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ANALYSIS OF SMALL BUSINESS PARTICIPATION IN ONLINE MARKETPLACES

September 2022

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MARKETPLACES**

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ABSTRACT

As commercial e-commerce portals continue to grow in popularity among the acquisition workforce, it is imperative that the federal government ensures companies of all business sizes are able to compete fairly. This research examines the current framework of platform providers and makes recommendations on how small businesses can be better utilized without sacrificing competition, while keeping an extensive industry base and receiving best value for both the taxpayer and warfighter.

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TABLE OF CONTENTS

I.	INTRODUCTION.....	1
A.	PREFACE.....	1
B.	RESEARCH QUESTIONS.....	1
1.	Primary research question.....	1
2.	Secondary research questions.....	1
C.	SCOPE AND LIMITATIONS.....	2
D.	METHODOLOGY.....	2
II.	LITERATURE REVIEW.....	3
A.	ONLINE MARKETPLACES.....	3
B.	U.S. GENERAL SERVICES ADMINISTRATION.....	4
C.	U.S. GOVERNMENT ACCOUNTABILITY OFFICE REPORTS.....	6
D.	AMAZON AMENDMENT.....	9
E.	GSA RESPONSE TO AMAZON AMENDMENT.....	12
III.	ANALYSIS.....	17
A.	PRIMARY RESEARCH QUESTION.....	17
B.	SECONDARY RESEARCH QUESTIONS.....	18
1.	How do online marketplaces provide structured relationships with their suppliers/business partners?.....	19
2.	What concerns do small businesses and other interest groups have about the transition to online marketplaces?.....	21
3.	How can small businesses profit and benefit from changing their business processes to better align with this digital acquisition approach?.....	22
IV.	RECOMMENDATIONS.....	25
	LIST OF REFERENCES.....	29
	INITIAL DISTRIBUTION LIST.....	33

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LIST OF ACRONYMS AND ABBREVIATIONS

COTS	Commercial Off-the-Shelf
CPARS	Contractor Performance Assessment Reporting System
DFARS	Defense Federal Acquisition Regulation Supplement
DOD	Department of Defense
FAR	Federal Acquisition Regulation
FAS	Federal Acquisition Service
FSS	Federal Supply Schedule
FY	Fiscal Year
GAO	Government Accountability Office
GSA	General Services Administration
GSAM	General Services Administration Manual
GWAC	Governmentwide Acquisition Contracts
LPTA	Lowest Price Technically Acceptable
MAC	Multiple Award Contract
MAS	Multiple Award Schedule
NAICS	North American Industry Classification System
NDAA	National Defense Authorization Act
NPS	Naval Postgraduate School
OMB	Office of Management and Budget
VA	Veterans Affairs

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EXECUTIVE SUMMARY

Billions of dollars are spent by the U.S. government every year to procure goods and services from its industrial base, which is made up of all the companies that supply these goods and services (DiNapoli, 2017). Competition within the government's industrial base is imperative because when the market is competitive, the federal government benefits from "improved cost, schedule, and performance for the products and services needed to support" the Federal Government (Institute for Defense and Business, 2021). In the Fiscal Year (FY) 2018 National Defense Authorization Act, there was an "Amazon Amendment" that promoted the use of a government-wide online commercial marketplace for the acquisition of certain commercial off-the-shelf (COTS) items. The inclusion of the Amazon Amendment allows agencies to "leapfrog over competitive bidding requirements and numerous mandatory clauses now included in Government contracts for commercial items" (Kelly, 2017). The introduction of this amendment would increase the size of the government's industrial base since the current clauses can be considered restrictive and the removal of these perceived barriers to entry could increase opportunities for new entrants to the world of government contracting.

In response to this amendment, the General Services Administration (GSA) implemented three e-marketplace platforms: Amazon Business, Fisher Scientific, and Overstock Government (GSA, 2022). The purpose of this thesis is to identify how online marketplaces can provide market efficiencies without sacrificing competition and diversity among providers.

The literature review includes a discussion of online marketplaces, a history of the GSA, and an overview of the Amazon Amendment and small business participation in online marketplaces.

The analysis of these new e-marketplaces highlights the need for continuing research to discuss with both users and vendors on the commercial platforms to find out what parts of the platforms are useful and what parts need to be improved in future versions.

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I. INTRODUCTION

The Department of Defense (DOD) has historically been slow in updating regulation and even as today's world relies more and more on electronic purchases, the federal government continues to lag in modernizing the acquisition process to make online marketplaces more accessible for government buys. However, Congress and the General Services Administration (GSA) have begun a reform effort with a provision referred to as the "Amazon Amendment" of the Fiscal Year (FY) 2018 National Defense Authorization Act (NDAA). While this is a step in the right direction, the DOD appears to keep struggling to take advantage of market efficiencies when procuring commercial items and it is unclear how small businesses fit into these initiatives.

A. PREFACE

As GSA continues to implement new commercial platforms in response to the "Amazon Amendment," there is concern from small businesses over how they will fit in these new environments. This Naval Postgraduate School (NPS) Acquisition Research Program – sponsored thesis will focus primarily on how online marketplaces can provide market efficiencies without sacrificing competition and diversity among providers.

B. RESEARCH QUESTIONS

During this research, we will focus on the following questions:

1. Primary research question

How can online marketplaces provide market efficiencies to government buyers without sacrificing competition and diversity among providers?

2. Secondary research questions

How do online marketplaces provide structured relationships with their suppliers/business partners?

What concerns do small businesses and other interest groups have about the transition to online marketplaces?

How can small businesses profit and benefit from changing their business processes to better align with this digital acquisition approach?

