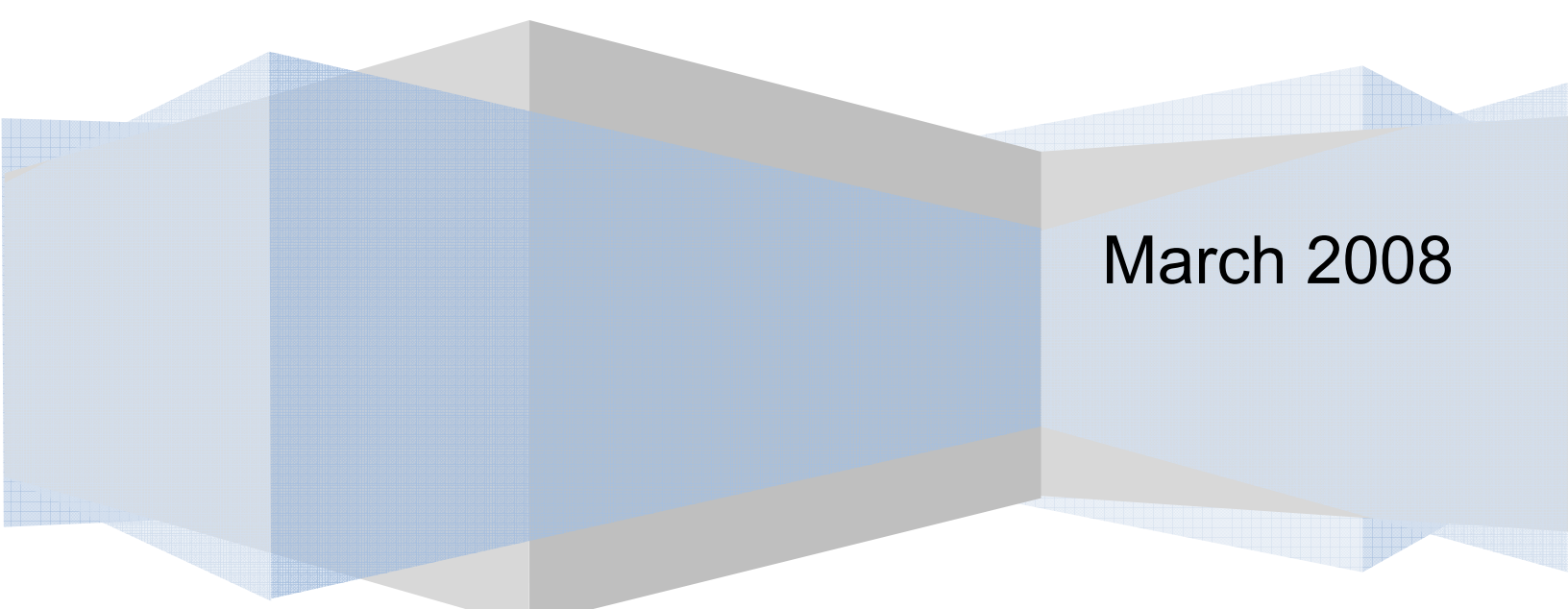


Purchasing Professionals Guide

Office Supply Contracts

Verifying and Monitoring Compliance

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March 2008

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PURPOSE

This document is intended to assist the purchasing professional in verifying and monitoring office supply contract compliance. The goals are to catch problems early, properly document non-compliance issues, and to provide due diligence reporting to upper management.

VENDOR NEUTRAL APPLICATION

The methods and examples in this document are designed to be vendor neutral and apply to practically any office supply vendor.

CONTRACT TYPES AND DIVISIONS

Office supply contracts generally fall into two pricing categories and are commonly combined into a third consisting of both pricing methods:

- List of items with fixed prices
- Discount off 'List Price'
- Combinations of fixed priced items and discounts

Lists of fixed price items are often referred to as 'core lists'. These 'core' items should represent the most frequently used items by your organization.

