

Dot-gov goes retail

The federal government has become one of the biggest online retailers in America

While private-sector dot-coms are staggering under a market slowdown, online sales at the federal government's Web sites are thriving. But until now there's been no overall look at just how robust electronic retailing is on the dot-gov side. This report — based on a four-month investigation by a Federal Computer Week team — aims to provide that look. It was funded by the Pew Internet & American Life Project, which funds original research exploring the impact of the Internet on children, families, communities, the workplace, schools, health care and civic/political life, and is an initiative of the Pew Charitable Trusts.

In short, our research found that the federal government is selling a multitude of items online, and the American public likes it. But the online sales have recently drawn Congress' attention. On May 8, four members of Congress wrote a letter to the acting administrator of the General Services Administration suggesting that the agency's new online auction site is in violation of the Federal Activities Inventory Reform Act of 1998. The act intends to separate, wherever possible, agency competition with commercial ventures. Discussions about GSA's activities are pending. Read on to see the scope of the government's e-retail efforts.

By Judi Hasson and
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Move over, Amazon.com! Make way for your newest competitor in e-retailing: the federal government.

In the first comprehensive study of its kind, Federal Computer Week and the Pew Internet & American Life Project found that the government has become more successful at online retailing than the company whose name is synonymous with online shopping. Last year, Uncle Sam sold more than \$3.6 billion in products and property via the Internet. Amazon.com reported net sales of \$2.8 billion in 2000.

Although it's nothing new for government to sell excess property and assets, using the Internet is changing the way the government does business. Now it can reach a wider buying audience and achieve a greater level of efficiency than before, current and former technology executives say. The lower overhead to sell products and excess property means savings for taxpayers.

According to the study, the federal government operates or supports at least 164 sites that sell something to the public. The Defense Department operates at least eight sites that sell products ranging from toothpaste to used Army trucks and, in most cases, require a government identification to buy the products. The Treasury Department's "Treasury Direct" site accounts for the vast majority of government sales online, selling \$3.3 billion in U.S. savings bonds, T-bills and notes during the past year.

"It is a natural evolution for the government to sell directly to the public," said Bill Piatt, director of e-government strategy at Booz-Allen & Hamilton Inc., and former chief information officer for the General Services Administration, one of the bigger online sellers in government. "Many more citizens have access to property online than they do through the old approach."

Planes, Horses and Automobiles

From rare horses to houses, jet engines to high-performance cars, to everyday paraphernalia such as postage stamps and sweatshirts, Americans can find a variety of items for sale on sites run by federal agencies or by private companies under contract to the government to sell property.

Many consumers seem thrilled with their purchases. Last summer, computer scientist Tim Gorder ordered eight maps from a U.S. Geological Survey Web site (mapping.usgs.gov) in preparation for a five-day hike with his brother through Olympic National Park. The park is located in Washington state, thousands of miles from Gorder's home in King George, Va., and the locally available maps didn't have the level of detail he needed. "I had to have the most up-to-date information," Gorder said. "A Rand McNally map just won't do it for hiking in a wilderness area."

Lisa Shook, who lives in Bryans Road, Md., bought two wild mustangs from the Bureau of Land Management via the agency's Internet auction site (www.adoptahorse.blm.gov). BLM, by law, must protect the thousands of wild horses roaming federal land and auctions off horses to manage the ranges. After qualifying to bid for horses under BLM's rigorous requirements, Shook — a competitive trail rider and horse show judge — sweated as the prices on her favorites rose over the two-week auction period. "I ran to the computer 10 times a day, every day," she said with a laugh. "It was sickening. But I thoroughly enjoyed it."

Axle, one of the horses Shook bought, is also a living piece of history. A gray-tan color known as "grulla," Axle bears some of the characteristics of the Barbs, a breed of horse first brought to North America by Spanish explorers in the 1600s. Although most horses on the BLM site sell for \$125 to \$250, mares from the wild mustang herd, where the so-called Spanish-Colonial markings predominate, have brought an average of \$3,500 via the Internet.

The BLM auction site has been part of the World Wide Web since 1998. But many more federal sites are cropping up. Only a few months ago, eager buyers quickly bought for \$1.8 million eight Los Angeles-area houses that the Coast Guard had owned. They picked

up the houses courtesy of a GSA pilot project selling government real estate online that has since expanded nationwide at www.gsa.gov/pr/prhome.htm (see “Homesforsale.gov,” Page 22).

David Gonzalez, a carpenter from Oxnard, Calif., bought one of the houses for \$173,000. The three-bedroom, two-bath property came with retrofitted windows and an alarm system. “It was in excellent condition,” said Gonzalez, who, oddly enough, learned of the sale from the ice cream man who drives a truck through the neighborhood every day.

At least one property available online is more of a fixer-upper. In May, the GSA site listed a light-keeper’s house in Sault Ste. Marie, Mich., built in 1919 on a half-acre of land. The one-story dwelling, according to the site, is in “very poor condition.”

