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Coop Meeting of the Minds

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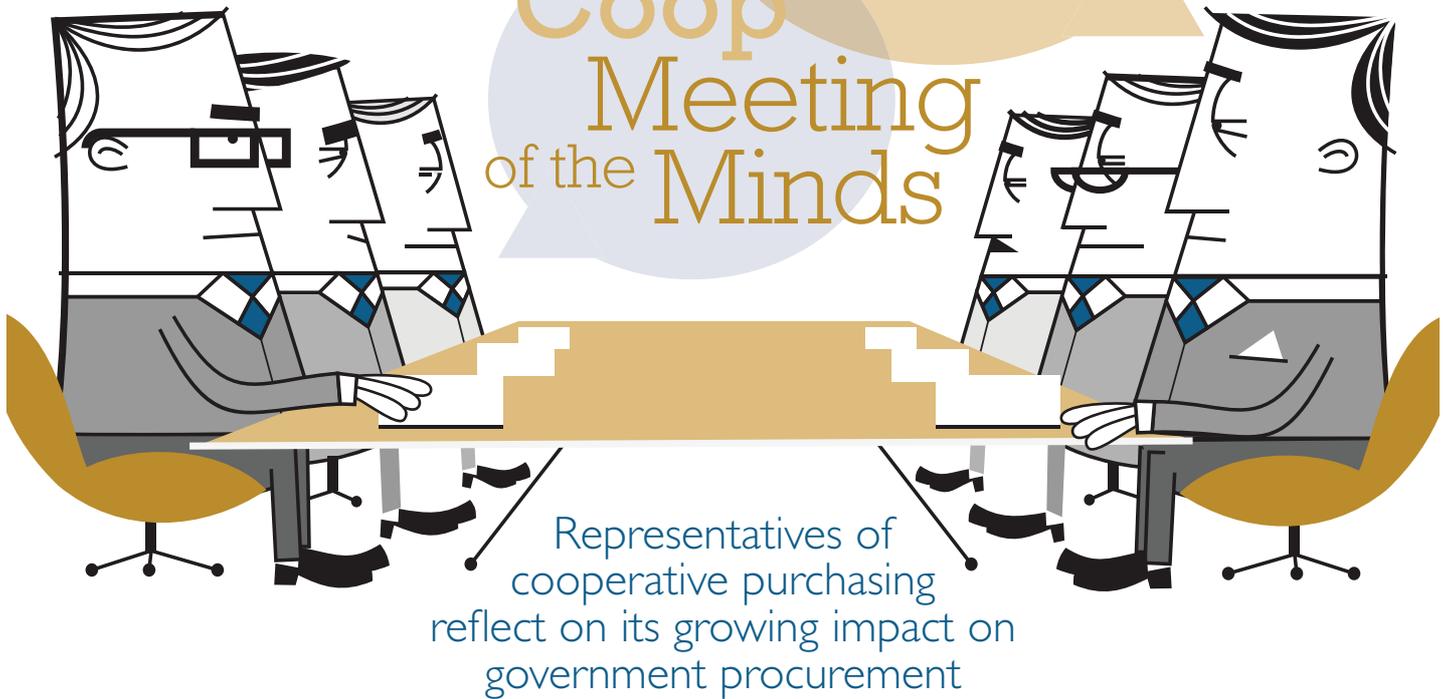
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Coop Meeting of the Minds



Representatives of cooperative purchasing reflect on its growing impact on government procurement

With so many coops, how can I choose the best one? How do I know if a coop follows my local legal requirements? How do I deal with local preferences? Am I really getting the best price?

Such questions are common with the proliferation of cooperative purchasing in the government procurement sector. The rise of coops has provided both a wealth of benefits and more than a little confusion for procurement professionals tasked with maximizing the usefulness of the various cooperatives for their local governments.

To provide insight, representatives from several cooperatives gathered at NIGP Forum in Seattle last month for a meeting of the minds moderated by Bill Wolpin, editorial director of *Government Procurement* magazine.

Here are some edited excerpts from that discussion, covering several issues facing the government market as cooperatives grow in size and influence – and increase in number.

TOO MANY COOPS: HOW DO YOU CHOOSE?

Peter Torvik, managing director, U.S. Communities Government Purchasing Alliance: We know from Chinese restaurants and mutual funds that choice isn't something that helps in every situation. This is an industry that has had no barriers to entry over the last five years. We are looking forward to a period of searching and consolidation and standard-setting and taking this whole thing to the next

level. We know you cannot solve your agency's budgetary problems buying a pencil 10 percent cheaper. We need to look for things that have real budgetary impact, that really save your department time and money and are transparent and clear. We're going to just have to innovate faster as a group.

David Yarkin, whose consulting company Government Sourcing Solutions helps governments save money by using cooperatives: There is nothing in your statute that says you have to compare each and every single cooperative purchasing agreement out there for everything you will use them for. If you do that, it defeats one of the purposes of cooperative purchasing, which is to shorten the procurement cycle and make it less labor intensive for your staff. [When I was chief procurement officer in Pennsylvania,] we would find a cooperative that met our legal requirement, solved a business need, and, most important, saved us real hard dollars. If you do that, you have no obligation to go to every cooperative out there. Your obligation is to the taxpayers. Don't be intimidated by all the options.