C. SCOPE AND LIMITATIONS

The scope of this research includes an assessment of the existing market efficiencies available to government buyers, an examination of small business participation in the existing market, an analysis of marketplace reform initiatives, a review of the Amazon Amendment, and a review of the ways in which small businesses are impacted by the current marketplace environment.

This study focuses on the online federal marketplace available through the GSA and Amazon's marketplace as a potential competitor.

D. METHODOLOGY

The methodology used in this research consists of a literature review and a qualitative analysis of the information gathered.

II. LITERATURE REVIEW

This chapter provides a review of the literature used to gain a comprehensive understanding of online marketplaces, the Amazon Amendment, and small business participation in online marketplaces.

A. ONLINE MARKETPLACES

An online marketplace is defined as a commercial, nongovernment portal in which “third-party companies can sell their products or services to consumers. All transactions are processed through the website owner” (Hendricks, 2017). Common marketplaces include Amazon, eBay, and Walmart. Online marketplaces offer a real convenience to consumers and present a much broader assortment of goods than any store could offer. In 2020, an estimated \$1 out of every \$5 is spent on an online retail transaction (Repko, 2021).

Online marketplaces offer certain advantages. Sellers can experience reduced marketing costs, and there is also transparency in pricing/availability. Buyers can experience a convenient way to compare prices/products as they conduct market research. This also allows for a level of trust to form between buyer and seller.

There are also disadvantages to an online marketplace. For starters, marketplaces can charge a commission on every sale, and these costs vary across the different markets. The sites may also impose restrictive terms and conditions on how a seller can communicate with customers or how a seller can represent themselves. In a February 2022 NBC News article, small business owners said that they are hurt by rising costs to advertise on Amazon (Matsakis, 2022). The article further noted in order for products from a small business to appear more relevant in search results, small businesses are charged by Amazon. Small businesses believe that this paid advertising on Amazon directly helps their sales. An Amazon spokesperson stated that advertising is entirely optional for sellers (Matsakis, 2022). Amazon does allow for small business search options along with shopping local options.

B. U.S. GENERAL SERVICES ADMINISTRATION

President Harry Truman established the GSA in 1949 to streamline the administrative work of the federal government by consolidating the National Archives Establishment, the Federal Works Agency, the Public Buildings Administration, the Bureau of Federal Supply, the Office of Contract Settlement, and the War Assets Administration. The agency's original mission was to "dispose of war surplus goods, manage and store government records, handle emergency preparedness, and stockpile supplies for wartime" (GSA, 2021d). Today, the GSA provides real estate, acquisition services, and technology in support of federal agencies and state and local governments.

The GSA is well known for their acquisition systems that agencies can use to buy goods and services from qualified/registered vendors through the use of the Federal Supply Schedule (FSS) program. The FSS program includes the Multiple Award Schedule (MAS) and the Department of Veterans Affairs (VA) Schedules (GSA, 2022c). The GSA delegated authority to the VA to establish FSS for medical products and services. The FSS program is governed by two regulatory documents:

1. **Federal Acquisition Regulation (FAR):** FAR Part 38 details policies that must be followed when utilizing the FSS for supplies and services. FAR Part 8 describes the FSS as a recommended source of supplies and services while FAR Subpart 8.4 details the ordering process for FSS orders.
2. **General Services Administration Acquisition Manual (GSAM):** The GSAM describes the GSA's acquisition policies that govern the relationship that GSA has with contractors/potential contractors.

The FSS program is designed to provide a simplified purchasing experience to federal agencies for the acquisition of commercial supplies and services at negotiated fixed prices (FAR 8.4, 2022). Under this program, the GSA enters into indefinite-delivery contracts with commercial entities to provide the negotiated prices for a given period of time. Federal agencies then place no-bid orders under these contracts, and deliveries are made to the customer. Agencies are able to place orders directly on a FSS and as long as

buyers visit the market, the requirement regarding competition is satisfied through the multiple sellers on each platform. Vendors cannot list supplies or services in their schedule unless the Federal Acquisition Service (FAS) awards it onto a schedule contract.

GSA Advantage!® is the GSA’s online marketplace through which ordering individuals can place orders against an FSS. Initially launched in October 1995, the goal of the system was to allow agencies to order stock items from the GSA’s warehouses in an online system with a government payment card. The Clinger–Cohen Act of February 1996 required the development of a system that would provide governmentwide access to all FSS products and services (Government Accountability Office [GAO], 2003). The GSA decided that Advantage could possibly meet the requirements of the act and began adding schedule services to the system in February 2000. GSA issued a mandate to require all schedule holders to participate in Advantage after only 35% of schedule holders participated in Advantage in the beginning of FY2001 (GAO, 2003).

An ordering activity can search GSA Advantage!® for specific information, “review delivery options, place orders directly with schedule contractors, and pay for orders using the governmentwide commercial purchase card” (FAR 8.402, 2022). Buyers can search through 12 categories to find what they need: Facilities, Furniture and Furnishings, Human Capital, Industrial Products and Services, Information Technology, Miscellaneous, Office Management, Professional Services, Scientific Management and Solutions, Security and Protection, Transportation and Logistics Services, and Travel (GSA, 2022j). eBuy is a component of GSA Advantage that is designed to facilitate requests for quotations under GSA schedules and technology contracts. In a Job Aid document, GSA stated that using eBuy maximizes buying power for federal, state, and local governments while also increasing contractor participation which results in best value purchase decisions (GSA,2019).

