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# STRATEGIC SOURCING

## Office Supplies Pricing Study Had Limitations, but New Initiative Shows Potential for Savings

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## Why GAO Did This Study

Concerned that federal agencies may not be getting the best prices available, Congress directed the General Services Administration (GSA) to study office supply purchases by the 10 largest federal agencies. GSA delivered the results of its study in November 2010. The study also discussed GSA's efforts to implement an initiative focused on leveraging the government's buying power to realize savings when buying office supplies, known as Office Supplies II (OS II). Under this initiative, GSA entered into agreements with vendors based on discounted prices to be offered to all federal agencies.

Congress directed GAO to assess the GSA study, with particular attention to the potential for savings. Accordingly, GAO assessed (1) the support for the findings and conclusions in GSA's report and (2) how GSA's new office supply contracts support the goal of leveraging the government's buying power to achieve savings.

To conduct this work, GAO analyzed the data GSA used for its study; met with and obtained documentation from officials at GSA and the Departments of Homeland Security (DHS), Air Force, Navy, and Army, which were among the 10 agencies in GSA's study; and reviewed contract documentation associated with GSA's new office supplies initiative.

GSA and DHS commented on a draft of this report. GSA said it appreciated our recognition that leveraged purchasing can produce savings and also provided technical comments, which we incorporated as appropriate. DHS provided additional information on its strategic sourcing initiatives.

View [GAO-12-178](#). For more information, contact William T. Woods at (202) 512-4841 or [woodsw@gao.gov](mailto:woodsw@gao.gov).

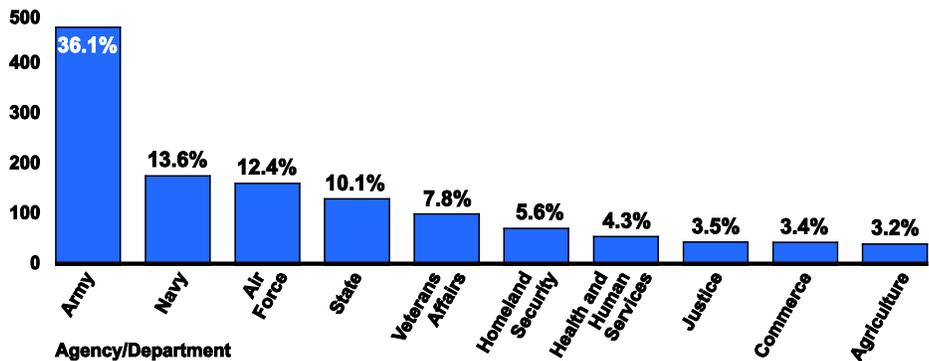
## STRATEGIC SOURCING

### Office Supplies Pricing Study Had Limitations, but New Initiative Shows Potential for Savings

## What GAO Found

GSA estimated that federal agencies spent about \$1.6 billion during fiscal year 2009 purchasing office supplies from more than 239,000 vendors. GSA concluded that agency buyers paid higher prices when they bought office supplies outside GSA's Multiple Award Schedule program than they would have using the schedules or OS II. According to GSA, the price premiums averaged 75 percent compared to the schedule prices and 86 percent compared to OS II. GAO identified data and other limitations in GSA's study, such as not always controlling for variation in quantities of identical items when comparing prices. GAO was not able to fully quantify the impact of these limitations. Officials from other agencies—Air Force, Army, Navy, and DHS—also questioned the study's specific findings on price premiums, believing them to be overstated, but their own studies support GSA's general conclusion that better prices can be obtained through consolidated, leveraged purchasing. The GSA study also concluded that buyers compared prices before making purchases, but this conclusion was based on interviews with senior-level acquisition officials and not on information obtained from any of the approximately 270,000 government purchase cardholders who made the purchasing decisions.

**Top 10 Purchasers of Office Supplies for Fiscal Year 2009**  
Dollars (millions)



Source: GSA study of office supplies.

According to available data, GSA's new office supplies sourcing initiative, OS II, has produced savings. GSA estimated that the government saved \$16 million from June 2010 through August 2011 through this initiative. According to GSA, the OS II initiative is demonstrating that leveraged buying can produce savings and has provided improvements for managing ongoing and future strategic sourcing initiatives. GSA reports that OS II allowed it to negotiate discounts with vendors who were selected for the initiative, and has spurred price competition among schedule vendors that were not selected as they react to the OS II pricing, resulting in decreased schedule prices. The initiative is also expected to lower government-wide office supply costs through more centralized contract management. Another key aspect of the initiative is that participating vendors provide sales and other information to GSA to help monitor prices, savings, and vendor performance. Finally, the OS II initiative offers lessons learned for other strategic sourcing initiatives, including the importance of identifying agencies' goals and needs and ensuring buying agency participation.

