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OFFICE SUPPLY RFP/RFQ PROCESS

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PURPOSE

The purpose of this document is to provide the purchasing professional with office products industry-specific information to assist in the Request for Proposal (RFP) and Request for Quote (RFQ) creation. The information contained in this document comes from many office products industry sources and contributors.

This information is provided as is without any warranties. The author is not an attorney and highly recommends that you consult with legal counsel when preparing your RFP/RFQ.

The application of the information contained in this document is best used during the creation and planning phases of your RFP/RFQ.

OVERVIEW

It is often assumed that purchasing office products is a simple and straightforward process. While this may have been the case in years past, the advent of mega chain-stores and the acquisition activities of so-called power players have changed this process dramatically.

One notable difference is the introduction of vendor-specific item numbering schemes. These item identification numbers, also called Stock Keeping Units (SKUs), are not based on manufacturer part numbers or Universal Product Codes (UPC – Barcodes). Each of the chain stores assigns their own unique item number to each product. This causes much confusion for the typical office supply purchaser.

CORE ITEM LISTS

Most organizations purchase less than 200 unique office supply items. These items are referred to as 'core' items. Most office supply RFPs consist of a 'core list' of items that are bid at a fixed price.

A normal core list is around 200 items. You should beware of vendors suggesting core lists outside these normal parameters. Very large core lists are used by some vendors to make the audit process more difficult. This, in turn, makes it easier for the vendor to substitute low priced core items with higher priced alternates. Very small core lists may be leaving out very popular items that vendors should be bidding on.

When properly managed, core lists offer your best deal. You want to make sure that your core list is fixed in price for the length of the contract you and your vendor agree to. There may be exceptions to this with commodity items, such as copy paper, that can change price rapidly.

In those cases where commodity items are not fixed price and the price may be based on spot prices for raw materials, be sure the vendor's pricing method can be independently verified. It is also a good idea to leave any item where the vendor cannot guarantee the price 'open for market bidding'. Open for market bidding means that you can solicit other vendors for prices on these commodity items without effecting the other terms of your RFP/Contract.

Copy paper is the number one item purchased by most organizations, both in terms of dollars spent and the number of orders. Copy paper is also the number one item where most vendors want flexible pricing. It is especially important that close attention is paid to this high dollar item.

CORE LIST DISTRIBUTION

A great core list is no good if the person ordering office supplies is unaware of or not bound to ordering from the core list. Any good office supply RFP must contain specific core list distribution requirements. This requirement could be as simple as the vendor must limit all users (or specific users) to core list purchases or may include a requirement for a printed list of core items and even a core catalog for your users.

When users that order office supplies are not limited to core only purchases, it becomes especially critical that some means of identifying core items to these users is provided. The best method for very large organizations has historically been a core catalog designed specifically for your users. Also commonly used is a core list or ordering sheet the user can fill out and then place their order.

Make sure that your office supply RFP/Contract contains a clear core list distribution policy that makes sense for your organization.

NON-CORE DISCOUNTS OFF 'LIST PRICE'

It is common for office supply RFPs/Contracts to have discounts off 'list price' for non-core purchases. Some may offer discounts off specific categories of product such as 20% off toners and 30% off desk accessories, etc.

List price is an overused term that has no legal meaning in contracts. It's important to realize that the term 'list price' does not necessarily mean Manufacturer Suggested Retail Price (MSRP). Many office supply manufacturers do not provide a 'list price'. Most vendors make up their own list prices.

Even in those cases where manufacturers are providing so called list prices, these prices are constantly changing due to market pressures and the spot prices for raw materials. Many office products contain paper or wood that can change by the hour.

Attempting to incorporate this highly volatile and subjective number into your office supply contract is non-productive. There are much better ways to purchase your non-core items.

WHOLESALER CONNECTION

There are two national wholesale distributors in the office products industry. Any and all office supply vendors purchase from either or both of these national wholesale distributors. From the very largest to the very smallest, every office supply vendor, without exception, is familiar with and purchases from these distributors.

Both of the wholesale distributors publish consumer catalogs. The products contained in these catalogs are available from 75 distribution centers strategically located throughout the United States and Canada.

Through an initiative sponsored by the National Office Products Association (NOPA), all office products industry distributors have agreed upon a standardized numbering system for office product items.

This wholesale distributor item numbering system, overseen by the National Office Products Association, is the one and only standard for office products item numbers.

You should make certain that any proposals or requests for quote are based on this standard office supply numbering method. Never allow a vendor to substitute their own item numbering system into your documents. This relinquishes control to the vendor and severely limits your options.

UNITED STATIONERS

United Stationers is the world's largest wholesale distributor of office products stocking more than forty five thousand products, twelve thousand more than their nearest competitor. United Stationers would be an excellent asset for standardizing your office products RFP/RFQ item numbers. United Stationers can be found on the Web at: www.ussco.com.