In order for a contractor to get a schedule, they must show that they are responsible and responsive (GSA, 2020b). GSA stated that Contractors must have been in business for two years, provide two years of financial statements, and have measurable past performance. GSA also notes that experience related to three or more previous federal contracts with ratings available in Contractor Performance Assessment Reporting System

(CPARS) are acceptable. However, if a contractor does not have previous federal experience, they must provide six or more nonfederal customers to obtain a past performance and evaluation Open Ratings report through Dun and Bradstreet. This Open Ratings report rates contractors on their reliability, quality, cost, business relations, order accuracy, professionalism, delivery/timeliness, and customer support/responsiveness. GSA stated that they review each schedule application in the order that they received it but the application and award process typically takes up to 12 months. A contractor may be eligible for a more streamlined process if their offer is in direct support of the COVID-19 pandemic.

Throughout the contract's life, GSA requires a contractor to maintain compliance with all of the requirements of their FSS. A GSA representative is assigned to each contractor after award, and the contractor is required to share full pricing lists on GSA Advantage! for the public to view within 30 days of award and following any modification to the contract (GSA, 2020b). There is also a minimum sales requirement. Contractors "must generate \$25,000 in sales within the first two years of their schedule contract and then \$25,000 per year thereafter." Any sales against their GSA schedules must be reported in accordance with the reporting requirement documented in the contract at award. Subcontracting opportunities are available for those that do not have a schedule contract. The GSA encourages this route for those that do not have previous experience working with the federal government.

C. U.S. GOVERNMENT ACCOUNTABILITY OFFICE REPORTS

The U.S. Government Accountability Office (GAO), commonly described as the "congressional watchdog" or "the investigative arm of Congress," conducted an assessment in 2018 of the e-commerce portal implementation plan for the GSA and the Office of Management and Budget (OMB) (GAO, 2018). While the GAO typically produces recommendations from their reviews, they instead identified potential issues for consideration. From their review, the GAO found that the plan submitted described three potential portal models: an e-commerce model, an e-marketplace model, and an e-procurement model. Though the three models sound very similar, there are distinct

differentiations that make them unique. With the e-commerce model, “Product vendors sell their products directly to the consumer through their own e-commerce portals. These portal providers are responsible for the fulfillment of product orders, including invoicing and delivery” (GAO, 2018, p. 4). An e-marketplace, on the other hand, is

An online portal run by one vendor—the portal provider. The marketplace can offer third party vendor products and the portal providers’ products as well. Portal providers and third-party vendors are generally responsible for fulfilling orders for their respective products. (GAO, 2018, p. 4)

In the e-procurement model, “A third party provides software that enables price comparisons across multiple portals. The third party does not sell products directly to the consumer. Suppliers on these portals are responsible for fulfilling orders” (GAO, 2018, p. 4). Reportedly, the platform carried out is one that involves aspects from all three.

From the GAO’s review, four key issues were noted that would have to be considered as Phase Two was approached. The four key issues referenced ultimately share the same themes – 1) how would the portals program be integrated and coincide with the current framework and 2) what methods would be used to capture data and ensure development from the field test. Acknowledging gaps in the plan for the proof-of-concept platform, the GSA and OMB gave assurance further analysis and market research would be done before proceeding (GAO, 2018).

In September 2021, the GAO released another report highlighting that the GSA’s assessment and tracking plans still needed further development (GAO, 2021). The GAO found that the GSA was

testing the concept of using online marketplaces where purchase card holders at federal agencies can easily buy commercially available products. In June 2020, GSA awarded contracts to three platform providers in what it calls the commercial platforms program. Through the program, 13 participating federal agencies can purchase products up to the micro-purchase threshold (generally \$10,000). The three platforms vary, but all have characteristics that serve the needs of government purchase card holders. (GAO, 2021, “What GAO Found” section)

The three providers awarded no-cost contracts for a proof-of-concept platform were Amazon Business, Fisher Scientific Company LLC, and Overstock Government.

Resulting from a performance audit the GAO found GSA's assessment plan was incomplete. It did not include milestones for tracking development or speak to previously identified concerns of security tools in place to avoid unauthorized activity (GAO, 2021). The GAO recommended these issues be rectified as quickly as possible so the GSA could better position themselves to (1) see if the proof-of-concept platform is being implemented correctly and ready to be adopted governmentwide and (2) ensure data requirements are being followed properly to protect information from getting in the wrong hands.

A frequent criticism the DOD's acquisition process receives is that it is outdated. As stated in Volume 3 of the *Report of the Advisory Panel on Streamlining and Codifying Acquisition Regulations*,

Challenges persist, in part, because decades of legislation and policy initiatives that governed, and often attempted to reform, the acquisition system continue to rely on unique terms, conditions, and processes better suited to the industrial age, not the information age, much less the rapidly approaching artificial intelligence age. These industrial-age artifacts are not agile, do not value time, and serve as barriers to small and nontraditional businesses. (Section 809 Panel, 2019, p. 20)

The nature of small businesses already faces barriers; they operate on limited staff, funds, and resources. So, if other than small businesses are having difficulty navigating the waters, then it can only be imagined how hard it is for small businesses to get by. In fact, Volume 3 of the *Report of the Advisory Panel on Streamlining and Codifying Acquisition Regulations* states, "Set-asides do not create the proper incentives for DOD to procure readily available products, and these programs have the potential to stunt, rather than encourage, small business growth" (Section 809 Panel, 2019, p. 31). Notably, as said in the Volume Three report,

Set-asides and other small business programs incent small businesses to make extraordinary efforts to remain small. Setting-aside all procurements under a certain dollar threshold does not encourage a small business to grow beyond that threshold, especially if that business relies on competing for procurements that are currently set aside for small business. Outgrowing the size standard makes those businesses ineligible to compete for the same contracts that, in many cases, were critical to the success of the small business. (Section 809 Panel, 2019, p. 32)