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# Contents

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Letter		1
	Background	2
	GSA Report Had Data and Other Limitations	5
	New Strategic Sourcing Initiative for Office Supplies Shows Potential for Generating Savings	9
	Concluding Observations	14
	Agency Comments and Our Evaluation	14
Appendix I	Comments from the General Services Administration	16
Appendix II	Comments from the Department of Homeland Security	19
Appendix III	GAO Contact and Staff Acknowledgments	21
Tables		
	Table 1: Retail Price Premiums for Office Supplies by Category, as Reported by GSA	5
	Table 2: Goals for Office Supplies II	11
Figure		
	Figure 1: Top 10 Purchasers of Office Supplies for Fiscal Year 2009	4

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## Abbreviations

BPA	blanket purchase agreement
DDS2	Domestic Delivery Services II
DHS	Department of Homeland Security
DOD	Department of Defense
eMall	DOD Electronic Mall
FPDS-NG	Federal Procurement Data System – Next Generation
FSSI	Federal Strategic Sourcing Initiative
GSA	General Services Administration
MAS	Multiple Award Schedules
OS II	Office Supplies II

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G A O

Accountability \* Integrity \* Reliability

United States Government Accountability Office  
Washington, DC 20548

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December 20, 2011

The Honorable Richard Durbin  
Chairman  
The Honorable Jerry Moran  
Ranking Member  
Subcommittee on Financial Services and General Government  
Committee on Appropriations  
United States Senate

The Honorable Jo Ann Emerson  
Chairwoman  
The Honorable José E. Seranno  
Ranking Member  
Subcommittee on Financial Services and General Government  
Committee on Appropriations  
House of Representatives

The General Services Administration (GSA) estimated that federal agencies spent about \$1.6 billion during fiscal year 2009 purchasing office supplies from more than 239,000 vendors. Concerned that federal agencies may not be getting the best prices available when making these purchases, the conferees on the Consolidated Appropriation Act, 2010, directed GSA to conduct a study of office supply purchases by the 10 largest federal agencies.<sup>1</sup> GSA provided the results of its study to the House and Senate Committees on Appropriations in a November 2010 report.<sup>2</sup> The report also discussed a GSA initiative to realize savings and other benefits when buying office supplies. Under this initiative, known as Office Supplies II, GSA entered into agreements with 15 vendors offering discounted prices that will be available to agencies across the government.

The conferees also directed us to assess the GSA study, with particular attention to the potential for savings. Accordingly, we assessed the support for the key findings and conclusions in GSA's report. To address

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<sup>1</sup>H.R. Conf. Rep. No. 111-366, at 918 (2009).

<sup>2</sup>U.S. General Services Administration, *Government-wide Office Supplies Pricing Inquiry Report, Congressional Requested Study on Pricing of Office Supplies* (Nov. 29, 2010).

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the potential for savings, we also assessed how GSA's new initiative for buying office supplies supports the goal of leveraging the government's buying power.

To assess the findings and conclusions of GSA's study, we reviewed the definitions, assumptions, data sources, and methods GSA used to conduct the study and discussed the report with GSA officials. We did not independently verify the data GSA used in conducting its study, but did use the data to analyze price premiums on selected office supply items. We met with and obtained documentation from officials at the Departments of Homeland Security (DHS), Air Force, Navy, and Army, which were among the top 10 buyers of office supplies in terms of dollars spent in fiscal year 2009. Additionally, we met with a Department of Defense (DOD) Defense Procurement and Acquisition Policy official to obtain an overall DOD perspective on the study. We also contacted a national organization representing manufacturers to obtain an understanding of how manufacturers use part numbers. To assess GSA's new approach to buying office supplies, we met with GSA officials responsible for implementing this approach and reviewed the contract documentation for 6 of the 15 vendors associated with the initiative.

We conducted this performance audit from December 2010 to November 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

Federal agencies can use a variety of different approaches to purchase office supplies. For relatively small purchases, generally up to \$3,000, authorized users can use their government purchase cards. For larger purchases, agencies may use other procedures under the Federal Acquisition Regulation, such as awarding a contract. Alternatively, GSA provides federal agencies with a simplified method for procuring office supplies through its Federal Supply Schedule program, also known as the Multiple Award Schedules (MAS) or schedules program. Under the schedules program, the federal government's largest interagency

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contracting program,<sup>3</sup> GSA awards contracts to multiple vendors for a wide range of commercially available goods and services.<sup>4</sup> The schedules program can leverage the government's significant aggregate buying power. Also, under the schedules program, to ensure the government is getting the most value for the taxpayer's dollar, GSA seeks to obtain price discounts equal to those that vendors offer their "most favored customers."<sup>5</sup>

In November 2007, GSA initiated another approach for buying office supplies by creating blanket purchase agreements (BPA) under the schedules program. BPAs are a simplified method of fulfilling repetitive needs for supplies and services<sup>6</sup> that also provide an opportunity to seek reduced pricing from vendors' schedule prices.<sup>7</sup> The approach was part of the government's Federal Strategic Sourcing Initiative (FSSI). GSA officials acknowledged they could have done a better job promoting this initiative. Ultimately, GSA determined that the initiative did not meet its expectations and initiated a second strategic sourcing initiative known as FSSI Office Supplies II (OS II) in 2010. By July 2010, GSA competitively awarded 15 BPAs to 13 small businesses and 2 other businesses to support the OS II initiative.

