

<b>KPM #12</b>	<b>PROCUREMENT EFFECTIVENESS</b> – Estimated savings resulting from price agreement pricing compared to prices that would be paid without the benefit of a price agreement.	<b>Measure since: 2002</b>
<b>Goal</b>	Efficient and effective government infrastructure	
<b>Oregon Context</b>	Mission: Lead the pursuit of excellence in state government; OBM #35 – Governing Magazines ranking of public management quality	
<b>Data source</b>	Data systems in the State Procurement Office	
<b>Owner</b>	Dianne Lancaster, State Procurement Office, 503-378-3529	

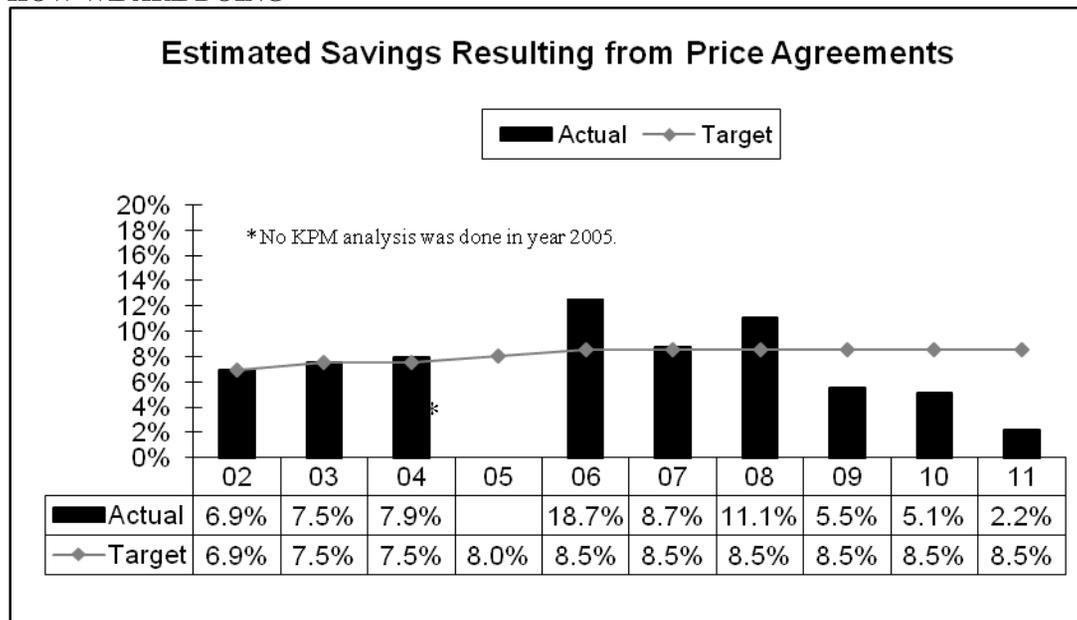
1. **OUR STRATEGY**

The strategy is to contain procurement costs for state government through negotiated price agreements for goods and services commonly used by all state agencies. Over 525 local governments and educational entities also use these agreements as members of the Oregon Cooperative Procurement Program.

2. **ABOUT THE TARGETS**

A composite index of high-use commodities measure cost savings gained through the statewide price agreements compared to equivalent market pricing. DAS sets the annual target. Targets were established that were moderately increasing at first, then reaching a plateau at 8.5%.

3. **HOW WE ARE DOING**



Text highlighted yellow: more significant changes from previous year.

DAS established the index in 2002 and achieved or exceeded the target each year until FY2009 coinciding with the national recession. For FY2006, a savings spike was observed which could be partly attributable to the effects of the Oregon Smart Buy Program, market pricing on the rise while the pricing structure of existing agreements remained fixed, and high volumes of sales in categories of spend with a high percentage of savings. For FY2007, the

savings aligned with the first three years. The savings of 11.1% for FY2008 exceeded target by 2.6%. Four of the five commodities reflected positive savings. Industrial Paper: 29.5%, Vehicles: 12.7%; Office Supplies: 10.2% savings, Computers: 8.5%, Cellular phones ranked last at -.6%. For FY2009, savings were 5.5%, with only PC Hardware exceeding target at 16.5% and the remainder four commodities below 4%. For FY2010, the target composite percentage of savings remained at 8.5%. Total savings percentage achieved was 5.1% or 3.4% below the target.