Duff Erholtz, membership manager, National Joint Powers Alliance: At the end of the day, there isn't one consortium with a comprehensive set of solutions to serve you. I'm not sure, collectively, we have a comprehensive set of solutions. Don't get hung up on what type of a coop or what type of a program. If you need a specific brand, say Toro, you have a limited number of options. Some things everyone has. Some companies everyone has. But for the majority [of products], there will be [fewer choices].

THE OUTSOURCING ASPECT OF COOPERATIVE PURCHASING

Wayne Casper, group director, National Intergovernmental Purchasing Alliance (National IPA): What you're doing when you use a cooperative is, in a sense, you're substituting your source selection process with the source selection process by somebody else. What you need to think about is: Who awarded that contract, who bid it, who administered it? Are you confident with their procurement processes and that they did as good a job as you would do yourself?

Tim Hay, state of Oregon, member of Western States Contracting Alliance (WSCA): With the WSCA/NASPO (National Association of State Procurement Officials) model, outsourcing isn't really the key. We use a collaborative effort and work with all the states in the development of the RFP. One state is designated as the lead state that actually releases the RFP, but we work in collaboration with five or six states that comprise the WSCA sourcing team for a particular commodity. Right now there are 38 WSCA or NASPO combination contracts, and a procurement professional participated from each state on the sourcing team. We are more about in-sourcing than outsourcing, and we use resources and talent of each of the states to develop the cooperative agreements.

David Yarkin: You can't outsource the entire procurement function to a cooperative. You can break the world of piggybacking into two buckets on the government side – the large entities, for whom the large coop contracts won't be good enough, and then other, smaller governments for whom the basic pricing from a cooperative contract are pretty good, and better than they could do in their own. One idea to take advantage of cooperative prices, while promoting competition, would be to hold a "bakeoff" and allow multiple cooperatives to compete based on price and other qualitative factors instead of doing a full-fledged RFP. You can shave a lot of time off a procurement cycle.

Peter Torvik: We don't believe that all cooperatives follow the same procedures. After 15 years in the business, there is still confusion out there and there still isn't the confidence we would like to see to use any of the cooperative contracts presented to you. This is an embryonic industry; it's way less than a percent of your discretionary spend across the country. If it even went to 5 or 10 percent, it would save governments tens of billions of dollars a year. We want to see the industry go to the next level and find a set of standards you can all understand and be confident in. Then we all benefit. Every dollar you spend in a coop should save you money, and that's the atmosphere we're looking for in the future.

DEALING WITH LOCAL PREFERENCES

Wayne Casper: The broader question of local preferences [is one] that everybody in public procurement has dealt with from day one. That issue will always come up. My experience has been that when the economy is down, you get more of it. All of a sudden there are more local vendors than there were when everything was going well. But part

of it will vary by cooperative contract. Some contracts are national contracts that sell directly. But you have your big-three office supply companies – Office Depot, OfficeMax and Staples, for example. In most cities they have local big-box stores where they hire a lot of people. A lot of the cooperative contracts are with major manufacturers, and they are resold through local dealers. That's the case with office furniture, copiers and equipment. Some heavy equipment contracts have local dealers that have been in business in the local community for 50 or 60 years; they are very strong in the local community. It's going to depend on the contract itself, but you can work around it with many contracts.

Tim Hay: Depending upon the commodity and the political sensitivity, there are some contracts that are let that have both a national presence as well as a regional preference. When we did the sourcing team for express mail and small package delivery services, we actually had local components for in-state delivery services in both California and Alaska. We are sensitive to that need, and if there are needs for local preferences, it is built into the solicitation.

Peter Torvik: We get letters forwarded from local vendors and politicians. It started out in the office supplies business from day one. The most recent I remember is a plywood vendor in Florida called up and was mad because our HD Supply contract was a much better deal than he could provide locally. It was a woman-owned or minority contract, I can't remember which one, so there was a lot of political fireworks for that politician. It was actually a Congressman. But what it came down to was the local vendor didn't like the effect on his profit margin, and he was blaming the U.S. Communities contract for affecting that. But really, any competitor in that market, whether it was the Home Depot store down the road or another lumber yard, could affect that pricing and profit margin. I don't know how you justify continuing to charge excessive prices. The bottom line, the city or county can do whatever it wants to do. They don't have to purchase from a coop. If they have that political need (to buy locally), and it's worse in some places than others, it can be handled.

GETTING THE BEST PRICE

Peter Torvik: From our standpoint, volume is very important. You have to have eventual volume to get manufacturers to push the prices where they need to be. We try not to do anything where we aren't seeing 50 or 100 million dollars in eventual sales for that contract, although we don't always get there. We have a best price guarantee, so you don't see a manufacturer with six contracts with various prices on them. Then you have to audit those contracts to make sure they live up to that price guarantee. The fantastic part is that our collective activities here are repricing entire industries, office supplies being one. Whether they are buying from a coop or not, they are buying office supplies 10 percent cheaper than they were 15 years ago. That's a goal we all have, which is to reprice entire industries."