The GSA study on office supply purchases reviewed 14 categories of mostly consumable office supplies, ranging from paper and writing instruments to calendars and filing supplies.<sup>8</sup> The report did not include

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<sup>3</sup>Interagency contracts leverage the government's buying power and provide a simplified and expedited method for procuring commonly used goods and services. They allow agencies to use the contracts of other agencies. Agencies that operate interagency contracts or provide acquisition assistance to other agencies recover their costs by charging a fee to their customer agencies.

<sup>4</sup>GSA has delegated authority to the Department of Veterans Affairs to operate schedules for medical supplies.

<sup>5</sup>Most favored customer pricing is the prices the vendors offer their best commercial customers. 48 C.F.R. § 538.270.

<sup>6</sup>See FAR 13.303-1(a).

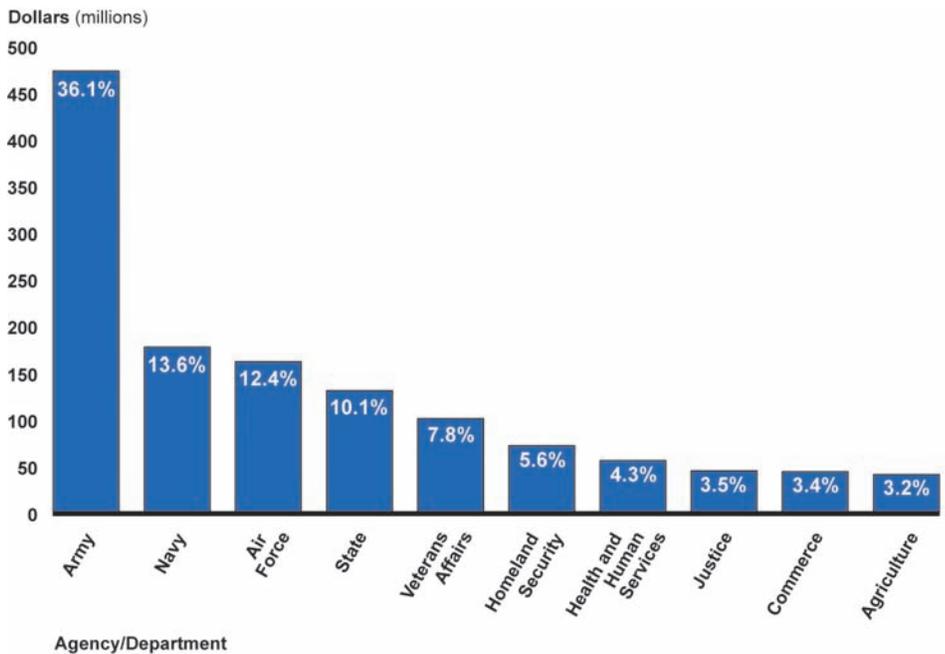
<sup>7</sup>See GAO, *Contract Management: Agencies Are Not Maximizing Opportunities for Competition or Savings under Blanket Purchase Agreements Despite Significant Increase in Usage*, [GAO-09-792](#) (Washington, D.C.: Sept. 9, 2009), for more information about BPAs.

<sup>8</sup>These categories of items are all offered by vendors on MAS schedule 75, but the study did not include all items on schedule 75.

non-consumable items such as office furniture and computers because they are not part of the standard industry definition of office supplies.

The GSA report estimated that the 10 agencies with the highest spending on office supplies accounted for about \$1.3 billion, about 81 percent of the total \$1.6 billion spent governmentwide on the 14 categories of office supplies during fiscal year 2009. The amounts spent by the top 10 agencies are shown in figure 1.

**Figure 1: Top 10 Purchasers of Office Supplies for Fiscal Year 2009**



Source: GSA study of office supplies.

The report found that about 58 percent of office supply purchases were made outside of the GSA schedules program, mostly at retail stores. The report also found that agencies often paid more—a price premium—than they would have by using the GSA schedules program or OS II. On average, GSA found that agencies paid 75 percent more than schedule prices and 86 percent more than OS II prices for their retail purchases. Table 1 shows the 14 categories of office supplies, the number of different items in each of the categories, and the retail price premiums that GSA calculated for each category when compared to schedule prices.

**Table 1: Retail Price Premiums for Office Supplies by Category, as Reported by GSA**

Category	Number of items in category	Percentage price premium paid in comparison with GSA schedule prices
Paper	54	78.2
Toner	32	12.2
Adding Machines & Calculators	2	-8.0
Binding & Filing Supplies	25	210.6
Calendars, Personal Organizers	1	80.6
Cases & Portfolios	2	-7.9
Computer Accessories	1	51.3
Drawing & Graphic Arts Supplies	6	278.8
Mailing & Shipping Supplies	8	203.7
Miscellaneous Office Supplies	22	175.1
Office Furnishings	1	52.0
Shredders	3	-11.2
Visual Communication Aids	4	122.3
Writing Instruments	58	407.6
<b>Total</b>	<b>219</b>	

Source: GAO representation of GSA data. Items listed in the order they appeared in GSA's report.

Note: Negative price premium percentages indicate that retail prices were lower than GSA schedule prices.