United Stationers also operates a consumer site where you can view product information, get product tips and brochures, and browse the full United Stationers product line. United Stationers consumer site can be found at: www.biggestbook.com.

BID IS ON PRODUCTS NOT NUMBERS

Even after taking the standardized number advice, you can find that item numbers on your bid sheets have changed or have been corrected to comply with the standards set forth by the National Office Products Association.

Your contract should clearly state that the vendor is responsible for providing the product described on the bid sheet, regardless of the item number, SKU, or other identifying system the vendor chooses to use.

You should also include a clear-cut notification procedure in your contract should an item number change.

DISCONTINUED ITEMS

It is not uncommon for manufacturers to discontinue items. It is, however, highly uncommon for items on your core list to be discontinued without a suitable replacement also being available.

Discontinued item issues are the most commonly overlooked problem area in office supply contracts. They are also the most profitable way for vendors to bypass your low contract prices. It is quite common for some vendors to discontinue core items and then sell much higher priced alternates without your knowledge.

Your contract should contain a discontinued item clause that clearly states it is the vendor's responsibility to deal with discontinued items. Below are discontinued item issues your contract should address:

1. The vendor must report in writing when a core item is discontinued or otherwise unavailable.
2. The vendor must provide exact or higher value replacements for any discontinued core items.
3. The vendor must document replacements for any discontinued items and provide samples of the replacement items for you to approve.
4. The vendor must report discontinued or unavailable core items within ten (10) days after the item is discontinued or unavailable.
5. If no suitable replacement is available from the vendor, then you should have the option to choose another vendor for the item.

UNIT OF MEASURE DIFFERENCES

AA batteries are sold in 4-packs, 8-packs, and 24-packs. Pens are commonly sold singly and in boxes of a dozen. Pencils are usually sold by the dozen, but some suppliers have 72-packs.

It is very common for vendors to put the 'each' item number and price for pens on your core list and then ship the much higher priced 'dozen' pack and item number. If you do a usage analysis, this 'dozen' sale does not show up as a core item because the item number is different.

This is an extremely common practice by some vendors and the cost to your budget is enormous. There are cases where pens were priced at .12 cents each on a core list and the non-core dozen pack of the exact same pen was sold at $12.95.

Your office supply contract should specifically address unit of measure differences. All core items should be sold at the same 'each' or 'unit' price regardless of the ordering unit or the unit the vendor chooses to provide. Any exceptions should be listed as separate item numbers on your core list and made available to your users.

SUBSTITUTIONS

Some vendors will bid on the name brand items in your core list and then substitute lower-quality replacements. This is also a way of making themselves appear to be the low bidder because they know they are going to provide substitute products with a much lower cost to the vendor.

Make sure that your RFP/contract contains clear indications of your substitute policy. If you will not accept substitutes on any product, then make that clear. If you are open to substitutions on particular products, then address that policy on an item by item basis. Each vendor should bid on both versions of the product, name brand and no-name generic brand.

Substitutions are particularly problematic due to the wide range in quality between the many no-name generics currently on the market. If possible, you should avoid all substitutions and require that vendors bid on the exact product specified in your RFP/RFQ documents.

SINGLE SOURCE CONTRACTS

Single source contracts are a big advantage for your vendor. Any vendor pushing a single source contract knows this, which is exactly why they push it so hard. The vendor will make all sorts of claims about how you save in accounting, monitoring, and other extremely hard to quantify areas. Every one of the savings areas that single source vendors push can be achieved with a proper vendor RFP/Contract.

This is a very common situation because, on the surface, it looks like a good deal for your organization. You are getting very low prices on your core items and everything else is getting a discount. The problem is that list prices and discounts are just numbers used in calculations and are impossible to audit. List price can change daily and, in many cases, list price is made up by the vendor.

Single source vendors make huge profits from your account by offering low prices on core items, and then charging very high prices on any non-core items. This causes two significant problems:

1. It is in the vendor's best interest to aggressively promote and sell non-core items.
2. You will pay double, triple, and even quadruple the going price for anything you may have overlooked when constructing your core list.

Making it profitable for your vendor to drive sales to non-core items is a very costly and often overlooked pitfall of single source contracts.

Vendors that promote or insist on single source should be asked for two bids on your core list. Ask them to bid where they are the single source and another where they are not. If they refuse, you know they were planning on making huge profits from your non-core items. If they agree, and the price difference is substantial, then again you know why.

The best situation is to have the core list bid by competing vendors and then have the market drive the remaining items that your company uses. This gets your company the lowest prices on the most popular items, while keeping the vendors competing on the remaining items your organization uses.

