

SHOULD GPO RENEW TERM CONTRACTS?

By Frederic G. Antoun, Jr., Esq.

GPO print vendors who produce term contracts have noticed that although a number of them have a one year *renewal clause* (at the option of the government) or an *extension clause* (with the agreement of the contractor) very few contracts are being renewed or extended. Instead, they are rebid on an annual basis. Vendors have also noticed that there are other term contracts which would appear to benefit from long term relationships between the buyer and the supplier, but which do not have renewal provisions.

Agency customers are constantly faced with the possibility that a new vendor will be only marginally satisfactory. With GPO vendors coming in and out of the market on a daily basis, it is difficult to predict whether any particular bidder will be a good supplier. This customer problem is aggravated by the fact that the GPO system is geared to award jobs to the lowest priced vendor who meets the minimum requirements. In other words, on a bid where a marginal but qualified vendor bids \$100,000 and an excellent vendor bids \$101,000, the marginal vendor receives the award. This has resulted in many agency complaints that smooth contract administration, quality products and on-time delivery by one vendor are replaced by problems in all areas when a new vendor wins the job.

Other factors which the agencies have considered in analyzing whether or not renewals are appropriate are: the cost of re-advertising and award; the administrative "start up" cost of a new contract; the learning curve that agency personnel and new vendors both face on a new contract; and the advantage that the agency gains from suggestions for change and improvements from a vendor with whom they have had a long term relationship. As a result of these problems, agencies have been requesting that the GPO renew contracts with vendors who have consistently met or exceeded expectations during the current contract year.

Term contract vendors have mixed feelings. On the one hand, they would like to be able to compete on a contract that they lost last year. On the other hand, if they win a contract, they would like to be rewarded for excellent performance with an additional year renewal that does not have to be competed.

Currently, most of the renewal clauses provide for increased pricing based upon the standard cost of living price escalation clause plus a cost of living increase.

Do you feel that GPO should include renewal clauses in most of their term contracts? Do you believe that it would be appropriate for the GPO to renew term contracts where the existing contractor has a good or excellent performance record on that contract. Should there be a maximum period of the contract, including renewals (2 years? 3 years?) to insure the work will be competed every few years. Please fax your thoughts and comments to Fred Antoun at (717) 263-7328.

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