One recommendation by the Section 809 Panel is that

Using a price preference and requiring DOD to continue to meet the overarching small business use goal established by [the Small Business Administration] will ensure the same amount of DOD dollars are invested in small business, while allowing capable small businesses to grow and compete for opportunities. Such a requirement could help achieve Congress’s direction to DOD to “create opportunities and a pathway for small businesses to grow and compete for future DOD contracts as larger entities” where set-asides fall short for one reason or another. (Section 809 Panel, 2019, p. 32)

D. AMAZON AMENDMENT

The U.S. Congress’s FY2018 NDAA included a provision requiring the GSA to implement multiple online marketplaces for the acquisition of commercial products using a two-year phased-in approach (Miller, 2017). The FY2018 NDAA required the GSA to

develop an implementation plan and schedule within ninety days of the act becoming law. Then a year later [FY19], GSA and the Office of Management and Budget (OMB) should recommend changes to laws to ensure the effective implementation of the online marketplaces, as well as what products should be included in the pilot, a review of standard terms and conditions, including small business and other similar requirements, and what security features are needed to protect data. Finally, two years after the bill becomes law, GSA and OMB will issue guidance to create the marketplace. (Miller, 2017)

This requirement to develop new online marketplaces was referred to as the “Amazon Amendment.” President of the Coalition for Government Procurement, Roger Waldron, agreed with the “thoughtful and phased-in approach” rather than an immediate launch of a new online marketplace (Miller, 2017).

It’s important to see how the government can leverage commercial technologies like e-commerce but also understand how it can be effectively leveraged in a balanced way given all the different stakeholders and touch points when you are dealing with the government. Something like this approach was imperative and Congress recognized that. The need to balance the government’s requirements with commercial buying desires requires a thoughtful process to figure it out. They also recognized the critical role data plays. The new provision prohibits commercial providers from using the data for any competitive advantage, and it recognizes there could be an inherent conflict of interest between the marketplace provider and the product provider. (Miller, 2017)

In March 2018 (FY2018), the GSA submitted an initial implementation plan that detailed their “approach and policy assessment associated with the proposed implementation of e-commerce portals outlined in Section 846 of the FY2018 NDAA” (General Services Administration [GSA], 2018). The purpose of this plan was to direct the GSA administrator (the agency head) to “procure commercial off-the-shelf (COTS) items through commercial e-commerce portals. ... [This document] identifies opportunities, recommends legislative changes that allow migration to more commercial practices, and defines the approach and timeline for implementation” (GSA, 2018). This implementation plan covered from the enactment of this law in December 2017 how the GSA looked for stakeholder input and requested statutory relief from sections of the NDAA. The implementation plan also explored how the GSA plans to move forward with achieving the goals listed in the FY2018 NDAA.

In December 2017, the GSA released a *Federal Register* notice in order to solicit comments from public stakeholders regarding the new online marketplaces designs, commercial-buying practices, and considerations for implementation (GSA, 2018). The main concerns from industry were regulation balance, compliance, product value, transparency, implementation, security, and transition planning. The government often has unique and strict requirements, and the large amount of government regulations can clash with commercial terms and conditions, making it difficult for companies to do business with the government. While the creation of a direct online marketplace is appealing for industry, one of the main barriers to working with the government for businesses is the seemingly endless number of regulations and requirements that businesses need to understand and adhere to (GSA, 2018). A question asked by industry is: will there be any relaxation of the complex government requirements within these new online marketplaces?

Industry is also interested in how the government will determine the products’ or services’ value when deciding to make a purchase. Two of the most common ways of deciding which offeror should be awarded the contract is based on the lowest price technically acceptable (LPTA) or a best value decision (GSA, 2018). With LPTA, the government’s technical team evaluates all the proposals to list which offers meet the technical requirements and are “technically acceptable,” and then the lowest-priced offer

of the technically acceptable quotes is the awardee. This process encourages offerors to meet the technical requirements while also having the lowest price on the market, which can cause offerors to lower their price to win, but they could come back after award and request more money or potentially go out of business because they are not earning a profit. With a best value decision, the government's technical team rates the technical scores of each offeror and then can award to a higher-priced offeror if that offeror has a higher technical rating than a lower-priced offeror (GSA, 2018).

When it comes to transparency, industry is concerned about the need for marketplace fees to be announced upfront and that the marketplace should be open to all suppliers who want to sell their products to the government (GSA, 2018). With the Navy's current SeaPort-NxG platform, vendors must first have a MAC award, and while that is necessary to make sure vendors have the correct North American Industry Classification System (NAICS) code to do business on SeaPort-NxG, this can be seen as overly restrictive. In terms of security, industry is adamant that the government needs to have plans in place to protect against counterfeit items and supply chain risks.

Concerns from the agency perspective were data ownership and security concerns, risk management, prioritization of mission-critical requirements, reduction of burden on the acquisition workforce, and policy relief to support these new online marketplaces (GSA, 2018).

In order to streamline the process of purchasing COTS items within the federal government, the new online marketplaces need to fulfill public policy objectives; minimize administrative operating costs; satisfy the customer in terms of cost, quality, and timeliness; and conduct business with integrity, fairness, and openness (GSA, 2018). Within the federal buyer/acquisition workforce, acquisition professionals have the intention to simplify the COTS buying process, have confidence in best value procurements through efficient competition, modernization of interfaces to be comparable to the consumer experience of the general public, and transparency/data reporting improvements (GSA 2018). According to the comments received from industry stakeholders, their desired goals for the new online government marketplace are "minimize the administrative, financial, and business burdens placed on suppliers, establish the commercial portal as a

reputable business partner and opportunity, and to ensure transparency across the marketplaces” (GSA, 2018).