For FY2010, one category showed markedly increased sales – PC Computers, presumably due to a large number – ten - of price agreements all resulting from solicitation 102-1566-09 and a more streamlined internal transactions process with a more organized sales data capture right from the inception of price agreements. Two categories showed a spend reduction: Vehicles and Office Supplies, the former likely due to a lag in capturing sales data for a multitude of PAs (35+) which was on the rise at the time, the latter likely due to the economic climate. The strength of sales to local governments and educational organizations was still an indicator of Oregon’s competitive pricing for its statewide contracts. Four fifths of the sales of computers were for ORCPPs. Though not part of this analysis, sales of American Disability Act (ADA) vehicles were almost exclusively for ORCPPs.

For FY2011, the composite rate of savings is 2.2%. Two categories have savings at the zero mark: Office Supplies: -0.4%, PCs/printers/server storage: 0.6%. One category is at 3%: Vehicles: 2.9%. One category is surprisingly high: Industrial Paper: 7.5%. None of the categories reach the target of 8.5%. This is not surprising given that of the four categories studied this year, three are participating to WSCA contracts. Spend for these four commodities for CY2010 was \$40.9M, \$1.6M more than last year’s analysis.

#### 4. HOW WE COMPARE

A market basket of five commodities - Vehicles, Computers, Office Supplies, Industrial Paper, and Cellular Phones – is annually compared against other state pricing when available (Washington, California, Idaho, Utah, Colorado, Nevada), pricing available under the federal General Services Administration (GSA) agreements, pricing from US Communities, and occasionally pricing from competitors to the existing vendors for the statewide contracts. This is the method SPO has developed in 2002 and has continued to use since then. One change since 2002 has been to increase the samples taken for each category of spend to increase the reliability of the data.

For FY 2011, A market basket of four commodities - Vehicles, Computers, Office Supplies, and Industrial Paper - was compared against other state pricing as available (Washington, California, Idaho, Colorado, and Utah). Also, we used pricing information from the federal General Services Administration (GSA) agreements - for Janitorial Supply – however the state cannot procure Janitorial Supply from GSA except for homeland security and emergency preparedness matters. This year did not include occasional pricing from competitors to current vendors for the statewide price agreements. Cellular Phones were disregarded again this year due to resources constraints. With the need to analyze three separate aspects: sales of equipment, sales of new plans and recurring charges on existing plans, and usage charges on these plans, with incomplete volume sales reports from some suppliers, the analysis was too tedious to undertake within the timeframe desired.

#### 5. FACTORS AFFECTING RESULTS

There are many factors which affect measurement results in each commodity. Some factors are external such as general industrial and economic events and trends. Some factors are internal, such as changes in customer demand. In reviewing this year's results, we note that none of the four commodities analyzed this year met the target comparative percentage of savings of 8.5%. The main factor is the increased participation of Oregon and neighboring states in WSCA price agreements whether in response to the current economic climate or because it is the naturally emerging trend. For three of the four commodities analyzed, at a minimum three of the neighbor or western states are participating to the same WSCA price agreements. Advantages over these neighbor states are nullified. Also, as the procurement profession is growing recognition and practices nationally, boundaries between states are shrinking. Optimizing efforts in the current context of reduced government resources necessitates a leveraging of other states efforts, an increased cooperation with them, and an

increased emphasis on volume discounts. With WSCA agreements offering the same or similar pricing to many neighbor states to Oregon, only variations to the administration fee charged by these states remain as differentiators. This difference was again accounted for this year.

For Vehicles, the information provided by the Contract Administrator was used. This information could not be verified but was taken at face value. A lot of efforts devoted to the concept of Total Cost Ownership are valid but don't translate well with the KPM #12 method. While it is very difficult to influence the forces of the market, generous attempts were made and some proved very fruitful. The state is procuring this year and for current model years vehicles that cost less than they cost a year or two ago (for then new or 1-year old models) and significantly less. Differences in the large array of vehicles each state procures makes it difficult to determine exact savings but a savings rate of 2.9% was determined, a minimal value. Actual rate is undoubtedly higher. Total Cost of Ownership translated in Oregon in a lessening of the administrative burden by reducing or eliminating the need to renew contracts every year due to new model years and the elimination of some segmentation: a price agreement now allows sales for all models of a particular make (Ford for example) rather than through a multitude of separate price agreements. The mechanism behind price structuring by the manufacturer and dealers was parted open and re-negotiated so as to pass on to authorized purchasers of the state price agreements the full discretionary reduction the manufacturer passes on to its dealers. Also, the structure of the administrative fee was revised so as to not hinder sales, a situation that existed past a certain value for a sale at which point the state was no longer competitive. All these efforts led to a reduction in pricing for vehicles and a lesser cost to generate the price agreements while offering the same array or even more models via fewer price agreements.