Competition is the key to keeping your office supply dollars under control. When a vendor knows that others may be competing for your business on secondary items, the double, triple and quadrupling of prices suddenly disappears and you are offered fair prices.

LOCAL OR INDEPENDENT SOURCES

Don't discount or fail to include local or independent sources in your RFP/Contract plans. Smaller and/or local vendors can often react quicker, service certain needs faster, and provide pricing that rivals much larger vendors. This is especially true when it comes to your secondary needs.

Competition, competition, competition will get you the best price every time. Don't artificially limit yourself to only using large national vendors when you have local resources you can tap into. The "birds of a feather" saying tells us that we should mix it up and not rely on a single vendor or group of vendors of a certain size.

RETAIL STORES

There are currently three national chain office supply companies that offer both business-to-business contract services and retail office supply stores. Retail stores are perfect for the business that requires immediate access to a constantly changing variety of office products.

Vendors with large numbers of retail stores will often tout these stores as a positive to your organization. Most of these retail stores have become money losers for the chains as the Internet continues to erode their usefulness. This alleged advantage to the contract customer is one of the ways the chains are struggling to justify the retail store's continued existence.

The bottom line is that retail stores are designed to sell the products that make the merchant the most profit. They are also designed to tempt shoppers into purchasing additional items above and beyond what they may have originally intended to buy.

All the national office supply chain stores carry expensive consumer electronics such as MP3 players, digital cameras, and DVD players. In recent analysis of office supply contracts which included retail store

access, it was by far the retail store purchases that accounted for contract abuse, inappropriate purchases and employee theft.

Removing the temptation to misuse your organization's resources is far easier than monitoring users and dealing with potential legal issues involving employee theft.

Another equally important issue with retail stores is insurance and employee absence. You should consider any insurance issues that may apply when your personnel are traveling to and from retail stores as part of their job. You should also consider the time your personnel will be away from their duties when assessing the value of retail stores.

In any event, your contract should prohibit the regular office supply user from making purchases at retail stores. The contract should also make it the vendor's responsibility to prohibit these sales or charges to your organization's account or charge card in the vendor's retail stores. Only your approved list of authorized personnel should be allowed to make purchases in retail stores.

BEST CUSTOMER

Many office supply contracts contain 'best customer' clauses that cannot be enforced. These clauses are either too broad or fail to clearly specify what 'best customer' means.

To be effective, your RFP/Contract needs to specify your core list pricing at the item level. The wording should state that your item-by-item core list pricing is better than or equal to any existing customer contracts the vendor currently holds. It should also state that in the event the vendor offers any item on your core list at a lower price to any customer in the future, your contract will also be updated and any future sales will take place at the lower price.

STANDARDIZED USAGE REPORTING

Your RFP/Contract should specify a standardized method of providing usage information on your contract. The vendor should provide usage on a monthly basis and by the 10th of the following month.

You should specify both the format for the usage as well as the fields that the usage information should provide. The most common formats for usage information:

1. Microsoft Excel
2. Comma separated text files
3. Microsoft Access

You should specify the format that works best for your organization.

Minimum fields to be contained in the usage data:

1. Vendor's order number
2. Order date
3. Invoice number (if different than order number)
4. Invoice date
5. Sold to Account Number and Name (department)

6. Ship to ID, Name, and Address
7. Order line number
8. Item or SKU number
9. Item Description
10. Unit of Measure
11. Each Sell Price
12. Line Total Sale Amount (including any discounts)

These are suggested minimum fields that your vendor should provide. Your individual needs may vary. Your specification can allow the vendor to include more information, but never less than your RFP/Contract calls for.

AUDITING PROVISIONS

Your RFP/Contract should provide an auditing clause that allows you or your duly appointed representative to audit your office supply purchases. This auditing section of your contract should specify that a login to any Websites used to order office supplies must be made available on demand to verify core pricing on the vendor's Website.

It is extremely important to make sure that your vendor understands you will be verifying their compliance. This one RFP/Contract provision can in itself limit many problems. Make sure your contract has strong auditing provisions.

AUDITING PAST ACTIVITIES

Most RFPs include vendor references and most vendors are quick to provide several large accounts they currently service. Ask for an audit on the vendor's references including core lists and usage reports. Don't accept proprietary and confidential as an excuse. You are concerned with office supplies and how the vendor treats their customers, not state secrets. A blind audit where the account name is not identified should be acceptable.

Knowing how your vendor has treated past clients can be indicative of how you will be treated. Comparing your core list to other organizations similar to yours can also be invaluable. Again, these documents rarely are secrets or confidential, but you should be willing to sign a confidentiality agreement if the vendor insists.

Legitimate vendors should have no problem with you investigating their past activities and treatment of customers similar to yourself. Beware of vendors that balk at such a provision in your RFP or vendors who refuse to allow audits of their past activities.