As stated in GSA’s ‘Procurement Through Commercial E-Commerce Portals: Implementation Plan’, the policy goals of the FY2018 NDAA were to design and implement portals to reflect the commercial-buying practices as closely as possible (GSA, 2018). While COTS items are purchased in the commercial world quickly and efficiently, in the federal government atmosphere, purchases are delayed with mountains of paperwork and bureaucratic red tape. Through the GSA’s research, they have provided four recommendations to Congress to streamline the project of adding new online government marketplaces (GSA, 2018). First is a recommendation to increase the micro-purchase threshold to \$25,000 which will facilitate a virtual comparison shopping experience to government buyers. Second is to empower the GSA to modernize the competition requirements throughout the e-commerce portals which will enhance competition and lower prices. Third is the authorization for the GSA to make the most of contractual agreements maximizing efficiency for buyers/sellers, as well as, portal providers. The final recommendation is for the clarification and expansion of the commercial e-commerce portal definition (GSA, 2018).

E. GSA RESPONSE TO AMAZON AMENDMENT

Prior to the 2018 NDAA, it was discovered that a top Amazon executive privately advised GSA officials on a procurement portal that could be worth billions to the company (Kirchgaessner, 2018). Emails showed that Amazon executive Anne Rung, a former official in the Obama administration, communicated with Mary Davie, the deputy FAS commissioner, about the approach that GSA should take for the new portal, which illustrates how the company has been using key former government officials and consultants to potentially shape lucrative government contracts. In the emails, Rung asked whether they [Rung and Davie] should wait to discuss the procurement portal until after the legislation passed. However, Davie responded that “the administration was planning on moving ahead regardless of the outcome of the bill on Capitol Hill.” In a statement to *The Guardian*, the GSA noted that they “met with 35 companies in 2017 and 2018 to

discuss existing commercial capabilities and conduct market research regarding the e-commerce platforms.”

Although Congress mandated that the GSA test out different approaches (e-procurement, e-marketplace, and e-commerce), the GSA decided to start with the e-marketplace concept first. In response to implementation efforts for the commercial platforms program and Section 846 of the 2018 NDAA, the GSA awarded contracts to three e-marketplace platform providers in June 2020.

The goal of the proof-of-concept is to provide a modern buying solution for federal customers and increase transparency on agency spending that’s already taking place with better data through this solution. Further, this solution leverages the government’s buying power and increases supply chain security awareness with a governmentwide approach. According to GSA Federal Acquisition Service Commissioner Julie Dunne, the proof-of-concept will start small and be refined through repeated testing. GSA will continue to solicit stakeholder feedback as has been the case throughout the program’s development. (GSA, 2020a)

After the official launch of the program in August 2020, contractors were able to partner with three commercial e-marketplace platforms: Amazon Business, Fisher Scientific, and Overstock Government. The platforms allowed the “GSA to test the use of commercial e-commerce portals for purchases below the micro-purchase threshold” for up to three years (GSA, 2020a). The following descriptions are on the GSA Awarded E-Marketplaces webpage (GSA, 2021e):

1. **Amazon Business:** Amazon Business combines the selection, convenience, and value you expect from Amazon, with features that can help improve your operations and modernize legacy processes.
2. **Overstock Government:** Overstock Government is an online retailer that offers a great value on a broad range of quality products in office management, furniture, facilities, construction, industrial equipment, and electronics.
3. **Fisher Scientific:** Fisher Scientific offers multiple categories including laboratory equipment and instruments, lab consumables and chemicals, safety, PPE and maintenance. (GSA, 2021e)

Fisher Scientific and Overstock Government created a modified version of their website to differentiate the proof of concept response from their commercial site (GSA, 2021e). Amazon representatives stated that the decision to not create a custom site for their

platform was to enable Amazon to innovate new features quickly. Amazon and Fisher Scientific also promote their own first-party or wholesale products. Overstock began phasing out the promotion of its own products in an effort to focus on collaboration with third-party vendors. All three platforms include government-specific features such as the ability to prioritize products from mandatory sources, like AbilityOne suppliers, or flag prohibited products. Government buyers can also identify the socioeconomic status of a supplier and document their comparison of products and prices.

The GSA proposed that their proof of concept would provide many benefits, including a modern, streamlined buying experience, pricing benefits, and choice across a large pool of suppliers and products (GSA, 2022g). The proof of concept would also facilitate small business purchasing and implementation of supply chain risk management. As of March 2022, the following agencies participate in the commercial platforms proof of concept:

- Bonneville Power Administration
- Consumer Financial Protection Bureau
- Department of Commerce
- Department of Justice
- Department of Labor
- Environmental Protection Agency
- Farm Credit System Insurance Corporation
- Federal Housing Finance Agency
- General Services Administration
- Health and Human Services
- Housing and Urban Development

- Office of Government Ethics
- Pension Benefit of Guaranty Corporation
- Small Business Administration
- Agency for International Development
- Department of Agriculture
- Veterans Affairs

Each of these participating agencies have been granted a varied set of purchase holders with access to each of the e-marketplace platforms (GSA, 2022f). In order for a vendor to partner with any of the awarded platforms, the GSA directs those vendors to communicate directly with those contract holders.

As part of the program, “platform providers submit standardized data elements to” the GSA on a monthly basis for each transaction (GAO, 2021, p. 13). The providers need to report order, shipping and delivery dates, quantities of items, total price, agency and department names, part numbers, product service codes, vendor name, and vendor socioeconomic status. The data submitted by the platform providers allows the GSA and participating agencies to conduct trend analysis to identify repeated purchases and provide additional insight that can influence better buying strategies. While the GSA collects this data to track selected performance metrics, there is no clear plan as to how these metrics will measure the success of the online marketplace.

