



## **SRPEDD CASE STUDY:**

### **COOPERATIVE PURCHASING AGREEMENT FOR OFFICE SUPPLIES**

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**Abstract:**

In an effort to realize cost savings through economies of scale, SRPEDD organized eight towns in its region to collaborate with the town of Kingston, MA in a cooperative purchase agreement for office supplies. By piggybacking the office supply needs of eight new municipalities onto the existing Kingston contract, SRPEDD attempted to maximize the purchasing power of communities across Plymouth and Bristol Counties. The winning bid for the office supply contract - submitted by WB Mason - pledged to offer up to a 51% discount on a host of popular office materials. With 23 municipal participants - whose collective office supply expenditures exceed \$900,000 annually - potential cost savings could be as high as \$450,000. Efforts to quantify these potential cost savings were significantly hampered by a lack of response from participants. Of the 23 municipalities participating in the agreement, five (including SRPEDD) responded to repeated requests for budget information on office supply expenditures. Towns that did not comply with information requests did so for any of the following reasons, active avoidance, lack of information, departmental fragmentation, preoccupation with other tasks, or refusal to collect the requested data. Unfortunately, the data encompasses a small sample size and poses limitations to the extent of analysis that is possible. However, the process of data collection revealed several issues salient to efficiency in municipal governance, accounting practices, and institutional fragmentation. Improvements and/or changes in these areas could greatly improve the quantity and quality of budget data, bolster the program's efficiency, and cost savings potential.

**Methodology:**

As of June 30, 2010, participants in the cooperative purchase agreement for office supplies signed a three-year office supplies purchasing contract with WB Mason set to begin in FY11 and extend through FY13. In late July, 2011 participants were contacted in an effort to follow up with them and learn about their experience and any cost savings they were able to achieve during the first year of the purchasing agreement. Initial contact was made over the phone and specific requests for information were emailed to the appropriate contacts within each municipality. The following information was requested,

1. Did you sign and participate in the purchasing agreement with WB Mason? If not, why?
2. What were the total spent on office supplies (by vendor) for both FY10 and FY11?
3. How are office supplies purchased in your town? By individual department or do all departments purchase them from the same vendor and/or contract?
4. What percentage of the office supply budget was purchased through the cooperative purchasing contract with WB Mason?
5. Where there any anomalous capital equipment or otherwise costly purchases included in the FY 2010 and FY 2011 budget numbers? If so, for how much?
6. Any feedback about the program? Has it helped or hurt your budget? What did you like/dislike about the process would you do anything differently in the future?

Most information was collected through the Board of Selectmen's Office for each municipality, specifically the Executive Assistants. Town accountants were also contacted but many had no knowledge of the purchasing agreement and the town's participation status. Repeated requests were made through phone calls and emails over a 10-12 day period in late July, 2011.

**Findings: Budget Data**

Five of the twenty-three towns participating in the cooperative purchasing agreement for office supplies provided budget data for FY10 and FY11. Although the sample size is small, significant cost savings were achieved, enumerated by the budget figures outlined in Appendix A. Some general observations and analysis of the data we were able to compile include,

1. **Cooperative Purchasing Saves Money:** in most instances, towns were able to realize cost savings on WB Mason office supply expenses. In the aggregate, office supply expenses were reduced by 13%, \$17,250 less than in FY10, reducing office supply expenses by an average of \$3,450 for each town in FY11. While these cost savings are indeed positive they fall well short of matching the 51% discount included in the winning bid by WB Mason.
2. **Greater Concentration of Purchasing through WB Mason:** In the one instance where WB Mason-related expenditures *increased* between FY10 and FY11, Scituate's annual office supply expenditures remained flat through FY10 and FY11. Although cost reductions appear absent from the budget line item, Scituate still managed to realize benefits from the cooperative purchasing agreement. In response to the lower prices obtained in the purchasing agreement, more office supply purchases were funneled through WB Mason. Without the benefit of the discounts in the WB Mason contract Scituate would most likely have spent substantially more for the same amount of office supplies or would have been forced to buy less.
3. **High Cost of Copy Toner and Paper Products:** Several municipal workers commented on the high prices of many office supplies that are high in demand and excluded from the purchasing agreement thus not discounted. Items include toilet paper, copier paper, paper towel, coffee and most importantly - ink cartridges/toner. SRPEDD experienced a 237% increase in ink cartridge expenses alone in FY11, enough to erase any cost savings achieved through the WB Mason cooperative purchasing agreement. Many municipal respondents lamented the exclusion of these office supply items as they hoped their participation in the purchasing agreement would save them money on these specific goods. Absent a discount on these goods, many chose not to buy much from WB Mason, instead choosing to remain with their current office supply vendors that offered lower prices on these goods. Subsequently, the level of participation was significantly impacted by the absence of competitive pricing on several goods in high demand.

### **Additional Findings:**

Collecting the data for this case study on cooperative purchasing revealed several ancillary issues that significantly impacted the quantity and quality of the data collected (and failed to collect). Problems stemming from inconsistent accounting procedures, lack of communication and fragmentation of the municipal department structure all contributed to a surprising fact: *almost none of the municipalities involved in the cooperative purchasing agreement had any idea whether or not they saved money because of their participation.* Several factors contribute to this lack of budgetary expedience.