The report also concluded that buyers engaged in at least some level of price comparisons before making purchasing decisions. More specifically, the report stated that buyers may compare prices across different vendors when ordering through an electronic medium, or across available items when purchasing directly through a vendor's online or retail store.

## GSA Report Had Data and Other Limitations

GSA used several sources of data to analyze and compare the prices paid for 219 items across 14 categories of office supplies through various purchasing options. The GSA report acknowledged some limitations with the data, but we identified additional data and other limitations that lead us to question the magnitude of some of GSA's reported price premiums. We were not able to fully quantify the impact of these limitations. Other agencies also questioned the study's specific findings related to price premiums, but their own studies of price premiums support GSA's

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conclusion that better prices can be obtained through consolidated, leveraged purchasing. The GSA study also concluded that buyers compared prices before making purchases, but this conclusion was not based on information from actual purchase card holders.

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### Numerous Data Sources Used to Develop GSA Report

Purchasing of office supplies is highly decentralized with about 270,000 purchase cardholders and others across the government making purchases in fiscal year 2009. Because of this, GSA obtained data for its study from multiple government sources,<sup>9</sup> and purchase card information provided by the commercial banks that issue the government purchase cards. To determine the funds spent on office supplies and to conduct related analyses, GSA sorted through data from these various sources, which included about 7 million purchase transactions involving over 12 million items. GSA took a number of steps to clean the data prior to using them. For example, because a single purchase might have been reported in more than one data source, GSA removed duplicate purchases prior to its analysis. The data were further cleaned to remove items and their related costs that did not meet GSA's definition of office supplies.

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### GSA's Retail Price Premium Analyses Faced Data and Other Limitations

To determine retail price premiums, GSA focused its analyses on 219 office supply items that were purchased in 2009 from retailers and the GSA schedules. In its report, GSA acknowledged that the data used to analyze governmentwide purchases of office supplies in 2009 had limitations, in part due to the decentralized data sources for office supply purchases and the limited time GSA had to conduct its study. A significant issue GSA faced was attempting to control for variation in quantities; in other words, GSA tried to ensure that when comparing prices, it was using transactions that involved identical quantities. A purchase of pens, for example, could involve a single pen, a package of three pens, a box of a dozen, or any other quantity. GSA officials told us that the primary means they used to control for quantities was the use of the manufacturer's part number. They explained that they searched available databases to identify items with identical part numbers. They told us that

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<sup>9</sup>Government data sources include the Federal Procurement Data System-Next Generation (FPDS-NG), DOD electronic mall (eMall), GSA Advantage, and GSA's Global Supply.

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when they found large variations in retail prices for apparently identical items, they excluded transactions they considered to be outliers.<sup>10</sup>

This approach, however, may not have been adequate to account for variations in quantity. When we contacted a national organization representing manufacturers, a senior staff director told us that there is no consistent approach among manufacturers for assigning part numbers. Some manufacturers may assign one part number to individual items and different part numbers to packages of those same items containing different quantities, while other manufacturers may assign the same part number both to individual items and to packages of items. In addition, when we reviewed some of the individual transaction data GSA obtained for retail purchases, we identified substantial price variations for a number of drawing and graphic arts supplies and writing instruments that carried the same manufacturer's part number.

Specifically, when we reviewed GSA's retail transaction data for 10 items within the writing instruments category, we found that retail prices for 6 of the 10 items varied by more than 300 percent. For instance, for one item involving black Rollerball pens, GSA's retail transaction data showed prices ranging from \$9.96 to \$44.96 for items listed with the same part number. These transactions were all with the same nationwide retailer. When asked about such substantial price differences for items with the same part number, GSA officials acknowledged that the purchase card data they used for retail prices did not always accurately identify the quantity of items involved in each transaction. The existence of substantial price differences for a number of items indicates that GSA's attempts to compare prices may not have adequately controlled for variations in quantities.

We also identified a weakness with the clarity of the GSA report with regard to how price premium estimates were calculated. Specifically, GSA's study described a specific formula that was used to calculate the price premiums, but our review of the study's supporting documents found that the GSA actually used a different formula to calculate price premiums for 10 of the 14 office supply categories. In a discussion with GSA officials, they agreed that the study did involve the use of two

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<sup>10</sup>Specifically, they said they excluded prices that were beyond a threshold they set at plus or minus three standard deviations from the average price.

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different formulas. When we used the formula described in the study to recalculate the retail price premiums for those 10 categories of office supplies, we found the price premiums would have changed from what GSA reported by less than 5 percentage points for all categories except drawing and graphic arts supplies. For that category, the recalculated price premium was 68 percent, as compared to the 278 percent reported in the study. The use of this unreported formula did not have a substantial impact on the retail price premium calculations for most categories of office supplies or the overall conclusions of the study, but the GSA report could have been more complete had it fully disclosed all the formulas used for all categories of office supplies.

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### Data from Other Agencies Show Savings of Smaller Magnitude

On the basis of their own studies, Air Force, Army, Navy, and DHS officials also questioned the specific price premiums and savings reported by GSA. Officials from these agencies told us they believed that the price premiums reported by GSA when buying outside the GSA schedule were overstated. However, the agencies agreed with GSA's overall conclusion that better prices can be obtained through leveraged buys.