PASS-THROUGH

A pass-through is an organization that is either intentionally created or used as-is to pass through office supply sale transactions. The intention is to make it appear that the organization used in the pass-through was the organization that actually performed the products or services. Pass-through organizations are used by some vendors to get around mandated set-asides for such organizations as MBEs (Minority

Business Enterprises), SBEs (Small Business Enterprises), VOSB's (Veteran Owned Small Businesses) and SDVOSB's (Service Disabled Veteran Owned Small Businesses).

Often these pass-through organizations are not in the office supply business, perform no commercially useful functions, and receive small commission checks for the use of their names.

The practice of using a pass-through company to meet set-asides is being challenged in many States. Some States are in the process of passing laws or have already passed laws banning this practice in their States. The U.S. Congress is also considering nation-wide legislation to ban the practice.

You should avoid any vendor that uses pass-through organizations to meet mandated set-asides.

VENDOR MANAGED PROGRAMS

Often through ecological or social concerns, public, private and governmental organizations have and continue to adopt specific programs to benefit their employees, constituents, or society in general. The vast majority of these programs serve their intended purposes.

Be aware of vendors eager to take over these programs and administer them for you by offering to handle the entire process. Pass-through organizations may be involved and some vendors have become very skilled in extracting additional revenues from these programs.

Although it can be tempting to turn over administration of your program to another party, you will also be turning over too much control to those with agendas that differ from yours. There have been many instances of abuse, unnecessary delays when action is required, and the complete disregard of the program rules when vendors are allowed to control these programs.

POST AWARD PRICE INCREASES

There is a new and alarming practice where some vendors are asking for post award price increases. This happens when a vendor is awarded a contract as low bidder and then turns around, almost immediately, and requests price increases. This is an unscrupulous way to win bids with low prices only to demand increases after a few short months.

Vendors are getting away with their demands for post award price increases because many organizations consider the expensive process of conducting bids against, what seems at the time, to be a small price increase for the vendor. What most don't realize is that these vendors are making very large price increases on the low priced core items and countering this with additional discounts on list priced items where the prices are double and triple the market rate. The vendor then claims that 'overall' there was only a ten percent increase.

It's a numbers trick. The vendor is using a blended average of ten percent, but the weighted average is over a hundred percent increase because the major effect is the price increase on your core items which account for the most dollars you will spend.

To counter this practice, make sure that your contract states that the vendor will pay for any costs associated with your organization's decision to perform another RFP/RFQ if a post award or other unwarranted vendor price increase is denied.

CONSEQUENCES

Some vendors will agree to your terms and then proceed to do whatever they wish once the contract is awarded. You must provide severe consequences in your RFP/contract to prevent this behavior. Some vendors have been known to take legal action against their customers who canceled their contracts when the particular reason for cancellation was not specifically spelled out in the contract. Thinking your actions are reasonable and just might not be enough in the eyes of the law.

Make sure your contract has clear consequences for vendors that do not comply with your contract terms and conditions. Include provisions for vendors to cover the costs associated with performing another RFP/RFQ when they are terminated with cause. Also make sure these consequences are all within your favor.

Banning non-compliant vendors from participating in future RFP processes for a number of years is one good deterrent. Another good deterrent is a total ban for especially flagrant behavior.

CONCLUSIONS

Never allow vendors to control the item numbers used in your RFP, RFQ, bid, or usage documents.

The two national office products wholesale distributors are the only neutral and commonly available source for item numbers to use in your RFP/RFQ documents.

Single source contracts favor the vendor, eliminate competition, and drive up the total cost of your office products. Competition among multiple vendors for your secondary items will save huge dollars.

Retail stores can entice your users to make inappropriate purchases, purchase items above and beyond the scope of their intentions, and to purchase personal items at your organization's expense.

Make it clear that your RFP/RFQ is for the products described in your documents, regardless of the packaging units, vendor specific part or SKU numbers, and that the vendor is responsible for replacing discontinued or otherwise unavailable items with like items of equal or greater value.

Let the vendors know you will be monitoring contract compliance by including an audit clause in your contract.

Make sure your contract has a clearly worded and strong penalty clause to deter vendors. Preventing contract problems is far easier that fixing them after the fact.

Include a core list distribution policy in your RFP/RFQ that makes sense for your organization.

Create your own standardized usage reporting method. Consult with your IT people on the file format that works for your organization.

If you include a best customer clause, make sure it is at the item level stating that the vendor will give your organization their best price on any item on your core list.

Beware of and avoid pass through schemes. It has been shown that the big winner in a pass through is the vendor that organizes it.

Never allow a vendor to manage your set-aside or other programs. The vendor's goal is to make money from your organization. You have to question why a vendor would want to take on additional work without compensation.