

**State Procurement Office
APPR Response
(DAS - Annual Performance Progress Report)
2011**

KPM #12

- 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 measures cost savings gained through statewide price agreements compared to equivalent government market pricing. DAS sets the annual target.
- 3. How we are doing:** DAS established a cost savings index in 2002 and achieved or exceeded the target each year until FY2009. Savings achievement for FY2009, FY2010 and FY2011 were 5.5%, 5.1% and 2.2% respectively. The target is 8.5%.
- 4. How we compare:** 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 and Western States Contracting Alliance (WSCA). Fewer pricing comparisons against competitor suppliers were obtained this year.
- 5. Factors affecting results:** One major factor affects the results overall: neighbor states that are part of the comparison participate in the same WSCA agreements that Oregon participates in. Hence any advantage Oregon had from 2002 through 2008 has vanished and the only significant remaining pricing discriminator is the rate of the administrative fee each state charges to recover its operating costs. In some measure, comparison against GSA pricing also favors the results for Oregon. On the other hand, fewer comparisons against retail pricing for competing suppliers partially explains the drop from 5.1% last year to 2.2% this year.

Factors affecting pricing, external (such as general industrial and economic events and trends) and internal (such as global changes in customer demand) affect all northwest states equally. Again this year, none of the four commodities analyzed met the target comparative percentage of savings of 8.5%. Industrial paper came close with a rate of savings of 7.5% due in large part to high GSA pricing compared to Oregon and a high administrative fee of 2.5% for Washington. A second factor, less significant to explain the results, is the economic climate. Both factors are explained further:

1) WSCA Price Leveling Effect: Oregon uses WSCA price agreements for three of the four commodity areas (computers, office supplies, and industrial paper). At least three neighbor states are using the same price agreements, so advantages over these neighbor states are nullified. Procurement boundaries between states are shrinking. State procurement offices in the western region and across the nation are increasingly developing interstate and national collaborative practices and standards.

2) Current Economic Climate: The current economic climate is forcing government transformation and this trend is equally true in the public procurement arena. It has become a necessity for states to make use of the efforts of other states, to leverage multi-state spend and increase the emphasis on volume discounts throughout the life of every contract. The supplier community is operating on thinner margins and suppliers cannot ignore any opportunity to work with a volume customer; states working together can capitalize on this trend. Suppliers find cost savings in bidding fewer opportunities and working with one contract format while gaining more volume in sales.

6. What needs to be done: This is the third year of not meeting or exceeding the target. We arrive at the same conclusion this year: the current methodology used to report savings is no longer appropriate. The comparison of Oregon cost savings against other states that use the same WSCA price agreements marginalizes savings. The figures alone hide the fact that WSCA contracts leverage significant savings by virtue of bulk purchases and an accentuated attention to the procurement process. The figures alone do not account for more and more states taking advantage of WSCA contracts. But as in past years' participation to WSCA contracts, Oregon continues this year to offer significant discounts from retail pricing through use of WSCA price agreements. Specifically for three of the commodities part of this analysis:

- 1) 16.5% on Price Agreement 9758 (PA9758) with Dell for PCs, printers and server storage;
- 2) 6.9% on PA9759 with Lenovo for PCs, printers and server storage;
- 3) 27.3% on PA9760 with HP for PCs, peripherals, printers, and server storage;
- 4) 7.3% on PA0424 with Xerox Corporation for Printers;
- 5) 43.5% on PA1413 with Lexmark for Printers;
- 6) 61.8% on PA9803 with OfficeMax for Office Suppliers;
- 7) 46.2 % on PA9798 with Metro Office Solutions for Office Supplies; and
- 8) 65.4% on PA9745 with Waxie for Janitorial Supply.

These are significant savings rates. We recommend that DAS adapts its measurement method to also include comparison against retail pricing. To this end, we began last year reporting savings against retail pricing. More and more SPO captures retail pricing and reports savings against retail pricing. Since some vagueness nevertheless remains in quantifying savings when measured against retail pricing – due to a difficulty in determining in what proportions a supplier’s efforts to maintain or grow a profit margin play a role versus the actual cost for producing the good or service - we are also looking at other preferred methods for measuring savings and aim to adopt a standard in the coming year for official and internal reporting.

- 7. About the data:** The reliability and integrity of the data is fair. 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 over a 12-month period (Calendar Year 2010) in each category guarantees a rich representation and an accurate measure of procurement pricing effectiveness. This work is challenging and complex. Each commodity is distinct with inherent peculiarities for effecting 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. The results of the savings analysis from the Contract Administrator for Vehicles was also used.

Target 2010	Target 2011
8.5%	8.5%
Actual 2010	Actual 2011
5.1%	2.2%

Management Comments:

While the target that DAS had set for itself was not met again this year, the measured composite savings rate of 2.2% (when compared with other states and GSA) translates into savings of over \$905K on these four commodities alone - fairly significant in the context of the current economy. Further, compliance with the measurement method established in 2002 detracts from the actual savings realized by virtue of the WSCA price agreement phenomenon. DAS will continue to seek other measurement methods better suited for a determination of cost savings or as a supplement to this analysis.

