

**Procurement Services  
APPR Response  
(DAS - Annual Performance Progress Report)  
2012**

**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, FY2011 and FY2012 are 5.5%, 5.1%, 2.2% and 2.1% respectively. The target is 8.5%.
- 4. How we compare:** A market basket of five commodities - Vehicles, Computers, Office Supplies, Industrial Paper, Cellular Phones - was compared against other states' pricing as available (Washington, California, Idaho, Colorado, Utah, Texas, New York, Missouri). Also, we used pricing information from the Western States Contracting Alliance (WSCA), the federal General Services Administration (GSA) agreements, and to a lesser extent, pricing from suppliers who are not participants to price agreements with state of Oregon government.
- 5. Factors affecting results:** One predominant factor continues to affect 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 charged by states to recover their operating costs. This factor alone indicates a need for adapting the methodology of the measure. (States with sales, county or regional taxes applicable on the purchase of goods and services are at a disadvantaged when compared to Oregon in reality but these taxes were not accounted for in order to provide consistency of method since 2002.) Alternatively, a more realistic target needs to be selected.

External factors affecting pricing such as general industrial and global economic events and trends affect all northwest states. Again this year, none of the commodities analyzed met the target comparative percentage of savings of 8.5%. Vehicles came closest with a rate of savings of 4.3% - still distant from the target. Interestingly, Vehicles are not currently solicited at the WSCA level. Internal factors such as the process for identifying those aspects of market analyses where focused attention can

reduce prices and a consistent method for capturing price, spend and savings data are also at play. More on each factor follows.

1) WSCA Price Leveling Effect: Oregon uses WSCA price agreements for four of the five commodities (computers, office supplies, industrial paper, and cell phones). 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) Economic Climate: The continuing poor economic climate is resulting in tight margins and forcing government transformation. This trend is equally true in the public procurement arena. It is now customary 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. Also, the supplier community is presumably 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.

3) Price, Spend and Savings Data Capture Methodology: Efforts at quantifying spend and savings are exerted internally but are not uniform and integrated. A systematic process as part of a solicitation for identifying potential savings opportunities and calculating thereafter actual savings based on a common or an array of agreed upon definitions is lacking. Likewise, benchmark or base pricing against which to measure savings is disappearing in the internet age. The ability to capture what pricing is in effect on any given day and what it would be if it were not for a concerted procurement strategy is increasingly difficult to determine. Information of base price on which discounts apply is elusive at best, difficult to verify and difficult to match to a realistic meaning for the savings. A method that realistically allows for the calculation of savings as true taxpayer dollar savings is currently lacking as well as the choice of which reasonable population of price agreements it should apply to. Of the top 30 statewide price agreements with highest spend, less than half have a known rate of savings. Also, apple-to-apple comparisons are becoming ever more difficult in the presence of fast changing technology and refined marketing strategies with complex pricing.

- 6. What needs to be done:** This is the fourth year of not meeting or exceeding the savings 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 or eliminates savings. And more and more states take advantage of WSCA contracts. 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. As in past years' participation to WSCA contracts, Oregon continued in 2011 to offer

significant discounts from retail pricing through use of WSCA price agreements. Specifically for three of the commodities part of this analysis:

- 1) 29.2% on Price Agreement 9758 (PA9758) with Dell for PCs, printers and server storage;
- 2) 35.1% on PA9760 with HP for PCs, peripherals, printers, and server storage;
- 3) 65.6% on PA9803 with OfficeMax for Office Supplies;
- 4) 68.0% on PA9745 with Waxie for Janitorial Supply.

These are significant savings rates. Further discussion is required to determine if measuring against retail pricing provides an accurate measure of taxpayer dollars savings even if the associated data capture is the least cumbersome. We recommend that DAS adapt its measurement method to also include comparison against retail pricing and other benchmark pricing with appropriate weight factors for each method.

A supplement to this document is attached that describe factors to consider when adapting this method or developing a new method. Ideally, a comparison would be made against a methodology that accounts for controllable influences on the two factors affecting spend: quantities of the selected goods purchased and the unit price for these goods.

Alternatively, a lower target than 8.5% needs to be selected. A target around 3.0% would be more sensible as the only discriminators between neighbor states tend to be sales taxes and the administrative fee when applicable with this latter factor being less significant. The absence of a sales tax for Oregon favors Oregon significantly in reaching this target. Keeping the target at 8.5% for sake of historical perspective is reasonable as long as the expectation of meeting the target is managed. The target is arbitrary, based on historical values rather than on a specific formula.

- 7. About the data:** The reliability and integrity of the data is generally fair. DAS selects a large sample of items from a diverse array of five categories of contracted goods and related services for the measurement model. Volume sales data captured over a 12-month period (Calendar Year 2011) for four of the categories guaranteed a rich representation and an accurate measure of procurement pricing effectiveness. 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 but not verified. For cellular phones, no savings determination could be achieved. The applicability of previously advertized savings on currently available plans was not verified with so much change having taken place on voice and data plans since the beginning of the applicable price agreement. Further, volume sales data was inadequate to confirm pricing actually in place for