In addition, all four agencies in our review found that the prices available through the new OS II BPAs were better than the prices available from their existing agency BPAs. For example, a DHS study found savings of about 20 percent when analyzing the prices associated with a mix of 348 items. The Air Force determined that the OS II BPAs could save about 7 percent in a study of the 125 most commonly purchased items. On the basis of this analysis, the Air Force decided to let its existing office supply contracts expire. Similarly, the Navy's comparison of 71 items found that using the OS II BPAs could save about 6 percent, which led Navy officials to move purchasing to the OS II BPAs. Army officials did not provide study results, but they told us their analysis found lower price premiums than reported by GSA. An Army official said they plan to continue using existing BPA's while they transition to OS II.

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### GSA Conclusion on Buyer Price Comparisons Not Supported by Information from Actual Buyers

GSA interviewed senior-level acquisition officials to determine how office supply purchasing decisions were made within their respective agencies and concluded that purchase cardholders compared costs at some level prior to making a purchase. While these officials may have had a broad understanding of agency procurement policies and practices based on their positions in their respective agencies, they were not representative of the approximately 270,000 credit cardholders making the purchasing decisions. The GSA report did not identify or collect any data about price

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comparisons conducted by the cardholders. Collecting information from buyers, even through interviews or a survey of government purchase cardholders who actually made the purchases, could have provided another perspective on buyer behavior, including the extent to which price comparisons were made. GSA officials said that, given the reporting timeframe for the study, they did not have the resources or time that would have been needed to conduct a study that would have included a representative sample of the 270,000 purchase card holders.

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## New Strategic Sourcing Initiative for Office Supplies Shows Potential for Generating Savings

According to initial available data, GSA's new OS II BPAs have produced savings. The OS II initiative, more so than past efforts, is demonstrating that leveraged buying can produce greater savings and has provided improvements for managing ongoing and future strategic sourcing initiatives. GSA is using a combination of agency and vendor involvement to identify key requirements and cost drivers, increase the ease of use, and obtain the data necessary to manage the program. For example, a key aspect of the initiative is that participating vendors provide sales and other information to GSA to help monitor prices, savings, and vendor performance.

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## GSA's Analysis of OS II Data Shows Savings Are Being Achieved

On the basis of the sales data provided by OS II vendors, GSA estimates the federal government saved \$16 million from June 2010 through August 2011 by using these BPAs. These savings were estimated by comparing the lowest prices of a set of over 400 items available on GSA's schedules program contracts before OS II with prices and discounts being offered for the same items on the OS II BPAs. Importantly, and unlike GSA's report, GSA's conclusions about savings realized under OS II are based on data from vendors—which they are required to collect and provide in the normal course of business—and not on data collected after the fact from sources not designed to produce information needed to estimate savings.

GSA's comparison of the market basket of best schedule prices against the OS II BPA vendors' prices found that the BPA vendors offered prices that were an average of 8 percent lower, and the average savings is expected to fluctuate somewhat as the OS II initiative continues to be implemented. The expected fluctuation is based on anticipated changes in the mix of vendors, products, and agencies. For example, GSA found the savings, as a percentage, declined slightly as agencies with historically strong office supplies management programs increased their use of OS II. Conversely, they expect the savings percentage to increase

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as agencies without strong office supplies management programs increase their use. In addition to the savings from the BPAs, GSA representatives told us that they are also seeing prices decrease on schedules program contracts as vendors that were not selected for the OS II program react to the additional price competition created by the OS II initiative by reducing their schedule prices.

After the first year the OS II BPAs were in use, GSA extended the BPAs for an additional year after negotiating additional price discounts. As a result of these discussions, 13 of the 15 BPA vendors decreased their prices by an additional 3.9 percent on average. Additionally, the BPAs included tiered discounts, which apply when specific sales volume thresholds are met.<sup>11</sup> Sales realized by one of the BPA vendors reached the first tier discount level in September 2011, and the vendor has since adjusted its prices to provide the corresponding price discounts. GSA anticipates additional vendor sales to exceed the first tier discount threshold in the first option year, which will trigger additional discounts.

GSA expects that OS II will result in lower government-wide costs for office supplies as more agencies move from their agency-specific BPAs for office supplies to the OS II BPAs. Many agencies that had their own BPAs for office supplies did not renew their BPAs and have opted to use the OS II instead. As these agencies move to OS II, their contract management costs should decrease. For example, according to Air Force officials, instead of having personnel in every agency administer their own BPAs for office supplies, personnel at GSA will administer the OS II program on behalf of other agencies. While this may create some additional burden for GSA, officials believe the overall government costs to administer office supply purchases should decrease.

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<sup>11</sup>As part of the OS II competition, GSA requested each vendor to provide discounts based upon government-wide sales volume. The tiers are set at \$25 million, \$50 million, and \$75 million per vendor. Each of the vendors provided some level of discounts for each of the tiers.

