

Cooperative Procurement: Today's Contracting Tool, Tomorrow's Contracting Strategy

Stephen Goldsmith

*Daniel Paul Professor of the Practice of Government and Director of
the Innovations in American Government Program, John F. Kennedy
School of Government, Harvard University*

Scott Becker

*Research Assistant, Innovations in Government Program,
Ash Center for Democratic Governance and Innovation,
John F. Kennedy School of Government, Harvard University*

October 2018



The Roy and Lila Ash Center for Democratic Governance and Innovation advances excellence and innovation in governance and public policy through research, education, and public discussion. By training the very best leaders, developing powerful new ideas, and disseminating innovative solutions and institutional reforms, the Center's goal is to meet the profound challenges facing the world's citizens. The Ford Foundation is a founding donor of the Center. Additional information about the Ash Center is available at ash.harvard.edu.

This research paper is one in a series published by the Ash Center for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government. The views expressed in the Ash Center Policy Briefs Series are those of the author(s) and do not necessarily reflect those of the John F. Kennedy School of Government or of Harvard University. The papers in this series are intended to elicit feedback and to encourage debate on important public policy challenges.

This paper is copyrighted by the author(s). It cannot be reproduced or reused without permission.

Cooperative Procurement: Today's Contracting Tool, Tomorrow's Contracting Strategy

Stephen Goldsmith

*Daniel Paul Professor of the Practice of Government and Director of
the Innovations in American Government Program, John F. Kennedy
School of Government, Harvard University*

Scott Becker

*Research Assistant, Innovations in Government Program, Ash
Center for Democratic Governance and Innovation, John F. Kennedy
School of Government, Harvard University*

October 2018



CONTENTS

Acknowledgments	v
Executive Summary	1
Cooperative Procurement Overview	3
Value	4
1. Velocity	4
2. Rationalizing Procurement Office Administrative Costs	6
3. Better Pricing	7
4. Enhanced Confidence from Transparency	7
5. Securing Expertise for Specialized Items and Services	8
6. Meeting Local Goals	10
Cooperative Market	10
Compliance	12
Vendor Perspective	13
Drawbacks	14
Conclusion	15
Appendix: Interview Sources	17

ACKNOWLEDGMENTS

Financial support for this paper was provided by the National Cooperative Procurement Partners, an association of cooperative procurement organizations, suppliers, and public procurement professionals.

EXECUTIVE SUMMARY

Public procurement teams are tasked with the responsibility of connecting states, counties, and municipalities with low-cost goods and services. These officials operate in a context dominated by an overarching commitment to strict procurement compliance standards of competition, transparency, and ethics, with other officials and media standing ready to scrutinize their actions. While agencies maintain a variety of individualized goals and needs, there are several channels through which procurement professionals aim to optimize the value of government-issued contracts. Given that procurement represents one quarter of public spending,¹ value achieved in this sector cascades across all levels of government.

A variety of obstacles can hinder procurement officials' ability to obtain best value through the public procurement process. Budgets and internal customers place a premium on velocity, cost, and effectiveness in serving public need, but these factors can be inversely related; for instance, minimizing price can diminish service outcomes. Strict regulations may limit buying options or encourage risk-averse strategies. Severe penalties for infractions can reduce officials' willingness to be innovative in trying new methods or products. And overarching government rules, regulations, and ever-changing policies can slow time frames for any new procurement. Maintaining the status quo eventually becomes more appealing for understaffed agencies looking to conserve resources. On the supply side, vendors seeking to contract with government agencies may encounter inconsistent or confusing procurement procedures and regulations, making bid processes costly and time-consuming and, in some cases, discouraging participation. These and other challenges can delay purchases and reduce the quality of outcomes achieved, with the public bearing the costs.

Increasingly, governments across the country are turning to cooperative procurement for greater value.² Joining with other entities can significantly reduce administrative

.....
1 Esteban Ortiz-Ospina and Max Roser, "Public Spending," *Our World in Data*, 2018, <https://ourworldindata.org/public-spending#recent-data-on-public-procurement>.

