion

GSA has spent about \$84 million on Advantage, but it has not developed a comprehensive business strategy that would justify that level of investment. In the absence of a business strategy, GSA has made changes to enhance the system, but has yet to target what products and services are best suited for on-line market research and ordering. GSA has made these modifications without integrating them into an overall strategy. A rigorously developed business strategy, including performance measures, would help GSA assess whether its continued investment in Advantage is worthwhile and, if so, what additional changes to enhance its performance may be needed.

Recommendations

We recommend that the Administrator of General Services develop a comprehensive business strategy that identifies GSA's objectives for an on-line market research and ordering system, the desired capabilities of that system, the resources required to implement the system, and measures to track performance. After developing the business strategy, GSA should determine whether Advantage is the most appropriate system for achieving its objectives.

Agency Comments

GSA concurs with the report's recommendations. GSA's comments appear in appendix I.

Scope and Methodology

To address our objective, we interviewed GSA and industry officials, analyzed electronic files of past market research and on-line sales, attended a GSA training course on how vendors electronically transfer information about their products and services into Advantage, and received various demonstrations of Advantage operations and marketing techniques. We also visited GSA's two largest acquisition centers (Arlington, Virginia and Ft. Worth, Texas) to learn more about GSA's efforts to address vendor concerns and encourage vendor participation in Advantage. We conducted our review in accordance with generally accepted government auditing standards from March through December 2002.

Unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the date of this letter. At that time, we will send copies to other interested congressional committees, the Administrator of General Services, and the Director, Office of Management and Budget. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact me at (202) 512-8214 or Ralph Dawn at (202) 512-4544 if you have any questions regarding this report. Major contributors to this report were John E. Clary, Ronald J. Salo, James B. Smoak, and Ralph O. White.

Sincerely yours,

A handwritten signature in black ink that reads "William T. Woods". The signature is written in a cursive, flowing style.

William T. Woods
Director
Acquisition and Sourcing Management

Appendix: Comments From the General Services Administration



GSA Administrator

February 5, 2003

The Honorable David M. Walker
Comptroller General
of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Walker:

Thank you for providing us with the opportunity to comment on the General Accounting Office (GAO) draft report entitled "Electronic Procurement: Business Strategy Needed for GSA Advantage Program" (GAO-03-328), dated January 16, 2003. The draft recommends that the General Services Administration (GSA) develop a comprehensive business strategy that identifies GSA's objectives for an on-line market research and ordering system, the desired capabilities of that system, the resources required to implement the system, and measures to track performance. GSA concurs with the draft report's recommendation.

GSA's Federal Supply Service (FSS) is currently conducting an FSS-wide enterprise IT architecture study during FY 2003. GSA recognizes that it is time to perform a rigorous analysis that will document the business case for our future decisions, and in fact, we are in the process of developing a strategic business plan for GSA Advantage as part of that effort.

If you have any additional questions or need further assistance, please have a member of your staff contact Mr. Ralph Boldt, Branch Chief, Audit Followup and Evaluation Branch, on (202) 501-3094.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen A. Perry".

Stephen A. Perry
Administrator

cc: William T. Woods, Director
Acquisition and Sourcing Management
United States General Accounting Office
Washington, DC 20548

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