For Office Supplies, differences in the administrative fee to recover operational costs explain the slightly negative result: Oregon charges 2% whereas neighbor states charge 1%.

For Janitorial Supply, Washington charges a 2.5% administrative fee compared to 1% elsewhere, Idaho had higher pricing, and GSA pricing was found for some items which favored results for Oregon. GSA pricing is a ceiling price however and cannot be used for purchasing this commodity with some exceptions.

For PCs, peripherals, printers and server storage, the two Price Agreements with the most spend were analyzed. The same suppliers offer the same deals in neighbor states with the same administrative fees and therefore no advantage exists in Oregon. In fact, 45 of the 50 states participate to this NASPO/WSCA agreement which indicates the strength of this WSCA trend. Additional regional factors may affect pricing locally but were not captured.

## 6. WHAT NEEDS TO BE DONE

This year is the fourth year of not meeting or exceeding the target. The target of 8.5% has not been a realistic figure for these last few years. While the general economic climate remains a very difficult one, it does not alone explain the apparent under-performance expected. The methodology is no longer relevant to report savings: the comparison of Oregon cost savings against other states who participate in the same WSCA price agreement is no longer a measure of success. Since our neighbor states also benefit from these discounts through the same WSCA price agreement, Oregon's results are marginalized. DAS needs to adapt its measurement method. A supplement to this page is attached describing factors that should be considered when developing a new method.

Alternatively the target needs to be reduced. A nominal 2.00% seems like a fair new target. If the same supplier serves all neighbor states equally, then the only discriminator between one state and another are the sales taxes and the administrative fees when applicable, the latter being generally of a minute importance with less than 1% of difference between the states.

While Oregon benefitted from significant discounts from retail pricing in calendar year 2011 for the commodities of this analysis: 29.2% on average on PA9758 with Dell, 35.1% on average on PA9760 with HP, 65.6% on average on PA9803 with OfficeMax, it is difficult to assess the reality of retail pricing and count as taxpayer dollars saved savings calculated by using retail pricing.

The standard for volume sales reports used by suppliers has been adjusted to better integrate cost savings measurements but is not used uniformly. It is used with greater frequency indicating partial success but resistance encountered from the supplier in providing the necessary lines of data results in a softening of the standard and full transparency is not achieved.

There is an ever growing need to continue to make procurement decisions based on solid data. The consistent collection of the data and the custody of the data in a single location are necessary but very elusive with many disparate information systems. Also, there is no observed incentive to collect it and act on the information obtained from it. Determining meaningful rates of savings is difficult for each commodity or individual good or service within that commodity. The responsibility for the savings need to be attributed to specific individuals and tied partially to personnel performance. Integration of the data compiling and other procurement functions is needed. Developed spend profiles need to be communicated to clients for feedback and improvement of the data synthesis. Transparency of all prices (retail versus discounted), charges, costs, rates, needs also be sought and the price information should be readily available in the written price agreements. Pricing data in attachments to Price Agreements in ORPIN must be in MS Excel alone and avoid PDF versions. The necessity to transfer data from one medium to another must be avoided; MS Excel format should be singularly enforced. Compliance of pricing must be achieved upon receipt of the very first VSR for any commodity and particularly for the population known as Top 30. All savings resulting from a Buyer's strategic negotiation should be captured, made available and posted internally in a spend and savings scoreboard. Price lists available only from accessible web sites and valid for only a short span of time continue to pose a problem for price compliance.

#### 7. **ABOUT THE DATA**

The reliability and integrity of the data is fair to good. DAS selects a very large sample of items from a diverse array of four categories of contracted goods and related services for the measurement model. Volume sales data captured for CY2010 in each category guarantees a rich representation and an accurate measure of procurement pricing effectiveness. This work is challenging and complex. Each commodity has distinct and different issues related to accurate price comparison measurement. A lot of elements need to be examined when matching items and determining them to be sufficiently comparable for inclusion in the analysis. For example, comparing pricing for vehicles requires knowledge of model year, make, model, trim, propulsion, configuration, capacity, standard or special options, exclusions.