Discounts may be applied to an entire catalog, but are most often applied to categories within a catalog. For example, Toner Cartridges may be discounted at 30% off 'list' price while fax machines may only be discounted 5%. Your actual contract will probably vary from this example.

LIST PRICE

Although the term 'List Price' is commonly used in the office products industry, it is not necessarily the same as Manufacturer Suggested Retail Price (MSRP). Sources can and do disagree on what the list price may be for a particular product. You can visit www.gopd.com and choose the Services - List Price Information link to display current list prices on office products. This list price display includes the stated list price from multiple industry sources.

YOUR PRICE DISCOUNTS

A newly discovered office supply contract discount scheme uses discounts off a vendors catalog with a printed 'Your Price'. This type of contract is easy for a vendor to manipulate by increasing the 'Your Price' in the catalog while keeping the discount percentages the same,

These 'your price' contracts are carefully worded and usually state that the 'discounts' are fixed for the length of the contract. The term 'discounts' as used in these contracts could mean either the percentage or the actual discount amount itself. The problem is that a reasonable case could be made for both.

IMPORTANT ELECTRONIC INFORMATION

It is important that you have and maintain three important pieces of information in electronic format:

1. Core item list with prices
2. Discounted item list with discounted price (if applicable to your contract)
3. Usage report with item level detail

It is especially important that these documents are in electronic format. Microsoft Excel or Access is commonly used due to the wide acceptance of these formats.

If you do not already have this information, then request it from your vendor right away. This information can become critical if problems are uncovered and credit is due your organization.

Be suspicious of vendors that balk or refuse to provide this information in electronic format. These information requests are common and usual practice in the office products industry.

CORE LIST ITEM CHECKING

Core list items are perhaps the easiest to check. You should choose five high profile items and five lesser used items from your core list. Included with this document is a core list verification page.

1. Print the core list verification page and write in the ten item numbers you selected.
2. Locate your bid sheet, price list, or other document that contains the agreed upon core item prices.
3. Write the agreed upon core item 'bid price' for each of the ten core items you selected to check.
4. Visit your office supply vendor's ordering Website and enter each of the ten items on your list writing down the price shown on the Website.
5. Note any out-of-stock, discontinued, or other availability problems with your selected items on the check sheet.

Be sure that you add each item to the shopping cart/order. Some systems will not show the item availability status unless you add the item to your cart/order. This is a good practice for any system and you can always cancel the order before final commit.

Potential core item availability issues include any of the following:

1. The vendor is out of stock

2. The stock status is not clear
3. The item has been discontinued
4. Any other reason that prevents ordering the item

Remember, the core items are your highest use items and should never be out of stock, discontinued, or otherwise unavailable to your organization.

MULTIPLE UNITS OF MEASURE

While checking your selected core items, also check for the same product available in differing units of measure. Pens, pencils, clips, envelopes, folders, and markers are some of the categories that are often sold in varying units of measure.

The easiest way to check if an item is available in additional packaging sizes on most Websites is to enter the description of your core item into the search box exactly as the vendor's Website has the core item listed (removing any references to packaging). For example, if your core item is listed on the vendor's Website as "Bic Fine Point Red Stick Pens, 12 per Pack", you would enter "Bic Fine Point Red Stick Pens" in the search box of the Website. When you perform this last search, if additional package sizes are available, they will generally be listed along with their pricing.

It's important to remember that you have contracted with a supplier to provide specific items at specific costs. This includes all variations and packaging of these items unless expressly stated.

Do not accept arguments such as small pack sizes are higher priced. Your core contract item is generally priced by your vendor on the total quantity of this item your company purchases, not individual sales. The unit price for any and all core items should be exactly the same, regardless of the packaging your user chooses, unless the contract explicitly states otherwise.

DISCONTINUED ITEMS ARE THE VENDOR'S PROBLEM

Core items should never be discontinued by your vendor without your prior knowledge and consent. Of course manufacturers discontinue items from time to time, but it is extremely rare, especially when dealing with the top selling items that comprise most core lists, that items are discontinued without advance warning and without clear-cut replacements from the manufacturer.