In March 2022, the GSA released a Request for Information (RFI) welcoming industry feedback on the commercial platforms program (Lackey, 2022). The RFI was divided into two primary sections. The first section requested high-level feedback on the areas that the GSA may include in future commercial platform contracts and if any of these areas would be difficult to meet based on existing commercial practices. The second section highlighted user experience feedback collected over the last 18 months after the implementation of the agency’s proof of concept and requested detailed feedback on commercial practices as well as any information of the availability of features on the

current commercial online platform. Responses were invited through the use of a Google form, which closed on April 15, 2022. The results of this RFI are not yet available.

III. ANALYSIS

This research identifies how online marketplaces can provide market efficiencies without sacrificing competition and diversity among providers.

A. PRIMARY RESEARCH QUESTION

The primary research question for this research is: how can online marketplaces provide market efficiencies to government buyers without sacrificing competition and diversity among providers?

Government buyers want quality products at fair prices. E-marketplaces help facilitate purchases between the buyers and sellers “by lowering transaction costs, diversifying suppliers, optimizing user experience, and expediting order fulfillment” (Burton, 2020). There is also a remarkable transparency in purchase card spending history on the platforms. Buying agencies can view real time data to show trend analysis in their purchases to include vendor size status.

E-marketplaces have an exceptional ability to meet supply and demand. Vendors can post their items and gain more exposure than they would normally be able to do on their own. They also streamline the transaction experience and remove traditional roadblocks. In the first year after launch, the GSA’s commercial platform reported about 45,000 orders resulting in over \$11.7 million spent by over 35,000 agency users in the online marketplaces (GSA, 2022d). The GSA reported that a user survey indicated that 85% of users felt that they saved time with 64% indicating that they felt as though they saved a significant amount of time. Almost two-thirds of users stated they could easily identify small business vendors, and 88% of users felt as though the prices were competitive.

With the addition of e-marketplaces, the government is able to “centralize its account management, compliance procedures, and spend management” since thousands of orders can be placed through the new GSA commercial platform (Burton, 2020). Since offers from multiple sellers are shown on the same page, the e-marketplace facilitates price competition. The e-marketplaces are designed similarly to popular consumer websites,

such as Amazon.com or Target.com, so this improves efficiency as government buyers can use platforms that mirror their own commercial consumer shopping experience.

Online marketplaces also provide government buyers with a larger pool of sellers. Under the FSS program, the GSA has over 15,000 contractors with an awarded schedule. In contrast, Amazon reported having over 500,000 sellers in the United States (Amazon, 2021). This is due to the lower barriers to entry. “Obtaining a Schedules contract is a challenging process for a company of any size” (GSA, 2020b). From start to finish, the process to get a GSA schedule is difficult, often taking from a few months to over two years depending on a company’s resources and experience and which type of GSA schedule they are pursuing.

Many small businesses do not have the experience to obtain a GSA schedule or maintain the minimum sales requirement necessary to keep their schedule contract. They are often dismayed at the number of regulations that must be followed to enter into a contract with the government so the debut of the e-marketplaces with lower barriers to entry for businesses looking to sell lower-dollar products has resulted in increased small business participation in government purchase card procurements. Amazon currently advertises a very streamlined approach to sellers looking for an Amazon Business account (Amazon, 2022). Sellers must first register to sell on Amazon, then create a business profile, and finally set up their product catalog. Actively removing restrictive barriers could allow historically disadvantaged small businesses the opportunity to bid when they would otherwise be restricted from participation. Increased supplier participation and competition would give government buyers better pricing opportunities in an environment that GSA believes closely aligns with administration priorities while minimizing Government burden and costs (GSA, 2021b).

B. SECONDARY RESEARCH QUESTIONS

The three secondary research questions are: (1) how do online marketplaces provide structured relationships with their suppliers/business partners, (2) what concerns do small businesses and other interest groups have about the transition to online marketplaces, and

(3) how can small businesses profit and benefit from changing their business processes to better align with this digital acquisition approach?

1. How do online marketplaces provide structured relationships with their suppliers/business partners?

A good business-to-business relationship creates significant value and helps supply chains become more resilient. Having industry partners is a critical part to the acquisition infrastructure, and there's no secret that the federal government has moved from in-house production and procurement to those with contracts from the following contract vehicles: the GSA's Multiple Awards Schedule (MAS) or Governmentwide Acquisition Contracts (GWACs) from either GSA, National Aeronautics and Space Administration's (NASA) Solutions for Enterprise-Wide Procurement (SEWP), or Seaport-NxG.

GWACs are defined as "pre-competed, multiple-award, indefinite delivery, indefinite quantity (IDIQ) contracts that agencies can use to buy total IT Solutions" (GSA, 2022a). The GSA's MAS program, a subset of GSA's GWAC, is a leading contract vehicle for the federal government. Under the MAS,

Suppliers give federal, and in some cases state and local buyers (including tribal governments and some educational institutions), access to millions of commercial products and services at negotiated ceiling prices. Schedule purchases amount to approximately \$36 Billion per year. (GSA, 2021g)

The GSA's MAS program is a streamlined process that allows industry partners to sell commercial goods and services directly to government agencies at a competitive price and in accordance with basic federal regulations and policies (GSA, 2022j). GSA markets the MAS program as "giving buyers access to small businesses to support socioeconomic goals, having pre-qualified contractors and pre-negotiated ceiling prices to achieve best value, and providing access to emerging technologies and innovative solutions" (GSA, 2022h).