2 Paul Irby, *Cooperative Purchasing, Part 2: Potential Growth and Advice for Suppliers*, GovWin+Onvia from Deltek, February 5, 2018, <https://www.onvia.com/company/blog/cooperative-purchasing-part-2-potential-growth-and-advice-for-suppliers>.

costs and leverage the benefits of economies of scale. In recent years, cooperatives have evolved to provide a wider variety of benefits to procurement officials and vendors, offering increasingly complex services adaptable to a growing participant pool. Expansion of offerings and targeted attention to best-in-class contracts have furthered their value proposition.

When compared with historically well-established public procurement options, cooperatives sometimes faced early challenges in earning trust and adoption among procurement professionals. Cooperative purchasing did not arise as an organized public procurement practice until well into the 1990s and remained unfamiliar to many purchasers and their assigned legal counsel up until the most recent decade. Early concerns among public officials included fears that cooperatives would achieve efficiency at the expense of a local suppliers and concerns about fairness in the marketplace for smaller players as well as women- and minority-owned businesses. Leading national and regional cooperatives are working to address these challenges through educational materials, expanded outreach to increase participation by enterprises that are owned by the underrepresented, and improvements to the bidding and selection processes.

It is worth noting that many governments do not view cooperatives as their only procurement solution. In some cases, the standard procurement process may generate more competitive pricing, allow for more individualized service, or address a local political initiative or social goal. Recent growth in the market, however, has made cooperatives competitive in new areas once thought to be outside their domain. Expanding beyond the realm of commodities, cooperatives now offer contract solutions for services, minor construction, and financing. "I would say, you should always consider a cooperative, whether it's a simple commodity or a complex project," said Jana Vargas, procurement director at San Diego County Regional Airport. Experienced procurement officials agree that cooperatives should now be considered a tool in the toolkit for modernized procurement offices.

This paper intends to provide insight into today's cooperative procurement market, evaluate value propositions and challenges, and present strategies for success.

COOPERATIVE PROCUREMENT OVERVIEW

Cooperative purchasing combines multiple buyers' requirements on a single contract to aggregate volume and raise the purchasing power of each participating entity. A lead agency typically conducts the solicitation, allowing other agencies to "piggyback" on the resulting contract. Through cooperatives, entities can negotiate lower prices and reduce time spent on procurement processes and establishing contracts. Vendors benefit from the large volume and efficient competitive bid process that come with multiple awards to a single contract. Through these outcomes, the cooperative model can offer incentives for governments and suppliers alike.

The practice of joining with another entity on a single contract is not novel; governments have been doing so for over a century to save time and money. The modern cooperative model did not begin to be formalized, however, until the early 1990s. At that time, cooperative purchasing groups like US Communities and WSCA (Western States Contracting Alliance) formed as purchasing arms for multistate and multi-local jurisdiction contracting. The success of these and other groups in improving public procurement value led to a proliferation of cooperative market options ranging from governmental organizations performing administrative functions to privately owned for-profit programs. Cooperatives became even more appealing during the Great Recession, when governments sought new methods to conserve funds and assist with workforce reductions while still maintaining operational needs. Through the economic recovery, the cooperative landscape has continued to expand in offerings and volume, coming to represent about 20 percent of state, local, and education government agency spend according to a 2018 survey of procurement officials.³ What used to be a somewhat unknown or lesser-used contract vehicle has become a material part of many entities' procurement strategy.

In this paper, the term *cooperative* will be used to describe cooperative purchasing programs or organizations. This differs from cooperative as used to refer to a

.....
³ Paul Irby, *Survey of Government Procurement Professionals*, GovWin+Onvia from Deltek, 2018, <https://www.onvia.com/market-research/surveys/survey-government-procurement-professionals-2018>.

business owned and run by members that share its profits. The following statements and conclusions are based on the former definition.

