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Testimony

Before the Subcommittee on Contracting  
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# Recent GSA Pricing Study Had Limitations, but New Initiative Shows Potential for Savings

Statement of William T. Woods, Director  
Acquisition and Sourcing Management



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Highlights of [GAO-12-705T](#), a testimony before the Subcommittee on Contracting and Workforce, Committee on Small Business, House of Representatives

## Why GAO Did This Study

The 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, Congress directed 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 OS II. Congress directed GAO to assess the GSA study, with particular attention to the potential for savings.

This testimony is based on the findings and conclusions of GAO's December 2011 report, [GAO-12-178](#), and focuses on (1) the support for the findings and conclusions in GSA's study, and (2) how GSA's new office supply contracts support the goal of leveraging the government's buying power to achieve savings.

## What GAO Recommends

GAO did not make any recommendations in its report, and is not making any in this testimony.

View [GAO-12-705T](#). For more information, contact William T. Woods, (202) 512-4841 or [WoodsW@gao.gov](mailto:WoodsW@gao.gov).

June 7, 2012

## OFFICE SUPPLIES

### Recent GSA Pricing Study Had Limitations, but New Initiative Shows Potential for Savings

#### What GAO Found

In 2010, the General Services Administration's (GSA) pricing study found that during fiscal year 2009, the 10 largest federal agencies accounted for about \$1.3 billion, or about 81 percent, of the total \$1.6 billion spent governmentwide in 14 categories of office supplies. About 58 percent of their office supply purchases were made outside of the GSA schedules program—a simplified process to take advantage of price discounts equal to those that vendors offer “most favored customers.” Most of these purchases were made at retail stores. GSA also reported that agencies paid an average of 75 percent more (a price premium) than schedule prices for their retail purchases and 86 percent more compared to Office Supplies II (OS II) prices.

While the GSA acknowledged some limitations with the study data, we identified additional data and other limitations that lead us to question the magnitude of some of GSA's reported price premiums and assertions. More specifically, we determined that the study may not have properly controlled for quantities, used two different formulas to calculate price premium estimates, and relied on interviews with senior level acquisition officials instead of purchasers to determine whether buyers compared prices before making purchases. We were not able to fully quantify the impact of these limitations. Additionally, other agencies questioned the study's specific findings related to price premiums, but their own studies of price premiums support GSA's conclusion that better prices can be obtained through consolidated, leveraged purchasing.

Available data show that the OS II initiative has produced savings of \$39.2 million from June 2010 through March 2012. According to GSA, the OS II initiative is demonstrating that leveraged buying can produce greater savings and has provided improvements for managing ongoing and future strategic sourcing initiatives. For example, GSA reports that OS II allowed it to negotiate discounts with vendors who were selected for the initiative. As governmentwide sales surpass certain targets, additional discounts are applied to purchase prices. Further, OS II has spurred competition among schedule vendors that were not selected for OS II, resulting in decreased schedule prices. The initiative is also expected to lower governmentwide 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, GSA is capturing lessons learned from OS II and is attempting to incorporate these lessons into other strategic sourcing initiatives.

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Chairman Mulvaney, Ranking Member Chu, and the Members of the Subcommittee on Contracting and Workforce:

I am pleased to be here today to discuss the General Services Administration's (GSA) efforts to reduce prices that federal agencies pay for office supplies. My statement is based on a report<sup>1</sup> we issued last year for the Subcommittees on Financial Services and General Government of the Senate and House Committees on Appropriations. Concerned that federal agencies may not be getting the best prices available, the conferees on the Consolidated Appropriation Act, 2010, directed GSA to conduct a study of the office supply purchases made by the top 10 largest federal agencies.<sup>2</sup> GSA provided the results of its study to the House and Senate Committees on Appropriations in November 2010 and also reported on its efforts to implement the Federal Strategic Sourcing Initiative—Office Supplies II (OS II), an initiative focused on leveraging the government's buying power to realize savings. The conferees also directed GAO to assess the GSA study, with particular attention to the potential for savings.

To conduct our work, we analyzed the data GSA used for its study; met with and obtained documentation from officials at GSA and the Departments of Homeland Security, Air Force, Navy, and Army, which were among the 10 agencies in GSA's study; and reviewed contract documentation associated with the OS II initiative. For purposes of this hearing, we updated GSA's savings estimates for the OS II initiative. We conducted our work 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

GSA estimated that federal agencies spent about \$1.6 billion during fiscal year 2009 purchasing office supplies from more than 239,000 vendors. Federal agencies can use a variety of different approaches to purchase

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<sup>1</sup>GAO, *Strategic Sourcing: Office Supplies Pricing Study Had Limitations, but New Initiative Shows Potential for Savings*, [GAO-12-178](#) (Washington, D.C.: Dec. 20, 2011).

