GSA SCHEDULE:

# Understanding Your Commercial Sales Practices

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# High Risk Areas for Non-Compliance

GSA compliance requires more than keeping your GSA pricing up-to-date on GSA Advantage and adhering to scope, delivery and warranty terms of the contract. There are certain high risk GSA compliance areas that contractors must be aware of relating to Commercial Sales Practices, Basis of Award Customers, and the Price Reduction Clause.

According to a recent report released by GSA's Office of Inspector General (OIG), nearly half of all GSA Schedule contractors have Price Reduction monitoring systems that are non-compliant. This is likely due to the fact that the Commercial Sales Practices Format and the Price Reductions Clause can be extremely confusing.

It is important to educate yourself and continually monitor your Commercial Sales Practices to ensure that you remain within the GSA's compliance requirements.

## HIGH RISK AREAS INCLUDE:

**COMMERCIAL SALES PRACTICE (CSP)**

Prior to contract award, contractors are required to submit a Commercial Sales Practices Format (CSP-1). This form provides the GSA with information about which classes of customers that your company sells to, standard volume discounts, rebates, or prompt payment discounts that you offer each class of customer, as well as any non-standard discounts that you have offered in the past.

Non-standard discounts include those that are offered under special circumstances, such as legacy customers or to win abnormally large contracts. It is required that you disclose these non-standard discounts, but you can request that they will not be used to determine your Basis of Award (BOA) customer.

The BOA is the customer that the GSA will compare itself to, and they will use the BOA to request terms, conditions and discounts for the contract. After the GSA Schedule is awarded, it is important for contractors to continually monitor and update their Commercial Sales Practices, and disclose any new discounts that will result in more favorable prices for their BOA customer.

**PRICE REDUCTIONS CLAUSE (GSAR 552-238-75)**

Failure to update your CSP can lead to violations of the Price Reduction Clause (PRC), which was developed in the 1980's to ensure that the Government receives fair and reasonable pricing throughout the term of the GSA Schedule contract. When a GSA contract is awarded, a discount delta is established between a contractor's BOA customer and the GSA.

For example, if a contractor disclosed that it provides their BOA customer with a 10 percent quantity one discount and the GSA negotiated a 12 percent discount, the 2 percent difference in price must always be maintained. If the prices offered to the BOA customer decrease, the prices offered to federal customers must decrease as well, or else a contractor will "trigger" the PRC, because they are no longer offering their Federal customers their best pricing.

There have been several high profile PRC violations that have resulted in hefty fines and, in some cases, the stripping of GSA Schedules, so it is important for contractors to ensure that their reported Commercial Sales Practices are **accurate, current and complete**.

# GSA Pilot Program Could Replace Price Reduction Clause

In March 2015, the GSA announced that it would be experimenting with a pilot program to explore the possibility of replacing the PRC. This pilot program will encompass certain commercial products and commoditized services that experience high volume of repetitive purchasing under constant terms and conditions. It will also require contractors to provide transactional data reports to the GSA on a monthly basis through a "user friendly" online reporting system.

The report will include transactional data elements such as unit measures, quantity of items sold, universal product codes, price paid per unit and total price. It is important to note that this proposed program will not do away with the Commercial Sales Practices Format, and the GSA will still reserve the right to ask for updates to contractors' disclosures at their discretion throughout the life of the contract.

This pilot program signals that the GSA is aware of the administrative burden as well as the confusion that the PRC can create, but it is unknown if the new method will correct these issues. The GSA has stated that the program will take the contractor 6 hours to set up, and then 31 minutes per month to complete the report.

Keep in mind that these estimates have not been tested, so it is possible that contractors will find that this transactional reporting program is even more of an administrative burden than maintaining PRC compliance is. Regardless, as of today it is still absolutely vital that contractors monitor and disclose any changes in their CSP so they do not violate the PRC.

PRC compliance is one of the main topics that Industrial Operations Analysts (IOA) focus on during their Contractor Assistance Visits (CAV). IOAs check for PRC compliance by reviewing federal and commercial invoices to ensure that the negotiated discount delta has been maintained. A proactive approach to maintaining PRC compliance is the best way to avoid the stress and potential penalties that can come with violations.

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