Similarly, NASA SEWP has pre-negotiated contracts with both manufacturers and resellers. However, they take a different approach to selling and have unique verification tools. KG Woltz, SEWPs technical operations manager, says,

Unlike the traditional catalog-based contract where requests for products are based on what is available in a catalog, SEWP is a request-based contract vehicle where the catalog is based on customer requests. There is no static catalog to search. SEWP has an online, dynamic, constantly updated catalog. As long as your requirements are within scope, you can send out a Request for Quote (RFQ) or a Request for Information (RFI). And if the product is not in the SEWP database you can use the Market Research Tool (MRT) to have it added within 24 hours. (Solutions for Enterprise-Wide Procurement, n.d.)

To ensure supply chain integrity, quotes submitted are automatically processed through a verification tool—SEWP’s Established Authorized Reseller program—which verifies relationships between contract holders and original equipment manufacturers. The verification tool will restrict nonestablished authorized resellers from quoting items to government agencies. Further checks in place are an electronic product environmental assessment tool that assigns products and services ratings depending on conformance to set standards, verification of compliance with the Trade Agreements Act, and assurance that Section 508 accessibility conformance reports were obtained.

SeaPort-NxG, composed of 2,400+ contract holders, is the Navy’s platform for acquiring support services. While they take pride in enhancing small business participation, interested parties have to go through a rolling admissions process, which only occurs every two years.

For the GSA’s pilot program, platform providers conduct original checks to source, select, and vet suppliers. The GSA then regularly conducts screenings to ensure compliance with FAR Subpart 9.4—which forbids business dealings with suspended or debarred entities—as well as FAR 52.204-24 and FAR 52.204-25, which prohibit telecommunication equipment from certain suppliers. Compliance checks such as these are new to the three platform providers and have caused them to revisit and broaden their supplier list, particularly adding more companies who fall under 8(a) small business programs. Each platform is customizable to the various agencies, allowing them to set their own controls such as purchase authorization and spending limit features, access for administrators to view purchasing data of purchase card holders, and even a filter feature

for agency representatives to sort by product, brand, price, and so on (GAO, 2021, pp. 11–13).

2. What concerns do small businesses and other interest groups have about the transition to online marketplaces?

As discussed in the literature review, the GSA solicited comments from industry and government agencies regarding the overall program design, commercial-buying practices, and considerations of the implementation of online marketplaces. The main concerns from industry prior to the transition to the GSA’s new online marketplaces were regulation balance, compliance, product value, transparency, implementation, security, and transition planning.

The government’s complex and unique requirements often create a barrier to entry for commercial companies who are interested in providing goods or services to the government. Small businesses were concerned how the new direct online marketplace would address the seemingly endless number of regulations and requirements that businesses need to adhere to when doing business with the government. In order to ease the transition to a new online marketplace, interest groups requested that the complex government requirements would be relaxed.

When it comes to transparency, industry was concerned about the need for marketplace fees to be announced upfront and that the marketplace should be open to all suppliers who want to sell their products to the government. With the Navy’s current SeaPort NxG platform, vendors must first have a MAC award, and while that is necessary to make sure vendors have the correct NAICS code to do business on SeaPort NxG, this can be seen as overly restrictive. In terms of security, industry is adamant that the government needs to have plans in place to protect against counterfeit items and supply chain risks.

Since the commercial platforms program was originally implemented in October 2020, buyer feedback has significantly improved the GSA’s understanding of the three-commerce landscape (Lackey, 2022), and the buyer’s experience was noted as a top priority area. If government buyers have difficulty using the GSA’s new commercial platforms, it

will decrease the ability of government acquisition professionals to meet their mission efficiently. Since October 2020, GSA’s commercial platforms program has gone from 350 cardholders across four participating agencies to over 40,000 eligible cardholders across more than 20 participating agencies. The number of eligible cardholders and participating agencies is a vital component of marketing these platforms to industry because it highlights the real contracting opportunities attached to the platform. A platform without buyers would hinder the transparency on agency spending and dissuade industry from registering on these new platforms.

There was also a concern about the identification of small business vendors and mandatory sources such as AbilityOne suppliers. In order to alleviate this concern, platform providers included government-specific features to designate preferred suppliers/products and identify prohibited sources. Search functions allow government buyers to prioritize mandatory sources, such as AbilityOne suppliers, and limit searches to specific socioeconomic size standards. As stated above, almost two-thirds of users felt that they could easily identify small business vendors. This response could support the concerns of small businesses in regard to identification.

In March 2022, the GSA released an RFI to welcome industry feedback as the commercial platforms program sought to expand and broaden industry participation in future program contracts (Lackey, 2022).

3. How can small businesses profit and benefit from changing their business processes to better align with this digital acquisition approach?

The integration of digital technology into all areas of acquisition, resulting in fundamental changes in how agencies operate their acquisition process and the value they deliver to their customers defines the digital acquisition approach (Gurumurthy, 2020). By adapting to new digital technologies, organizations are better able to engage with modern buyers and deliver on their expectations of a seamless customer experience. According to Deloitte’s 2020 report, “digital maturity’s impact on financial performance comes from enabling improvements in efficiency, revenue growth, product/service quality, customer

satisfaction, and employee engagement—as well as by prompting a greater focus on growth and innovation” (Gurumurthy, 2020).

As the government continues to develop and expand the available commercial platforms, it is imperative that small businesses adapt their business processes to better align with this digital acquisition approach. In FY2021, \$11.7 million were spent across 45,000 orders through the GSA’s three e-marketplaces (Amazon Business, Fisher Scientific, and Overstock Government). The top 10 categories of product spending in FY2021 were information technology peripherals; domestic appliances and supplies; office furniture; apparel and luggage; office equipment and supplies; printed publications; printing, photographic, audio, and visual equipment and supplies; safety equipment and supplies; laboratory/measuring, observing, and testing equipment; and sports and recreational equipment (GSA, 2022c). The above listed categories of products do not often require specific technical backgrounds, so they are great options for small businesses to enter the government markets.