VALUE

Cooperative purchasing programs are designed to enhance various aspects of public procurement value. When functioning well, they promote speedier contract creation and product delivery, reduce administrative costs, negotiate lower prices, and in some cases, improve social outcomes. Not all cooperatives are equal, nor are cooperatives a universal solution to procurement challenges. Used correctly, however, they can significantly benefit any agency's overall procurement strategy.

1. Velocity

Velocity plays a role in two parts of the procurement process: speed in developing and awarding contracts and speed in getting goods and services in the door. Velocity in each part is essential, and cooperative procurement can accelerate both. Since the solicitation process has already been conducted, procurement staff spend less time negotiating and establishing the contract terms, freeing team members to take on other tasks. Quicker supply delivery enhances quality of life for the members of society that benefit from the procured goods and services.

Procurement officers' time has become more valuable as their workload has increased. The Great Recession cut positions in many procurement offices, resulting in a 2013 National Association of State Procurement Officials (NASPO) report that concluded 40 percent of state procurement offices were understaffed.⁴ The problem has not receded since that time. According to a recent report from GovWin+Onvia from Deltek, 42 percent of procurement staff are being stretched or working extra hours—a number that is rising, up from 39 percent in 2017 and 35 percent in 2016.⁵ Overworked

.....
⁴ NASPO, *Rising to the Challenge: Recruitment and Retention in State Procurement Offices*, April 2014.

⁵ *Survey of Government Procurement Professionals*.

staff have less time to research the current market, trends, and newest technology, create updated specifications, analyze pricing, issue and respond to bids, and negotiate strong contracts. This can create a negative feedback loop wherein workers may spend additional time revising mistakes throughout the process. It can also ripple outward, affecting the achievement of performance outcomes, adherence to regulations, and ultimate product adoption and pricing. Increasing the velocity of contract development therefore provides multiple benefits.

Cooperatives ease the strain on public procurement staff, eliminating countless hours spent in the solicitation process and ultimate maintenance of individual contracts. This is especially valuable for well-defined commodities like maintenance, repair, and operations supplies. Having the solicitation process completed for their agency's benefit allows staff to focus on more complex, high-value contracts that may include forward-thinking solutions, carry greater consequences, or support the strategic goals for the organization.

Decreasing the elapsed time between request for a good or service and its contracted availability also quickly satisfies public need. The public procurement process is notoriously sluggish, requiring months of preparation, advertising, evaluations, and negotiations to ensure opportunity for competition with a fair and transparent process. Even when everything goes smoothly, the typical procurement process may stretch from months for a regular commodity contract to years for more complex projects. Shortening that time frame allows operating departments to better serve the public with essential goods and services, whether that be a firetruck, schoolbooks, or a leaky roof repair.

In the typical cooperative contracting model, a government agency, nonprofit, or cooperative entity serves as the lead agency, issuing the solicitation, conducting the evaluation and award process, and negotiating on behalf of other participating members. A lead agency, whether it be a local or state government organization, may achieve benefit from its ability to configure the service level agreements and other terms and conditions. However, by its definition, it will not necessarily reap the same velocity benefits as other participating entities. For example, Jason Soza, chief procurement officer for the state of Alaska, notes that "cooperative agreements still require a large amount of coordination, because we become the point of contact

for the entire state, or in some cases, the entire country. The expediency is there to a point, but it is not the biggest driver within our organization.” Entities that serve as lead agencies benefit in multiple other ways, such as elevating the procurement industry, gaining a revenue component (if applicable), and developing positive vendor and interagency relationships.

2. Rationalizing Procurement Office Administrative Costs

Minimizing costs is a top priority at every procurement office, especially when funds are tight. In 2018, budgets and funding issues ranked as the topmost challenge among agency procurement staff nationwide.⁶ Barring a massive budget increase, procurement staff must find innovative ways to do more with available resources.