Celebrities also have found online deals on federal Web sites. 2000 Olympic gold medalist Rulon Gardner paid \$56,000 for a Dodge Viper that U.S. marshals had seized in a fraud case. The wrestler bought the car online from a private online service commissioned by the U.S. Marshals Service, which paid the company a \$3,800 fee, and he picked it up at a federal warehouse in Las Vegas. “I heard you could find reasonable deals online,” he said. “It’s my dream car.”

Few Rules and Few Standards

The idea of government selling online is so new that there are no studies yet to define it and few critics to complain about it. Some experts say it’s a good idea, at least on paper, because the Internet potentially reaches everybody, and the taxpayer can reap the benefit of better government services.

“The American public has the right to expect government to run in a lean and efficient manner,” said John Mitchell, CIO at the U.S. Mint (www.usmint.gov/catalog), which sells collectible and commemorative coins, holiday ornaments and jewelry online. The U.S. Mint is one of the most successful online sales operations in government. In 2000, it had \$150 million in sales, more than triple the \$41.4 million it logged during its eight months of operation in 1999.

Yet for all its success in establishing a digital marketplace, the government seems to be going about the job in a haphazard fashion. The money that dot-gov Web sites bring in is not carefully tracked — revenue is usually deposited in the general fund or are in some cases, as with the Mint, funneled back to the agency to add more sophisticated features to its Web site. Indeed, there are few rules and even fewer standards for conducting business.

Although some forward-thinking federal Webmasters have made it possible to place an order online, most of the sites in this study require the purchaser to call in an order via telephone or download an order form and fax it or send it via “snail mail.” Some sites are as well-designed and as easy to navigate as a commercial site, but visitors to many of the sites may find themselves digging through pages of extraneous information to get the

item they want, clicking a mouse a dozen times, or coming away frustrated and empty-handed.

Fans of 1940s Southern blues, for example, would never know that the Library of Congress' American Folklife Center sells audiocassettes of historic recordings from that period because a link to the center is buried three layers down in the Library's Web site. The sites for the presidential libraries administered by the National Archives and Records Administration (such as www.jfklibrary.org/stormenu.htm) offer items sure to please the public's heart — including a reproduction of John F. Kennedy's famous rocking chair — but orders may be placed only via fax, phone or regular mail.

In several cases, a site designed by an agency's regional office is more technologically sophisticated than the site maintained at headquarters. The Gulf Coast regional office of the Minerals Management Service (www.gomr.mms.gov), for example, offers forms on its Web site that can be used to bid on oil leases in the Gulf of Mexico. No other MMS site does that.

“When we first started, we couldn't get buy-in from management,” Webmaster Byron Congdon said of the 7-year-old site. “But as we showed what we could do, and how comfortable our customers were with it, suddenly all the supervisors in this office got competitive about who could be the first to get information on the Web.”

Congdon's experience demonstrates why it's too early in the game to impose centralized rules on government Web site design, said Treasury CIO Jim Flyzik, Federal CIO Council vice chairman. “We're just in the infancy of government transactions. This will evolve,” he said. But “the concept of a government shopping mall is emerging.”

Sales Maze

In the meantime, some major difficulties remain. One of the most glaring is that the government sites don't hang “For Sale” signs out to attract Internet bargain hunters.

Although the federal government has been making a stab at one-stop shopping with portals such as fedsales.gov, which brings together asset sales across government, and FirstGov, a search engine for everything .gov, neither of these sites can link the average consumer to every government item available for online purchase. The difficulty in finding sites stems from the lack of a governmentwide policy for handling e-government sales or for consolidating operations, experts say.

“Agencies haven't seen the benefit of a single port of entry,” said Mary Mitchell, who heads GSA's office of e-government. “For the most part, doing it right will cost money, and the agencies aren't into spending money.”

In addition, some shoppers are having a hard time adapting to the government's Internet way of thinking. “We prefer bidding in the old, conventional fashion. I don't like checking my computer three times a day,” said Don Harvell, spokesman for Maritime

Equipment & Sales Inc., which buys old ships and barges online from the federal government, refurbishes them and sells them for a profit.

That said, the Alabama firm hit pay dirt in April when it bought Tamaroa, a historic Coast Guard cutter, from GSA's Web site. The World War II vessel was used in 1991 to help rescue people — including the crew of an Air National Guard helicopter — from the roiling Atlantic Ocean during the so-called Halloween Storm, which inspired the book and film "The Perfect Storm." The company plans to overhaul the ship, add a helipad and resell it.

'Fuddy-Duddies' No More

On the other hand, some shoppers have proven to be far more adept at Internet transactions than even the Webmasters suspected. The World War II Memorial site, for example, has raised an astounding \$2.3 million online since it was posted a little more than two years ago. "We thought most of the people who would contribute to a memorial for World War II wouldn't be using the Internet," admitted Anthony Corea, director of operations and finance for the American Battle Monuments Commission, which administers the site. "I guess we were being old fuddy-duddies."