#### **I. The Absence of Incentives:**

The central purpose of a cooperative purchasing agreement (for office supplies or any other commercial good) is to realize cost savings through economies of scale. One of the challenges of achieving cost

savings (consistently) is municipal reliance on incremental budgeting, a budget structure that provides few if any incentives to reduce expenses. By reducing costs, a municipal department risks having their next budget reduced to reflect the savings achieved in the previous fiscal year. The real incentive might be for municipal departments to maximize the purchasing power their budgets afford them in lieu of cheaper office supplies. It must be noted that budgetary incentives like those described above do not necessarily cause wasteful overconsumption just that the potential exists for such a result. Given more data, it would be interesting to see the difference between office supply appropriations and actual expenses for municipal departments and the frequency with which residual funds are returned to the general account. If cost savings are achieved through a cooperative purchasing agreement, there appears to be two ways that money is ultimately spent,

1. Municipal departments leverage the savings through additional office supply purchases, a strategy that maximized the spending power of the budget but fails to either reduce costs or achieve greater operational efficiency.
2. Cost savings are returned to the general fund and appropriated for other uses that could potentially include, capital purchases, expansion of services, additional staff, and tax relief.

As mentioned above, not one municipal employee contacted could say definitively whether they were saving money on office supplies. This type of fiscal environment is not conducive to reducing expenses - if costs were reduced, it would be largely serendipitous. The fact that five of the twenty-three towns responded to requests for budget data is telling: they are too either busy, incompetent, or do not care enough to make the necessary effort.

## **II. Departmental Fragmentation:**

The municipal budget structure of nearly every participating town in the office supply purchasing agreement allocates funds to individual departments to purchase office supplies. This approach – while common - can fragment municipal operations by hampering a shared commitment to larger municipal policy goals and complicating the system of communication necessary for such a commitment. For example, many of the Town Accountants contacted had no knowledge of the town's participation in the cooperative purchasing agreement, a communication failure that denies the accountant the ability to monitor the success or failure of a policy that affects municipal finances. This lack of communication and knowledge of the office supply-purchasing contract significantly hindered efforts to collect budget data on the program. Communication failures and fragmented priorities might be improved by a Town Administrator willing to communicate her policy preferences for participating in the purchasing contract to department officials.

## **Conclusion:**

Even with a limited data set, the potential for cost savings through a cooperative purchasing agreement is significant. In order to improve the participation, efficiency, and data from the office supplies agreement, SRPEDD would be wise to continue its role as a policy entrepreneur, promoting the value of the program and building greater regional support. Increased awareness and participation in the program is one way of tempering municipal fragmentation and intransigence that currently exist. Efforts to increase the visibility and emphasis on cooperative purchasing would likely prove most beneficial by cultivating support and educating Town Administrators about the virtues of collaboration.

A last comment should be made about the accounting standards of the municipal participants in the office supplies purchasing agreement: they are inconsistent in their sophistication, quality. Currently, it may be premature if not impossible for SRPEDD to emulate the efforts of the Franklin Regional Council of Governments (FRCOG) and regionalize accounting services, but it is a policy worth consideration in the future. The foundation for broader collaborative efforts (e.g. regional accounting, 9-1-1 call centers) might be built from the success of smaller initiatives (e.g. cooperative purchasing) that constitute the low hanging fruit of regionalization.

**Actual Data:**

The data used for this analysis is included below. Table 1 reflects the budget information ZI was able to collect from participants in the cooperative purchase agreement for office supplies. Table 2 illustrates an effort to retrieve the remaining data from the annual reports of participants in the agreement. At the very least, table provides a snapshot of the unavailability of data and lack of participation encountered in this exercise.

Table1:

**SRPEDD Cooperative Purchasing Agreement for Office Supplies: 2010-11**

|                  | FY10               | FY11               | \$ Difference       | % Difference |
|------------------|--------------------|--------------------|---------------------|--------------|
| <b>Acushnet:</b> |                    |                    |                     |              |
| WB Mason         | \$44,804.85        | \$39,350.91        | (\$5,453.93)        | -12%         |
| Staples          | \$11,194.24        | \$9,541.09         | (\$1,653.15)        | -14.70%      |
| <b>Total:</b>    | <b>\$55,999.09</b> | <b>\$48,892.00</b> | <b>(\$7,107.08)</b> | <b>-12%</b>  |

|                  | FY10               | FY11               | \$ Difference        | % Difference |
|------------------|--------------------|--------------------|----------------------|--------------|
| <b>Freetown:</b> |                    |                    |                      |              |
| WB Mason         | \$40,142.42        | \$28,269.06        | (\$11,873.36)        | -30%         |
| Staples          | \$5,854.93         | \$3,387.98         | (\$2,466.95)         | -42.00%      |
| <b>Total:</b>    | <b>\$45,997.35</b> | <b>\$31,657.04</b> | <b>(\$14,340.31)</b> | <b>-31%</b>  |