<sup>2</sup>H.R. Conf. Rep. No. 111-366, at 918 (2009).

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office supplies. For relatively small purchases, generally up to \$3,000, authorized personnel can use their government purchase cards. For larger purchases, agencies may use other procedures under the Federal Acquisition Regulation, such as awarding a contract or establishing blanket purchase agreements. Alternatively, agencies can use the Federal Supply Schedule program (schedules program), a simplified process for procuring office supplies where GSA awards contracts to multiple vendors for a wide range of commercially available goods and services to take advantage of price discounts equal to those that vendors offer their “most favored customers.” The schedules program can leverage the government’s significant aggregate buying power. In addition, agencies can make office supply purchases under GSA’s new initiative, the OS II program. The OS II program is an outgrowth of an earlier attempt by GSA to offer agencies a simplified process for fulfilling their repetitive supply needs while obtaining prices that are lower than vendors’ schedule prices. By July 2010, GSA had awarded 15 blanket purchase agreements<sup>3</sup> competitively to support the OS II initiative, 13 of which went to small businesses.

For its study, GSA reviewed office supply purchases in 14 categories of mostly consumable office supplies, ranging from paper and writing instruments to calendars and filing supplies. 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. The GSA report estimated that during fiscal year 2009, the 10 agencies<sup>4</sup> with the highest spending on office supplies accounted for about \$1.3 billion, or about 81 percent, of the total \$1.6 billion spent governmentwide in the 14 categories of office supplies. Further, it stated that about 58 percent of office supply purchases were made outside of the GSA schedules program, mostly at retail stores. Additionally, GSA reported that agencies paid an average of 75 percent more (a price premium) than schedule prices and 86 percent more than OS II prices, for their retail purchases.

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<sup>3</sup>Blanket purchase agreements are a simplified method of fulfilling repetitive needs for supplies and services that also can provide an opportunity to seek reduced pricing from vendors’ schedule prices. See FAR 13.303-1(a).

<sup>4</sup>Departments of the Army, Air Force, Navy, Homeland Security, Veterans Affairs, State, Health and Human Services, Justice, Commerce, and Agriculture.

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## GSA Report Had Data and Other Limitations

While the GSA report acknowledged some limitations with the data, 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. Additionally, other agencies questioned the study's specific findings related to price premiums, but their own studies of price premiums support GSA's conclusion that better prices can be obtained through consolidated, leveraged purchasing.

Since purchasing of office supplies is highly decentralized, GSA obtained data for its study from multiple disparate sources, such as the Federal Procurement Data System-Next Generation, the Department of Defense (DOD) electronic mall, and purchase card data from commercial banks. To determine the amount of funds spent on office supplies and to conduct related analyses, GSA had to sort through about 7 million purchase transactions involving over 12 million items. The agency took steps to clean the data prior to using them. For example, it removed duplicate purchases and items that did not meet its definition of office supplies. The GSA study noted that the estimated amount of funds and related calculations were to be considered sound and reliable estimates derived from rigorous data analysis techniques.

We also identified additional data and other limitations in GSA's study, including:

- GSA may not have been able to properly control for purchases of different quantities of the same item. Because there is no consistency in how part numbers are assigned, manufacturers may assign the same part number to both individual items and to packages of items in some cases. GSA tried to exclude transactions that had large variations in retail prices for apparently identical items to control for these occurrences. However, when we reviewed 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, such as Rollerball pens, which ranged from \$9.96 to \$44.96.
- Two different formulas were used for calculating price premium estimates. However, the study only described one of these specific formulas. The use of the 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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- GSA did not identify or collect any data about price comparisons conducted by the purchase cardholders. GSA concluded that purchase cardholders compared costs at some level prior to making a purchase based on its interviews with senior-level acquisition officials. While these officials may have had a broad understanding of agency procurement policies and practices, they were not representative of the approximately 270,000 credit cardholders making purchasing decisions. GSA officials said that given the reporting time frame for the study, they did not have the resources or time needed to survey a representative sample of the 270,000 purchase cardholders.

Additionally, officials from the Departments of Air Force, Army, Navy, and Homeland Security believed that the price premiums reported by GSA when buying outside the GSA schedule were overstated based upon their own studies. For example, the Air Force determined that the OS II blanket purchase agreements could save about 7 percent in a study of the 125 most commonly purchased items. However, these agencies agreed with GSA's overall conclusion that better prices can be obtained through leveraged buys and that prices available through the new OS II blanket purchase agreements were better than the prices available from their existing agency blanket purchase agreements.