Your vendor should be expected to be aware of and to proactively address with you or your staff any upcoming or previous manufacturing changes that affect your core list.

ITEM AVAILABILITY IS EXTREMELY IMPORTANT

Item availability issues can send your users to higher priced 'off-core' items that can significantly devalue your investments in the purchasing processes and overall contract

savings. Once off core, many users tend to remain off core by adding these alternate items (that they may have struggled to find) to their own personal favorite list.

It is prudent to assume the 'once off core, always off core' mentality in addressing any item availability issues. Being aggressive in both the checking and resolution of availability issues can be the difference between huge savings and overpaying for your office products.

ADDRESSING ITEM AVAILABILITY ISSUES

Notify your vendor in writing with any availability issues you find as soon as possible. The faster availability issues are resolved, the better chance of keeping your users on core and within the program you worked so hard to create.

Keep records of all correspondence and demand that the vendor charge core pricing for any core item alternates that the vendor may suggest on their Website. When item availability issues become excessive, you can assume your users have been forced off core and significant overcharges are the result.

Demand a like item audit for any core items where availability has been an ongoing issue. Like item audits usually consist of your vendor providing line item usage and billing detail for all items within a product category that your organization has purchased over a period of time. For example, if you are experiencing availability issues with a particular pen on your core list, ask for usage and billing detail for all pens. You can then look for users being forced off core due to availability issues with the pen in question. Look for pens being sold that are of similar functionality and design but with higher pricing than the core item. Make sure the like item audit (and all audits) is in electronic form (Excel) so you can perform your own sorts and analyses.

ADDRESSING CORE PRICING ISSUES

As with any issue involving your contract, be sure to report problems in writing and keep copies for your records. Note the item number, contracted core price, Website price, and date checked in your correspondence. Demand and expect immediate action (24-hour turn around) from your vendor in correcting all core pricing problems on the ordering Website.

Demand that the vendor perform an item level audit, in electronic form (Excel), for each and every sale of any and all mispriced items you have uncovered. The audit period should cover the entire contract life from start to current date. Spot check a few transactions by pulling vendor invoices. Insist on immediate credit for any overcharges uncovered by the audit.

Core pricing is the easiest to check, the easiest for your vendor to get right, and is also the largest problem area. Taking a firm proactive approach to core pricing problems will send the message to your vendor that you are continually checking their compliance. This in turn will go a long way in realizing your savings goals.

DO NOT ALLOW NET COMPLIANCE PER-SE

Some vendors may want to count undercharges towards any overcharges you uncover. This should not be allowed unless the vendor is willing to produce signed affidavits for each and every line item stating that none of the following situations are the cause of the undercharges:

1. The sale is not the result of the contract price being overridden in a retail store because the retail store has the item on sale or for a lower price.
2. The lower price was not quoted on the telephone by a representative of the vendor to match a competitor.
3. The lower price is not a large or bulk quantity discounted price.
4. The lower price was not the result of compliance with the best customer clause in your contract.

DISCOUNT OFF LIST PRICE COMPLIANCE

Discount off list price checking can be difficult in that most contracts allow the contracting vendor to control the product categories and catalogs that derive the price. If you don't already have it, ask for a complete list of all items in the vendor's catalog subject to discount. This list should be in Excel and contain the category code the vendor uses, the category name the vendor uses, the item part number, the description, unit of measure, list price, discount percentage, and your net price.

Select five items from one category and five items from another category. Perform the same tests on the vendor's Website (as used for core items) checking each item for availability and price.

Although availability of items priced with discount off list is less of a concern than core item availability, if excessive (half or more items you check are not available) then you may need to perform a more extensive audit.

Pricing irregularities can be more harmful here because an entire category may have been mispriced. If you locate pricing problems within your test group, you may want to perform a more thorough check of the category.

DISCOUNT OFF YOUR PRICE COMPLIANCE

Discounts off your price contracts can be the most difficult to verify. Your vendor is in complete control of what 'your price' is. One thing to watch out for is the vendor swapping out your entire catalog for a higher priced version. It is common practice in the office products industry to have more than one 'your price' catalog. Many vendors have three or more such 'your price' catalogs.