|                    | FY10               | FY11               | \$ Difference   | % Difference |
|--------------------|--------------------|--------------------|-----------------|--------------|
| <b>Scituate:</b>   |                    |                    |                 |              |
| WB Mason           | \$36,208.43        | \$38,475.33        | \$2,269.90      | 6%           |
| Staples            | \$2,400.34         | \$1,075.13         | (\$1,325.21)    | -55%         |
| Quill              | \$2,385.05         | \$2,442.19         | \$84.14         | 4%           |
| New England Office | \$6,127.18         | \$5,462.85         | (\$664.33)      | -11%         |
| <b>Total:</b>      | <b>\$47,121.00</b> | <b>\$47,455.50</b> | <b>\$364.50</b> | <b>1%</b>    |

|                 | FY10        | FY11        | \$ Difference | % Difference |
|-----------------|-------------|-------------|---------------|--------------|
| <b>Seekonk:</b> |             |             |               |              |
| WB Mason        | \$44,502.04 | \$37,502.62 | (\$6,999.42)  | -16%         |

|                    | FY10              | FY11               | \$ Difference     | % Difference |
|--------------------|-------------------|--------------------|-------------------|--------------|
| <b>SRPEDD:</b>     |                   |                    |                   |              |
| Coffee             | \$560.70          | \$779.76           | \$219.06          | 39%          |
| WB Mason           | \$4,759.44        | \$3,446.48         | (\$1,312.96)      | -28%         |
| <b>Ink / Toner</b> | <b>\$1,820.06</b> | <b>\$6,137.21</b>  | <b>\$4,317.15</b> | <b>237%</b>  |
| Paper              | \$2,381.75        | \$1,478.42         | (\$903.33)        | -38%         |
| <b>Total:</b>      | <b>\$9,521.95</b> | <b>\$11,841.87</b> | <b>\$2,319.92</b> | <b>24%</b>   |

**AGGREGATE FIGURES**

|                              | FY10         | FY11         | \$ Difference | % Difference |
|------------------------------|--------------|--------------|---------------|--------------|
| <b>WB Mason Total:</b>       | \$128,296.89 | \$111,020.20 | (\$17,249.69) | -13.40%      |
| <b>Other Vendors Total:</b>  | \$30,342.50  | \$28,826.21  | (\$1,516.29)  | -5%          |
| <b>Avg. Savings Per Town</b> |              | \$3,450.00   |               |              |

**Table 2:**

| Town:                 | FY10 Budget on website | SRPEDD has FY10 Annual Report | FY10 Budget for Office Supplies | FY10 Office Supplies Expenses | % Spent | FY10 Budget for Supplies | FY10 Expenses for Supplies | Kingston Participant |
|-----------------------|------------------------|-------------------------------|---------------------------------|-------------------------------|---------|--------------------------|----------------------------|----------------------|
| Acushnet              |                        | ✓                             | 36,336.00                       | 33,062.00                     | 91%     |                          |                            | ✓                    |
| Berkley               | ✓                      |                               | NA                              | NA                            |         | NA                       | NA                         |                      |
| Dartmouth             | ✓                      |                               | NA                              | NA                            |         | NA                       | NA                         | ✓                    |
| Dighton               | ✓                      |                               | 30,221.00                       | 20,152.00                     | 67%     |                          |                            |                      |
| Duxbury               | ✓                      |                               | NA                              | NA                            |         | NA                       | NA                         |                      |
| Freetown              |                        | ✓                             | NA                              | NA                            |         | NA                       | NA                         | ✓                    |
| Halifax               | ✓                      |                               | NA                              | NA                            |         | NA                       | NA                         | ✓                    |
| Lakeville             | ✓                      |                               | NA                              | NA                            |         | NA                       | NA                         | ✓                    |
| Marion                | ✓                      | ✓                             | 27,000.00                       | 30,619.00                     | 113%    |                          |                            | ✓                    |
| Mattapoissett         | ✓                      |                               | 37,350.00                       | NA                            |         |                          |                            | ✓                    |
| Middleborough         |                        |                               | NA                              | NA                            |         | NA                       | NA                         | ✓                    |
| Plympton              |                        |                               | NA                              | NA                            |         | NA                       | NA                         | ?                    |
| Rochester             |                        |                               | NA                              | NA                            |         | NA                       | NA                         | ✓                    |
| Rehoboth              |                        |                               | NA                              | NA                            |         | NA                       | NA                         | ?                    |
| Scituate              | ✓                      |                               | NA                              | 47,094.00                     |         | NA                       | NA                         | ✓                    |
| Seekonk               | ✓                      |                               | NA                              | 44,502.00                     |         | NA                       | NA                         | ✓                    |
| Somerset              |                        |                               | NA                              | NA                            |         | NA                       | NA                         | ?                    |
| South Shore Tri-Town  | ✓                      |                               | NA                              | NA                            |         | NA                       | NA                         | ?                    |
| SRPEDD                |                        |                               |                                 | 9,522.00                      |         |                          |                            | ✓                    |
| Wareham Fire District |                        |                               | NA                              | NA                            |         | NA                       | NA                         | ?                    |
| Wareham               |                        |                               | NA                              | NA                            |         | NA                       | NA                         | ✓                    |