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As Amazon Enters Government Purchasing Market, Signs of a Bad Deal Emerge.

The online retail giant's new relationship with public schools and agencies raises concerns that the company is cornering the marketplace and costing taxpayers more money.

Amazon has already helped reshape the retail landscape for books, clothes and groceries. Now the online retail giant is moving into local government procurement. This new business venture is raising concerns that cities, school districts and counties will end up spending more money than they have to on supplies.

Early last year, Amazon contracted with the Prince William County School District in Virginia and by extension earned a contract with U.S. Communities, a purchasing group with public-sector members in all 50 states. More than 1,500 public agencies have since signed on to buy products through Amazon Business, the B2B counterpart to the company's popular Prime service.

While Amazon and U.S. Communities have touted their partnership as a cost-saver for public agencies and a boon for suppliers, a new report finds that Amazon Business does not always deliver the savings it promises. The report by the Institute for Local Self-Reliance, a frequent critic of Amazon, also argues that Amazon is increasingly cornering the supply market by forcing vendors to sell their products through Amazon.

Critics say the contract between U.S. Communities and Amazon is written in a way to favor the company and makes it next to impossible for vendors not on Amazon to compete for the job.

On a press call about the report, Mike Mucha of the Government Finance Officers Association explained the contractual problems with an example of a government choosing a new type of software, in which Apple is expected to be one of the proposed vendors.

"You can structure that process so that you can truly evaluate the merits of [different companies] through a fair process. Or you can include a requirement in the RFP [request for proposal] that says, 'The logo must be in the shape of a fruit,'" he says. "It's not a real RFP."

Prince William County Public Schools created a similar bid in 2016 when it required 10 product categories in an RFP for office supplies. Of the 12 firms that submitted bids, only Amazon was able to supply all 10 of the categories requested.

Additionally, the Amazon contract differs dramatically from traditional procurement contracts between governments and businesses. While government purchases are usually based on fixed prices, the Amazon Business prices can vary by the day and even by the hour. The report analyzed purchases made by a California school district and found that buying those supplies from a local vendor as opposed to Amazon would have saved the district between 10 and 12 percent.

Amazon has added a feature that freezes the price for seven days after a product is added to a customer's online cart. But critics contend that still doesn't come with the guarantees made by a

contract with fixed prices from the time of signing.

“The pricing terms in the contract are based on the dynamic pricing that is found elsewhere at Amazon and Amazon Business,” says Olivia Levecchia, senior researcher at the Institute for Local Self Reliance and the report’s author.

If public agencies have long-established relationships with certain vendors, they are now only allowed to continue buying from them if those vendors join Amazon’s marketplace.

Adding to the list of concerns about Amazon Business is the profits the online retailer is raking in. According to the report, Amazon’s dual role as both seller to government agencies and representative for third-party sellers gives the company a 15 percent cut, via a fee charged by Amazon, of all such sales. The company earned $31.8 billion in fees charged to government vendors in 2017.

In response to the report, Amazon says that its practices insure the best prices and allow public agencies flexibility in purchasing.

“The competitively solicited contract helps education and public-sector organizations purchase directly from the Amazon Business marketplace, which includes small, local and socio-economically diverse businesses,” Amazon said in a statement. “More than 90,000 public-sector organizations, from individual schools to school districts to higher education institutions across the nation, can now access multiple purchasing categories in an online marketplace, as well as be confident that they are receiving dynamic and competitive pricing.”

U.S. Communities also defends the contract with Amazon, citing the company’s track record in delivering “lower total cost of procurement” as well as “improved compliance and reporting.” The Amazon marketplace, the group says, “supports supplier diversity.”

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