How to Approach Fair and Reasonable Pricing for GSA Schedule Contracts

Understanding the Real Cost of Compliance

When I first started working with GSA Schedule contracts, I thought the hardest part was just getting the paperwork right. The forms, the disclosures, the negotiations - it all seemed manageable if you followed the rules. But over time I realized that the real challenge is something more subtle: figuring out what counts as fair and reasonable pricing in a system that demands both consistency and flexibility.

Federal contractors often get stuck in a mindset where they either price too high and risk losing awards, or price too low and leave money on the table. The government's definition of fair and reasonable pricing is not just a ceiling. It is a floor too, because if your prices are too far below your commercial baseline, you might be violating the price reduction clause. That is the part that catches people off guard.

How the Government Defines Fair and Reasonable Pricing

The Federal Acquisition Regulation spells it out: a price is fair and reasonable if it does not exceed the market rate for comparable items under similar terms and conditions. That sounds simple enough, but the devil is in the details. Market rates shift. Comparable items are rarely identical. And terms and conditions can vary wildly between commercial customers and the government.

I have seen contractors assume that as long as they offer a discount off their commercial price list, they are safe. That assumption can be costly. The government compares your offered price to what you charge your most favored commercial customers, not just any customer. If your best commercial customer gets a 30 percent discount and you only offer the government 15 percent, your pricing may not be considered fair and reasonable. On the flip side, if you offer the government a deeper discount than what you give your best customer, you might trigger the price reduction clause and owe retroactive refunds.

Practical Steps to Build a Defensible Pricing Strategy

After years of helping contractors navigate this terrain, I have found a few approaches that work well in practice. First, gather your commercial sales data and segment it by customer type, volume, and terms. You need a clear picture of your own pricing landscape before you can negotiate with the government. Second, benchmark your pricing against publicly available

data from GSA Schedule holders and other federal contract award databases. This gives you a sense of where your prices land relative to competitors.

Third, document everything. Keep records of your commercial discounts, the rationale behind them, and how they relate to your GSA offers. If an auditor questions whether your pricing is fair and reasonable, you want to show a clear trail from your commercial practices to your government pricing. Fourth, build some flexibility into your schedule. Use blanket purchase agreements or price reduction clause thresholds that give you room to adjust without constantly modifying your contract.

One contractor I worked with had a product line where the commercial market was volatile. Prices fluctuated quarterly based on raw material costs. By structuring his GSA Schedule with a ceiling price and a mechanism to adjust downward when costs fell, he maintained fair and reasonable pricing while protecting his margins. The government accepted that approach because it was transparent and tied to market realities.

Avoiding Common Pitfalls

The most common mistake I see is treating the GSA Schedule as a one-time pricing exercise. Contractors set their prices at the start and then forget about them until renewal time. But markets change, commercial discounts evolve, and new competitors enter the field. A price that was fair and reasonable at the start of a five-year contract might look out of line by year three.

Another pitfall is ignoring the price reduction clause. The clause requires you to offer the government the same or better pricing that you give your most favored commercial customer for similar items. If you start offering steeper discounts to a new commercial customer mid-contract without adjusting your government pricing, you could be in violation. I have seen companies owe hundreds of thousands in refunds because they gave a big commercial deal and forgot to update their GSA pricing.

There is also the trap of over-customization. Some contractors try to argue that every government order is unique and therefore should be priced differently. While that can be legitimate in some cases, it can also raise red flags. The government expects consistency. If you price each order differently without a clear commercial justification, auditors may question whether your overall pricing structure is fair and reasonable.

Real-World Examples of What Works

Let me give you an example from a small IT services firm I advised. They had a commercial practice of offering volume discounts to large corporate clients. When they set up their GSA Schedule, they analyzed their commercial sales and found that the average discount across all

commercial customers was 18 percent. They offered the government a flat 18 percent discount, which was accepted as fair and reasonable. But they also added a clause that if any single government order exceeded $500,000, they would increase the discount to 22 percent, matching what their largest commercial client received. That approach satisfied both the government and the company's own profit targets.

Another example involves a manufacturer of safety equipment. Their commercial pricing varied by region, with higher prices in areas where they had less competition. When they entered the GSA Schedule, they worried about offering a uniform national price that might be too low in some regions and too high in others. They solved this by offering a baseline price that was fair and reasonable across all regions, then using a regional adjustment factor that was documented and tied to actual cost differences. The government accepted this because it was transparent and data-driven.

Building a Long-Term Pricing Culture

The companies that succeed with GSA Schedule pricing are the ones that embed fair and reasonable pricing into their regular business processes. They review their commercial discounts quarterly. They track changes in their market and adjust their GSA offerings proactively. They train their sales teams on the price reduction clause so that no one accidentally offers a commercial deal that creates a compliance problem.

I have seen companies treat pricing compliance as a burden, something to be handled by a single person in a back office. That approach rarely works well. When pricing decisions are made in isolation, mistakes happen. A better model is to involve your legal team, your sales leadership, and your finance department in regular pricing reviews. Everyone needs to understand how their decisions affect the company's compliance posture.

Final Thoughts on Getting It Right

Fair and reasonable pricing is not a one-size-fits-all formula. It is a standard that requires judgment, data, and ongoing attention. The contractors who do it well are the ones who treat it as a strategic advantage rather than a compliance hurdle. They use their pricing to win business, build trust with the government, and protect their margins. They do not just check a box and move on. They stay engaged with their pricing throughout the life of the contract.

If you are new to GSA Schedule contracting, start by getting your commercial data in order. If you are experienced, take a fresh look at your pricing structure and ask whether it still reflects your current commercial practices. Either way, remember that the goal is not to game the system. It is to build a pricing model that is transparent, defensible, and aligned with your business goals. That is what fair and reasonable pricing really means.