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

According to initial available data, GSA's OS II blanket purchase agreements 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.

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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 \$39.2 million between June 2010 and March 2012 by using the 15 blanket purchase agreements established for this program. These savings were estimated by comparing the lowest prices of a set—or market basket—of over 400 items available on GSA's schedules program contracts before OS II with prices and discounts being paid for the same items on the OS II blanket purchase agreements. Importantly, and unlike GSA's report, GSA's conclusions about savings realized under OS II are based on data from vendors—which they are

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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 blanket purchase agreement vendors' prices found that prices offered by OS II vendors were an average of 8 percent lower. The average savings, however, is expected to fluctuate somewhat as the OS II initiative continues to be implemented and the mix of vendors, products, and agencies changes. For example, GSA found that 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 as agencies without strong office supplies management programs increase their use. In addition to the savings from the blanket purchase agreements, 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.

The agency decided to extend the OS II blanket purchase agreements for an additional year after negotiating additional price discounts of about 3.9 percent on average with 13 of the 15 vendors in the program. The blanket purchase agreements also include tiered discounts, which apply when specific sales volume thresholds are met. Sales realized by 5 of the vendors reached the first tier discount level as of April 2012, and the vendors have since adjusted their prices to provide the corresponding price discounts. GSA anticipates that additional vendors will reach sales volumes that exceed the first tier discount threshold in the first option year, which will trigger additional discounts.

An additional benefit of OS II may be lower contract management costs, as agencies can rely on GSA to administer the program instead of their own staffs. 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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## OS II Includes Key Management Goals and Practices to Enhance Oversight and Manage Suppliers

GSA has incorporated a range of activities representative of a strategic procurement approach<sup>5</sup> into the OS II initiative. These activities range from obtaining a better picture of spending on services, to taking an enterprisewide approach, to developing new ways of doing business. They also involve supply chain management activities. All of these activities involve some level of centralized oversight and management. GSA is capturing lessons learned from OS II and is attempting to incorporate these lessons into other strategic sourcing initiatives.

GSA obtained commitments from agencies and helped set goals for discounts to let businesses know that the agencies were serious in their commitment to the blanket purchase agreements. This also helped GSA determine the number of blanket purchase agreements that would be awarded. As part of the overall strategy, a GSA commodity council identified five overarching goals, in addition to savings, for the OS II initiative. These goals and the methods used to address them are in table 1.

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<sup>5</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.



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**Table 1: Goals for Office Supplies II**

<b>Goal</b>	<b>Methods to address the goal</b>
Capture data	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	GSA awarded 13 of the 15 blanket purchase agreements to small businesses to assist agencies in meeting the statutory 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 statutes and mandates	Vendors are required to be in compliance with statutes and executive orders.
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	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 blanket purchase agreement prices are automatically charged and tax exempted whenever a government purchase card is used for all items covered by the blanket purchase agreement; and apply blanket purchase agreement prices unless the ordering agency specifically opts not to use OS II.

Source: GAO analysis of GSA data.

Several new business practices have been incorporated in the OS II program to meet the goals. For example, to meet the capture data goal, GSA is collecting data on purchases and vendor performance that are 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 to ensure that the vendors are meeting terms and conditions of the blanket purchase agreements and that the program is meeting overall goals. The information is also 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

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example, GSA has issued Letters of Concern to four vendors and has issued one Cure Notice<sup>6</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. To support the OS II management responsibilities, GSA charges a 2 percent management fee, which is incorporated into the vendors' prices. This fee, which is higher than the 0.75 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 blanket purchase agreements, as well as their contractor support.

In addition, to increase savings and ease of use, OS II includes a point of sale discount, under which blanket purchase agreement prices are automatically charged whenever a government purchase card is used for an item covered by the blanket purchase agreement 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.

GSA's experience with OS II is being applied to other strategic sourcing initiatives. For example, GSA set up a commodity council for the Federal Strategic Sourcing Initiative Second Generation Domestic Delivery Services II program. The council helped identify program requirements and provide input on how the program operates.

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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

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<sup>6</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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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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Chairman Mulvaney, Ranking Member Chu, and the Members of the Subcommittee on Contracting and Workforce, this completes my prepared statement. I am happy to answer any questions you have.

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## **GAO Contact and Staff Acknowledgments**

For future questions about this statement, please feel free to 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 statement. Individuals making key contributions to this statement include: Cheryl Andrew, Assistant Director; Jean K. Lee; and Marie Ahearn

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