BLM also has auctioned wild mustangs via live satellite downlink. More than 400 people watched the broadcast and called in bids during each of the last two auctions, and an even larger audience is expected for the next one this summer, BLM Nevada Office spokeswoman Debra Kolkman said.

For those who know about it, online shopping is convenient, too. Last year, the National Park Service made more than \$5.4 million in online reservations for campers. Amtrak, a quasi-governmental agency, sold more than \$62 million in tickets online, and the Foreign Broadcast Information Service sold \$1 million in subscriptions for newspaper articles translated by the CIA and made available for \$65 a month. Subscribers include businesses looking for global marketing intelligence before launching a venture.

The Internet also offers the government a faster way to sell property, cutting the cost of warehousing and cataloging items seized by law enforcement agencies.

GSA launched an auction site Jan. 17 (www.gsaauctions.gov) that offers government surplus property. An agency that uses the site to unload property pays GSA a commission based on a sliding scale and avoids the cost of indefinitely storing property. In the first three months of operation, it sold more than \$3 million in goods.

"We're not like other Internet auction sites. We are doing business on behalf of the government," said Victor Arnold-Bik, chief of the sales branch for the property management division and part of the team that is working on the GSA auction site. Other sites are exceeding expectations, too, in the amount of money they bring in and the demand from the public for more. The U.S. Postal Service, which sells \$27 million worth of stamps online, for example, is only considering finding new sources of revenue, such as selling personalized wedding stationery.

“We’re not going to try to go out and put small entrepreneurs out of business,” promised Norm Cloher, USPS’ manager for online services. But Cloher said the cash-strapped USPS is looking for ways to make money. In fact, the Postal Service has been selling undeliverable packages such as books, videos and CDs on eBay, the retail online auction site.

Online Opportunities

Some government agencies find managing an online shopping site too tough to do alone. After trying its own site, the U.S. Marshals Service decided it was too costly and time-consuming. The agency hired Bid4assets.com Inc., an online auction site based in Silver Spring, Md., to sell many of the big-ticket assets seized by the Justice Department, the Drug Enforcement Administration, the Immigration and Naturalization Service and U.S. Attorney offices.

“It’s a very low-cost approach for the government,” said David Marchick, Bid4assets.com vice president. “We footed the million-dollar plus bill for the Web site. We handle all the customer service, calls and e-mails. We place ads in newspapers and magazines.” The company also takes online deposits from potential buyers and handles the paperwork for the sale.

Recent sales included helicopters, land in Hawaii, a Lamborghini Diablo and an entire DOD commissary — including checkout counters and walk-in freezers.

But some experts question the evolution of the government as an online retailer. Jakob Nielsen, a Silicon Valley expert on Web usability, said the government has an unfair advantage in e-retailing because it does not have to concern itself with making a profit, as do businesses that may sell similar goods online.

The government is not “motivated by sales going up or going down,” Nielsen said. And so any effort to make a go at online sales “requires a decision at the top — the very head of an agency who can say, ‘I want my Web site to have information for the audience and to serve the people.’”

“It’s appropriate when it adds a service that people couldn’t get elsewhere — in other words, only when the private sector cannot do the same job,” said Roger Baker, former CIO at the Commerce Department.

Government is still defining what it is doing and whether it should be online at all, said Jason Mahler, vice president and general counsel for the Computer & Communications Industry Association. “If there is no compelling need for the government to do it except that they believe they can make money from it, that shouldn’t be the motivation. Government is not there to make money,” Mahler said.

Perhaps, but it seems that for the government, Internet sales are here to stay — and likely to increase. The Tennessee Valley Authority and NASA are considering pilot projects to

test their own brand of online shopping. The Defense National Stockpile Center, which sold \$526 million in commodities last year such as platinum, industrial diamonds and titanium, is looking at online sales as well. The Bush administration wants millions for e-government, and the increasing number of federal Web sales even mirrors the boom in private-sector online sales, which increased to \$7 billion in the first quarter of this year up 33 percent from the same period last year, according to the Census Bureau.

For now, Americans such as Doris Hennessy Winckler like what their government is doing. Five times a year, the 80-year-old Colorado Springs, Colo., resident and her family use the American Battle Monuments Commission's Web site to order flowers for the grave of her brother, Army Capt. John Hennessy, who was killed in action during World War II in Italy and is buried in the Florence American cemetery.

"For the past 25 years, I'd been putting a check in an envelope and sending it all the way to Rome, Winckler said. "Now, if I look at my calendar and suddenly realize Jack's birthday is coming up in a few days, all I do is call my daughter, she fills out the order form on the Internet and...they know about it in Rome. This computer thing is marvelous."

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