Cooperatives substantially reduce administrative costs associated with the creation and awarding of government contracts. “For items that have become so common—office supplies, IT supplies, janitorial supplies,” said Marcheta Gillespie, former director of procurement for the city of Tucson, “those items have been contracted for on such a wide basis that it becomes illogical for any locality to do so, because you’re not going to get better pricing.”

Leveraging others’ relevant work reduces redundancy and redirects procurement officials’ time toward essential tasks and the development of specialized expertise. Procurement departments are often tasked with politically motivated projects that receive a great deal of local attention. Ken Heckman of OMNIA Partners recounted a recent project by the city of Tucson to build a trolley from downtown to the University of Arizona. “It became important for the city’s director of procurement to focus a great deal of their time and energy on that particular project, because the project required dozens of solicitations, including large construction contracts, and was resource intensive, time-sensitive, and politically controversial. To run their department efficiently, the procurement director relied on cooperative contracts to meet their day-to-day requirements. Using this strategy, procurement officers can focus resources on intense local projects and use cooperative contracts to manage everyday spend.”

.....
⁶ Ibid.

3. Better Pricing

Purchasing agencies are not the only group that benefit from lower administrative expenses. Vendors provide voluminous documents in response to any government solicitation. By reducing the quantity of solicitations for vendors, cooperatives provide significant savings that suppliers can pass on to purchasers through lower prices.

Cooperatives also attain better pricing through scale and negotiation leverage. Smaller entities tend to purchase in smaller volumes, reducing their power to stir competition and negotiate on pricing. Cooperatives provide these entities with leverage and allow them to harness the benefits of economies of scale. Large-volume contracts also attract more vendors to compete on price and service offerings.

A procurement officer that leverages a cooperative contract to create specific benefits for their own agency also adds to the total quantity in a fashion that assists other participating entities. In a large-volume purchase from a cooperative office supply contract, Richard Gay, of the Houston Independent School District, encountered “tiers of savings, such that if we met certain benchmarks, we got more discounts. When my school district joined we sent the quantities up two tiers, so we earned discounts and we helped the other members earn discounts as well.” Shared benefits create an incentive for participating agencies to act as marketers for a contract, expanding its reach and spreading the best deals.

4. Enhanced Confidence from Transparency

Transparency is paramount in government contracting to maintain confidence in the entity and ensure a fair and competitive process. In addition to possible ethical lapses, a lack of transparency in the procurement industry leads to reduced confidence by the public and suppliers, and reduced understanding of market pricing. E-procurement has helped develop communication within the industry to establish greater transparency, and cities like Pittsburgh and Detroit now publish procurement data in their open data portal. Still, many agencies and suppliers struggle to obtain valuable contracting data.

Cooperative procurement organizations offer another channel to enhance transparency in the procurement market. Many cooperative groups post their portfolios publicly, allowing officials to peruse available options—reviewing all the documents, from

the original RFP to the ultimate contract documents with terms and conditions. “In the past, procurement officials had to reach out to a lead agency or do a Freedom of Information Act request to get documentation,” recalled Heckman. “Cooperatives today have that information readily available online to the public.” Members that participate with other agencies likewise gain a better sense of market pricing through shared contracts. Cooperatives often offer consultation services to assist in this regard.

5. Securing Expertise for Specialized Items and Services

Born out of the Progressive-era civil service reform, the modern procurement process is structured to standardize practices, ensure accountability, and minimize corruption in public works. Compliance with public procurement best practices and legislation that reduces irresponsible use of taxpayer money is the top priority for procurement officials. However, it also promotes a risk-averse ideology that can stifle creativity. Industry experts admit that procurement officials across the country are frequently unsure about their own agency’s regulations. In a 2016 survey of nationwide procurement experts, just 14 percent rated staff in the industry as performing very or even reasonably well in risk analysis and management.⁷ In fact, the cumbersome bureaucratic process ranked as the second greatest challenge among a survey of government procurement professionals in 2018.⁸ When conformity to regulations displaces attention to outcomes achieved, taxpayers bear the costs.