## OS II Includes Key Management Goals to Enhance Oversight and Manage Suppliers

GSA has incorporated a range of activities representative of a strategic procurement approach<sup>12</sup> into the OS II initiative, including aspects of managing the suppliers. These activities range from obtaining a better picture of spending on services, to taking an enterprisewide approach, to developing new ways of doing business. All of these activities involve some level of centralized oversight and management. In addition, this approach involves activities associated with the management of the supply chain, which includes planning and managing all activities involved in sourcing and procurement decisions, as well as logistics management activities. These include coordination and collaboration with stakeholders, such as suppliers or vendors, intermediaries sometimes referred to as resellers, third party service providers, and customers or buying agencies. As part of the planning process for OS II, GSA assessed its schedules program office supply vendor pool and determined a sufficient number of vendors could meet its critical requirements.

As part of the overall strategy, in addition to savings, GSA through its commodity council also identified five overarching goals for the OS II initiative, to facilitate overall management, as shown in table 2.

**Table 2: Goals for Office Supplies II**

Goal	Description of goal	Methods to address the goal
Capture Data	Provide data necessary for analysis to make informed decisions	Vendors are required to provide monthly sales data including at the line-item level at no additional charge. Line-item-level data provide details on the transactions, such as the manufacturer's part number, freight amount, small business category (if applicable), product codes, and product description.
Enable Achievement of Socio-Economic Goals	Achieve governmentwide socio-economic goals set by Congress	GSA awarded 13 of the 15 BPAs to small businesses to assist agencies in meeting the congressional requirement that the governmentwide small business contracting goal be established at not less than 23 percent of the total value of all prime contracts awarded for each fiscal year.
Drive Compliance with Acts and Mandates	Comply with statutes, such as the Trade Agreements Act, and executive orders	Vendors are required to be in compliance with statutes and executive orders.

<sup>12</sup>See GAO, *Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services*, [GAO-02-230](#) (Washington, D.C.: Jan. 18, 2002), for more information on strategic sourcing.

Goal	Description of goal	Methods to address the goal
Conform with Agency Business Practices	Conform with agency business practices	Vendor administration requirements include maintaining a current catalog conforming to the terms and conditions of agency portals; meeting catalog requirements; providing no restriction on payment methods; offering training; and having a dedicated agency manager.
Increase Ease of Use	Be easy to use	Vendors are required to make the OS II prices available through government portals, vendor websites, retail stores, and by phone; include a point of sale discount, where BPA prices are automatically charged and tax exempted whenever a government purchase card is used for all items covered by the BPA; and apply BPA prices unless the ordering agency specifically opts not to use OS II.

Source: GAO analysis of GSA data.

As part of preparing for the competition for OS II, GSA obtained input from the interested vendors before issuing the request for quotations by holding an industry day. For example, based on vendor input that identified shipping as a key cost driver, a \$100 minimum order level was included as part of the BPA. A reverse auction process was used to carry out the competition for the BPAs, which GSA anticipated would result in more pricing discounts offered by vendors. As part of the reverse auction process, the vendors submitted an initial quote. After GSA evaluated the quotes, the vendors were notified of the lowest quotes and provided at least one opportunity to revise their quotes, resulting in price reductions.

GSA obtained commitments from agencies and help set goals for additional discounts to let businesses know that the agencies were serious in their commitment to the BPAs. This also helped GSA determine the number of BPAs that would be awarded. Because government purchase cards were the most common way to purchase office supplies, OS II includes a point of sale discount, under which BPA prices are automatically charged whenever a government purchase card is used for an item covered by the BPA rather than having the buyers ask for a discount. Additionally, purchases are automatically tax exempt if the purchases are made using a government purchase card. State sales taxes were identified by GSA's report as costing the federal agencies at least \$7 million dollars in fiscal year 2009.

## Capturing Better Data Has Enhanced Oversight of Vendors and OS II Management

To address concerns about vendor oversight and management, OS II has attempted to clearly define program implementation responsibilities, including laying out GSA, vendor, and buying agency responsibilities. A key aspect of a successful acquisition program is managing the vendors or suppliers to ensure that they are meeting terms and conditions of the contract or BPA and that the program or initiative is meeting its overall

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goals. This includes defining performance metrics, capturing or collecting data, preparing analysis and related reports, communicating the results of the analysis, and initiating corrective actions. GSA is capturing data on purchases and vendor performance that is assimilated and tracked through dashboards, which are high-level indicators of overall program performance. The dashboard information is used by the GSA team members responsible for oversight and is shared with agencies using OS II.

Our review of GSA's OS II vendor files found that GSA has taken a more active role in oversight and is holding the vendors accountable for performance. For example, GSA has issued Letters of Concern to four vendors and has issued one Cure Notice<sup>13</sup> to a vendor. These letters and notices are used to inform vendors that the agency has identified a problem with the vendor's compliance with the terms and conditions of the BPA.

To support the OS II management responsibilities, GSA charges a 2 percent management fee, which is incorporated into the vendor prices. This fee, which is higher than the .75 percent fee normally charged on GSA schedules program sales, covers the additional program costs, such as the cost of the six officials responsible for administering the 15 BPAs, as well as their contractor support.