The 'your price' in these multiple catalogs is not the same. The most common arrangement is a low priced version designed to get the business in competitive situations, a medium priced version for less competitive contracts, and a high priced version for increasing the profits from an account.

Since the vendor is controlling the prices and the catalog, your best approach is to ask for a complete listing of all items subject to discount under this method. This list must be in an electronic format that you are comfortable with. You should also demand a new electronic file when changes are made to your discount list.

Make sure the electronic file listing of your discount items contains:

1. The vendor SKU
2. Manufacturer number for the item
3. Description of the item
4. Unit of measure
5. List price
6. Your price
7. Discount percent
8. Discounted price

When changes do occur, compare your before and after lists. If a substantial number of 'your price' changes have occurred without the same or similar number of list price changes, then your catalog may have been swapped with a higher margin version.

Beware a vendor claiming that the changes are a 'wash' or cancel each other out. When these catalog swaps occur, there will be some items where the 'your price' goes up and some items where the 'your price' goes down. This is common and intentional. Determining the exact effect is not easy and varies depending upon your organization's buying habits. In most cases of catalog swapping, you can assume your overall prices went up.

If you do find catalog swapping in your organization, there is usually little that can be done from a contract perspective. As mentioned, most contracts where this scheme is used contain unclear wording regarding the discounts and what it actually means. A legal approach is cost prohibitive in most cases.

You can confront the vendor swapping your catalog arguing your understanding of the contract. Your best ammunition can be the amount of business you give to the vendor now and in the future. You could elect to not renew the contract with the vendor, ban the vendor from participating in future contracts, or depending on your individual contract, cancel the contract all together.

MAINTAINING CONTRACT COMPLIANCE

If everything checks out, file your analysis sheets and provide notification to other persons in your organization that the contract is being actively monitored.

Depending on your comfort and work levels, you may want to only check the contract quarterly. Most non-commodity office supply prices are set and changed on a quarterly basis by distributors and manufacturers.

Be sure to select different items with each check. It is important to rotate the items spot checking from random samples.

If you find problems, you may want to perform a contract check on a monthly basis until you are confident the problems have been permanently corrected.

APATHY IS WORST ENEMY

Too often we see contract compliance gone horribly wrong with unsuspecting clients finding overcharges reaching into the millions of dollars. Recouping these overcharges becomes increasingly difficult as time passes. This is why it is so important to begin a contract compliance strategy immediately.

Diligence, documenting, and reporting on contract compliance within your organization can become everyone's responsibility. Recruiting trusted colleagues to watch for 'unusual behavior' and pricing problems extends your effectiveness.

Do not assume that contracts without problems will remain that way. It is common practice for some vendors to wait for months or years before they start changing prices.

PROFESSIONAL OVERCHARGE RECOVERY

If you believe that your organization has been overcharged for your office supplies, there are several ways you can recover this money. One way is to do it yourself by following the tips and methods in this document. Another way is to hire an accounting or auditing firm to do the work.

You can also hire experienced office supply contract analysts specializing in recovering overcharges. You pay a percentage of what is recovered and pay nothing if no overcharging has occurred.

CONCLUSIONS

We know how hard purchasing professionals work to create contracts that save both time and money for their organizations. We also know that more and more vendors, either through intention or inability, are failing to live up to the standards that these purchasing professionals require.

By performing routine and random checks you can prevent the most common forms of contract non-compliance. By maintaining up-to-date electronic information you can document and make it easier to recover any overcharges from your vendor.

I hope this helps with contract compliance in your organization. If you have any comments or other information you would like to see in future releases of this document, please contact Rick Marlette by email at rickm@gopd.com

CORE LIST VERIFICATION

| Core Item | Description | Bid Price | Web Price | Status |
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Date Checked: _____

Checked By: _____

DISCOUNT LIST VERIFICATION

| Discounted Item | Description | Bid Price | Web Price | Status |
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Date Checked: _____

Checked By: _____