Within the GSA, there is an Office of Small and Disadvantaged Business Utilization, which focuses on assisting companies by connecting them with experts on federal opportunities. The Office of Small and Disadvantaged Business Utilization monitors and implements small business policies at the GSA and supports the Small Business Administration’s programs by working with chambers of commerce, advocacy groups and small business coalitions in order to showcase small business capabilities and highlight small businesses that are capable of performing the requirements associated with federal procurement opportunities (GSA, 2022b). This office is available to any companies who are currently working with one of the three commercial platforms as well as any companies who are interested in those commercial platforms.

By changing their business practices to better align with the digital acquisition approach, small businesses are able to align themselves with emerging marketplaces where there are many contract opportunities available.

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IV. RECOMMENDATIONS

Since the GSA commercial platforms are newly implemented, there has not been enough time for sufficient market research to be done on the effectiveness of these new platforms. In March 2022, the GSA released an RFI on SAM.gov

Requesting feedback and insights from the providers of commercial online platforms in order to prepare for a planned follow-on acquisition for the Commercial Platforms program in support of Section 846 of the NDAA for FY2018, Procurement through Commercial e-Commerce Portals. (Lackey, 2022).

The GSA identified commercial business models in 2018; however, now that five years have passed, customer agencies have requested that in their next generation model, the GSA expand and broaden the pool of participating providers to include other online retailers (Lackey, 2022). The GSA is looking to identify which features and processes are needed for buyers to efficiently and cost effectively make purchases through the commercial platforms and to allow more providers to participate within the platforms. The results of this RFI are not yet publicly available but will provide opportunities for further analysis of the GSA's commercial platforms.

The GSA's most recent RFI only includes one mention of small businesses, which does not encourage small businesses to participate or feel comfortable entering such a large market. In the GSA's future RFIs, we recommend that more emphasis should be placed on small business outreach and impacts. By listening to the concerns of small businesses, the GSA will be better able to develop a relationship with small businesses and expand their industrial base.

In order to continue the process of improving the GSA's commercial platforms, the GSA must reach out to both customers and buyers to learn more about the useability of these platforms. As discussed in Chapter III of this paper, in FY2021 almost two-thirds of GSA commercial platforms users said that they could easily identify small business vendors within the platforms. The GSA should discuss why that number is only two-thirds of users and develop an indicator within the platforms to highlight small business vendors.

All government agencies have small business goals, so government buyers are interested in knowing which vendors are small businesses.

In addition to improving the GSA's commercial platforms, modifications to the FAR could also increase small business participation in government contracting. As stated in FAR 8.404(a), FAR part 19 (Small Business Programs) does not apply to orders placed against FSS contracts (FAR 8.4, 2022). By removing the FAR part 19 exclusion from FAR 8.404(a), that would allow small business provisions to apply to FSS efforts, thereby increasing opportunities for small business contractors to participate in more sectors of government acquisitions. Without the current FAR part 19 exclusion from FSS contracts, it would initiate a fundamental change in the approach to FSS purchases to protect small business interests.

When the FAR was first implemented in April 1983, it was 1,953 pages. As of January 2018, the FAR had 2,320 pages and the DFARS had 1,702 pages (Section 809 Panel, 2019, p. 391). While acquisition professionals have a desire to communicate better with industry, it is often difficult to wade through the tons of rules and regulations to find out the approved process to work with industry without breaking any laws. The FAR is continuously being updated and changed as rules and regulations change. For example, the 2002 FAR in 8.404(a) stated:

General. Parts 13 and 19 do not apply to orders placed against Federal Supply Schedules, except for the provision at 13.303-2(c)(3). Orders placed against a Multiple Award Schedule (MAS), using the procedures in this subpart, are considered to be issued using full and open competition (see 6.102(d)(3)). Therefore, ordering offices need not seek further competition, synopsise the requirement, make a separate determination of fair and reasonable pricing, or consider small business programs. GSA has already determined the prices of items under schedule contracts to be fair and reasonable. By placing an order against a schedule using the procedures in this section, the ordering office has concluded that the order represents the best value and results in the lowest overall cost alternative (considering price, special features, administrative costs, etc.) to meet the Government's needs. (FAR 8.4, 2002)

In the 2022 FAR, the language within 8.404(a) has been updated to reflect:

General. Parts 13 (except 13.303-2(c)(3)), 14, 15, and 19 (except for the requirements at 19.102(b)(3) and 19.202-1(e)(1)(iii)) do not apply to BPAs or orders placed against Federal Supply Schedules (but see 8.405-5). BPAs and orders placed against a MAS, using the procedures in this subpart, are considered to be issued using full and open competition (see 6.102(d)(3)). Therefore, when establishing a BPA (as authorized by 13.303-2(c)(3)), or placing orders under Federal Supply Schedule contracts using the procedures of 8.405, ordering activities shall not seek competition outside of the Federal Supply Schedules or synopsise the requirement; but see paragraph (g) of this section. (FAR 8.4, 2022)

In the 2022 FAR, 8.404(a) has been expanded to also exclude parts 14 and 15 from FSS contracts (FAR 8.404, 2022). These additional exclusions further increase the administrative burden on government acquisition professionals as well as deter potential vendors from entering the market due to the many levels of red-tape and bureaucracy that complicate the acquisition process.

In conclusion, a combination of GSA continuing to develop their e-marketplaces and by Congress removing the FAR part 19 exclusion from FAR 8.404(a), online marketplaces will be able to provide market efficiencies to government buyers without sacrificing competition and diversity among providers.

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