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## OS II Initiative Offers Lessons for Other Strategic Sourcing Initiatives

GSA is learning lessons from OS II, its first of the second generation of strategic sourcing initiatives, and is attempting to incorporate these lessons into other strategic sourcing initiatives. While some of the lessons learned as OS II has progressed are not directly transferable to other initiatives, there are some aspects of it that can be applied to any strategic sourcing initiative. To this end, GSA established an office supplies commodity council to identify agencies' goals and needs. The input provided by the commodity team was incorporated into all aspects of the program from the vendor requirements to the selection criteria. This

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<sup>13</sup>A cure notice is issued by the government to inform the contractor that the government considers the contractor's failure to perform a contractual provision a condition that is endangering performance of the contract. The cure notice specifies a period (typically 10 days) for the contractor to remedy the condition. If the condition is not corrected within this period, the cure notice states that the contractor may face the termination of its contract for default.

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experience is being applied to other strategic sourcing initiatives. For example, GSA took a more collaborative approach as it moved to Federal Strategic Sourcing Initiative Second Generation Domestic Delivery Services II (DDS2). More specifically, GSA set up a commodity council that helped identify the program requirements and provide input on how the program operates. Vendor input was also sought and incorporated into the requirements.

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## Concluding Observations

GSA's office supplies report contained some data and other limitations, but it showed that federal agencies were not using a consistent approach in both where and how they bought office supplies and often paid a price premium as a result of these practices. The magnitude of the price premium may be debatable, but other agencies that have conducted studies came to the same basic conclusion about the savings potential from leveraged buying. The GSA study helped set the course for a more strategic approach to buying office supplies—an approach that provides data to oversee the performance of vendors, monitor prices, and estimate savings. Additional savings are expected as more government agencies participate in the OS II initiative and further leverage the government's buying power.

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## Agency Comments and Our Evaluation

We provided a draft of this report to GSA, DHS, and DOD. We received written comments from GSA and DHS, which are included as appendices I and II, respectively. DOD had no comments.

In its comments, GSA said it was pleased that our report affirmed that savings can be achieved through leveraged purchasing and better understanding of spend data. GSA also provided additional information on its strategic sourcing initiatives. GSA noted that it would have been very resource intensive for the agency to obtain information from a representative sample of the 270,000 purchase card holders for little added benefit. We revised our report to reflect GSA's comment. GSA provided some suggested language and technical changes to help clarify the report, which we incorporated as appropriate. We did not use GSA's suggested language concerning the limitations we identified in its study because we believe the language in our report accurately reflects our finding on this issue.

DHS stated that it appreciated our work and provided additional information on its respective strategic sourcing initiatives. DHS also

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stated that it has realized savings from the OS II initiative and expects to continue to do so.

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We are sending copies of this report to the Administrator of General Services, the Secretaries of the Department of Homeland Security and Defense as well as the Air Force, Army, and Navy. In addition, the report is also available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff members have any questions about this report, please contact me at (202) 512-4841 or [woodsw@gao.gov](mailto:woodsw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made key contributions to this report are listed in appendix III.



William T. Woods  
Director, Acquisition and Sourcing Management

# Appendix I: Comments from the General Services Administration



GSA Federal Acquisition Service

December 15, 2011

The Honorable Gene L. Dodaro  
Comptroller General of the United States  
Government Accountability Office  
Washington, DC 20548

Dear Mr. Dodaro:

Thank you for the opportunity to comment on the U.S. Government Accountability Office (GAO) draft report, "STRATEGIC SOURCING: Office Supplies Pricing Study Had Limitations but New Initiative Shows Potential for Savings" (GAO 12-178).

We appreciate the professionalism and commitment to excellence demonstrated by the GAO audit team.

The Federal Acquisition Service has led the creation and implementation of the Federal Strategic Sourcing Initiative (FSSI) solutions for Office Supplies (OS2), Domestic Delivery Services, and Print Management Services. We are currently working towards new FSSI solutions for wireless services and software and anticipate adding to this program in future years.

Each of our FSSI solutions has been developed in collaboration with agencies across the Executive Branch and with the active support of the Office of Management and Budget. We are delighted that your report affirms that by leveraging our purchases and better understanding our spend data, we bring savings to the Federal Government. With DHS, Army, Air Force, and Navy all confirming that they are saving money as a result of OS2, and total sales for FY 2011 of \$199 million, we are very pleased with the progress of the Office Supplies solution. I am happy to confirm your statement that we are actively applying the lessons learned to additional Federal Strategic Sourcing Initiatives.

While there were no specific recommendations pertaining to GSA, we would like to clarify and expand upon some of the information contained in the report. Additional details have been provided in the enclosure.

U.S. General Services Administration  
2200 Crystal Drive  
Arlington, VA 20406-0003  
[www.gsa.gov](http://www.gsa.gov)

Should you have any questions, please do not hesitate to contact me. Staff inquiries may be directed to Ms. Agnes Leung, Controller, Federal Acquisition Service. Ms. Leung can be reached at (703) 603-8145.