Chris Penny, vice president of sales, The Cooperative Purchasing Network (TCPN): One of the positives resulting

IN DEPTH [coop purchase]

from the expansion of cooperatives, both in the amount of use coming through a cooperative and the number of cooperatives, is that the suppliers to the vendors are becoming more astute and aware of cooperative purchasing. HP, for example, is now saying they will give a cooperative discount, to lower the basis points on their toners and offer the pricing [to the various coop contracts]. Some of the major suppliers are becoming aware and lowering overall government prices regardless of what platform you use.

WHEN TO USE A COOP

David Yarkin: There are 31 different flavors of cooperative purchasing. You make a mistake by defining it too narrowly. When I was in Pennsylvania, we were going out for bid on a commercial off-the-shelf software. As we were working on the RFP, we saw that Massachusetts had a contract. So we analyzed the contract on software in Massachusetts and compared its prices with the prices we were paying currently. We saw we would save \$4 million by piggybacking on it. We did it. We got a tiny bit of pushback from a couple of local suppliers that faded away after a couple of weeks. We took the \$4 million in savings and put it in the bank. My job was to get the best deal for my taxpayers, as long as it met the legal requirements. There are a lot of different ways to look at this.

Phil Vasquez, independent consultant on cooperative

contracting: Cooperatives in general have gotten pretty standard in the ways they do things. You have to ask how the contract meets your agency's needs. At the end of the day, it has to make sense for your taxpayers. You have to do your due diligence and be a good steward for the citizens and look at what contract makes the best sense.

ENSURING COMPLIANCE WITH LOCAL LAWS

Tim Hay: WSCA is very conscientious about contacting each state before we release a solicitation so they are aware of what we are doing regarding future contracts to give them the opportunity to advertise that solicitation. Some states have very strict solicitation laws, so if they didn't originally advertise it, they can't participate in it. We want to make sure they have the opportunity to advertise. WSCA's model is that states collaborate with each other, down to the end-users, to make sure those states' needs are met in the solicitation. Ninety-five percent of the time, the states in the sourcing team have the same needs as states not on the sourcing team, so all their needs are met.

Paul Stembler, WSCA/NASPO Cooperative Development Coordinator: The issue you want to start with is who comes closest to following the process you have to follow. You have to deal with people inside your jurisdiction. Those are the issues you need to look at. What kind of level of response



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and process do you need in this case? Each one of you is different. There are 56 members of NASPO and 56 sets of rules.

Tom Post, president of AEPA (Association of Educational Purchasing Agencies): With AEPA, all of our organizations are represented in 26 states, and we advertise and solicit in each individual state. We give the local manufacturer or distributor an opportunity to bid on any of our contracts.

TRANSPARENCY AND HANDLING COMPLAINTS

Wayne Casper: National IPA has a business review meeting quarterly with all vendor partners to go through any issues during the last quarter [including the lead agency].

Tom Post: If you have a complaint with one of the vendors we selected, we would get involved and go to that vendor and solve the problem. We would find out what that problem is and make sure you're satisfied. That's our job, that's part of what we do.

Duff Erholtz: We do an annual review, but we would get involved at any time. Vendors have a lot at stake because of their award of a national cooperative; they are not going to let one complaint jeopardize what could be a much larger [sale]. Every [coop] has a web site where all the documentation is available, you can see the solicitation, the advertisement, all the information you need, and dedicated staff can help you [navigate] the web site and get you where you need to go.

Tim Hay: At least from WSCA, we have all the [RFPs and supporting documents]. They all meet that lead state's requirements for documentation and keeping the documentation forever, almost.

Peter Torvik: If you're dealing with the sales department [related to complaints], that's not who we're dealing with. That's a real advantage for our coops, especially at the local level. We are dealing with higher-ups, such as presidents or executive directors, people who are responsible for the contract and take it very seriously. It's a large part of their sales. It's not left to the local distribution.

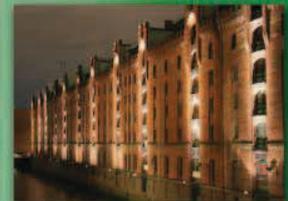
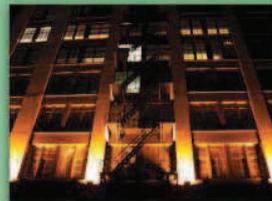
Paul Stembler: If there is a problem, we need to know about it. Waiting six or eight months or a year or two or four years doesn't accomplish much for us. We need to know about it now and have the facts so we can proceed to solve the problem.

WHAT'S NEXT?

Peter Torvik: We have a fully operational e-commerce site that allows you to choose a lightbulb from HD Supply or Graybar, for example. The suppliers aren't always happy about that, but I think it represents the first step in the direction [of offering a web-based system to compare coop prices]. When you buy from Amazon, you can see all these different booksellers. Amazon has taken the central role of guaranteeing a satisfactory transaction. We are a few years from someone taking that central role. The first job is to make sure of compliance and that you could buy with confidence from everyone represented, and then the price takes care of itself after that. <



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