Sincerely,



Steven J. Kempf  
Commissiener

Enclosure

cc:  
Mr. William T. Woods  
Director  
Acquisition and Sourcing Management  
General Accountability Office

Mr. James Fuquay  
Assistant Director  
General Accountability Office

GSA acknowledges and appreciates the hard work and professionalism of the GAO Audit team.

In 2010, GSA performed an extensive report addressing the different ways in which the Federal Government buys office supplies. The report illustrated that agencies paid significant premiums when they opted not to use GSA's Multiple Award Schedule program, and also found that there were further opportunities for savings through a strategic sourcing solution.

We appreciate GAO's confirmation that: (1) agencies are indeed paying a significant premium when they opt not to use the Multiple Award Schedule, (2) Federal Strategic Sourcing Initiative for Office Supplies is saving the Government money and models many good practices which can be applied to other strategic sourcing efforts, and (3) GSA has increased vendor oversight through the program.

GSA recommends the following edits with the intent of improving the clarity of the message.

**Formal:** In the "GSA Report had Data and Other Limitations" section starting on page 6, GSA recommends shortening the second and third sentences of the first paragraph in the section beginning with "we identified additional data and other limitations..." through the sentence "we were not able to fully quantify the impact of these limitations." While GAO has identified different methods of calculating premiums when the MAS program was not used, it does confirm GSA's basic finding that there is a real price premium for not using schedules. Thus, addressing this point at length in the summary, creates room for misunderstanding. In place of this passage, GSA recommends combining this passage and the following sentence and replacing them with the following: "GAO takes partial exception to some of the mathematical details of how GSA calculated the premiums, but like DHS, Army, Air Force, and Navy, we support GSA's general conclusion that better prices can be obtained through consolidated leveraged purchasing."

**Technical:** On page 4, GSA suggests that GAO clarify the last sentence of paragraph one to read "The report did not include non-consumable items such as office furniture and computers because they are not part of the standard industry definition of office supplies."

**Formal:** On page 8, GAO included a long paragraph addressing the calculation of the pricing premium for drawing and graphic arts items. GSA believes that this paragraph places great focus on the precise amount of the premium paid when schedules are not used, and the reader should not lose the point that there is a real price premium for not using schedules.

**Formal:** On page 9, GAO notes that GSA conducted senior level interviews in preparing the report, but did not conduct interviews amongst the 270,000 card holders. GSA notes that to have a representative sampling of card holders from each of the 10 largest agencies would have been a very resource intensive process for little added benefit. Card holder concerns were a major focus of the FSSI solution and heavily explored through the commodity team process.

# Appendix II: Comments from the Department of Homeland Security

U.S. Department of Homeland Security  
Washington, DC 20528



**Homeland  
Security**

November 21, 2011

William T. Woods  
Director, Acquisition and Sourcing Management  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Re: Draft Report GAO-12-178, "STRATEGIC SOURCING: Office Supplies Pricing Study Had Limitations but New Initiative Shows Potential for Savings"

Dear Mr. Woods:

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the U.S. Government Accountability Office's work in planning and conducting its review and issuing of this report.

The Department is strongly committed to maximizing the effectiveness and efficiency of every taxpayer dollar we receive. A key component of this exceptional commitment to fiscal discipline is the DHS Efficiency Review (ER), which includes many initiatives designed to leverage the purchasing power of the Department and the Federal Government.

In March 2009, Secretary Napolitano launched the Department-wide ER, which has changed the way DHS does business by streamlining operations and fostering a culture of greater transparency, accountability, and fiscal discipline. To date, DHS ER has kicked off 36 initiatives designed to reduce costs, improve communication, and streamline processes.

DHS ER has implemented several initiatives designed to leverage the purchasing power of the entire Department and the Federal Government for the acquisition of commonly used items such as software licenses, wireless devices, uniforms, and furniture. DHS expects its ER initiatives that establish strategically sourced contract vehicles will result in cost savings of more than \$370 million.

One of these initiatives leverages the purchasing power of the Department for the acquisition of office supplies. It requires use of DHS-wide and Federal government-wide contracts, through the General Services Administration's, Federal Strategic Sourcing Initiative, Office Supplies II (OS II) initiative and has resulted in more than \$9 million in savings since 2009. As noted in the report, DHS expects to continue to achieve savings through the use of the OS II initiative.

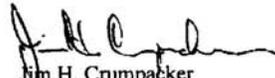
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Appendix II: Comments from the Department  
of Homeland Security

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Again, thank you for the opportunity to review and comment on this draft report. We note the report does not contain any recommendations for DHS. We look forward to working with you on future Homeland Security issues.

Sincerely,



Jim H. Crumpacker  
Director  
Departmental GAO-OIG Liaison Office

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

William T. Woods, (202) 512-4841 or woodsw@gao.gov

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## Staff Acknowledgments

In addition to the contact named above, James Fuquay, Assistant Director; Marie Ahearn; Morgan Delaney Ramaker; Joseph Fread; Jean Lee; Jean McSween; Kenneth Patton; Carol Petersen; Raffaele Roffo; William Russell; Roxanna Sun; Jeff Tessin; and Ann Marie Udale made significant contributions to this report.

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