Low risk tolerance creates a tough challenge for the public procurement sector in keeping pace with technological innovation. Regulations and traditional contract language make public entities less nimble than private businesses in adapting to unprecedented and ever-changing technological advances. Individual agencies struggle to build expertise and develop contracts for a new product—and by the time they do so, a better option may appear.

.....
⁷ The Volcker Alliance, “Doing the People’s Business: Key Competencies for Effective Public Procurement,” 2016, 2, <https://www.volckeralliance.org/publications/doing-peoples-business-key-competencies-effective-public-procurement>.

⁸ Irby, *Survey of Government Procurement Professionals*.

While cooperatives were initially developed for purchasing simple commodities, their value proposition has developed such that they now offer services with much greater complexity, including equipment maintenance and even drones. Beth Fleming from Denton County, Texas, has received “deep discounts on tech products” through the state of Texas’s cooperative program, and several procurement experts expressed optimism about cooperatives’ ability to grow into providing services on top of their technology product offerings. Some experts believe that cooperatives’ scale model is uniquely suited for cloud-based solutions.⁹ “We’re seeing a movement toward more complex, strategic services like cloud, and I think the ability of a sourcing team to develop the expertise in a highly complex compliance environment may be emerging as one of the more important things on these systems,” said Richard Pennington of NASPO ValuePoint, a state-level cooperative purchasing program. “We can do the front-end work and knowledge management and knowledge acquisition necessary to put one of these contracts together effectively. We identify the considerations people need [to bear in mind] when they go out and buy large cloud-based systems that they never knew existed before.” Multiagency participation accelerates the spread of these innovations throughout the procurement market.

Cooperatives’ concentrated expertise can also save procurement agencies on research and consultation with industry experts. Cooperative groups develop knowledge through exposure to a wide variety of contracts, and most provide some degree of education to assist in building their members’ procurement knowledge base—a much-needed service given that 81 percent of procurement officials indicated they need improvement in market alignment and expertise.¹⁰ In some cases, participating in a cooperative contract reduces procurement offices’ need to perform their own research; however, they must still conduct due diligence. Procurement staff ultimately maintain responsibility in choosing any cooperative contract solution.

.....
⁹ Justine Brown, “Bringing Innovation to Procurement,” *Government Technology*, March 4, 2014, <http://www.govtech.com/budget-finance/Bringing-Innovation-to-Procurement.html>.

¹⁰ The Volcker Alliance, “Doing the People’s Business,” 17.

6. Meeting Local Goals

While pricing remains an essential piece of the puzzle, the lowest bidder does not win every contract. More often, governments are seeing the value in devoting more time or money to meet socioeconomic goals, such as purchasing from sustainable, minority-owned, or women-owned businesses. Cooperative groups possess a powerful platform through which to support these objectives. By supplying through a cooperative, sustainable and historically underrepresented businesses become competitive on a large scale.

Cooperatives also provide better local outcomes by consulting with their members. The cooperative model pools knowledge from a variety of participating experts in developing contracts to more directly and efficiently address public need. Sabra Schell of E&I Cooperative Services, a nonprofit cooperative with nearly 5,000 members, helps agencies conduct purchases in the education sphere. Each university, college, or school district maintains an abundance of unique demands and procedures. To fit needs, Schell says, "We tap the expertise of our membership to get participation from members nationwide with experience in a specific type of contract." This information-sharing mechanism acts both to improve the immediate contract and to promote coordination and learning across the industry, benefiting entities in the long term.

Joining as a member to utilize a cooperative contract with other entities not only provides greater purchasing leverage, it also incentivizes vendors to provide quality service. If a small- to mid-sized entity encounters a problem in its contract or resulting product, its supplier may only go so far to solve that problem as it deems fit according to the contract's value. However, when the contract is part of a cooperative agreement, vendors breaching compliance risk regional or national exposure, thus increasing the power of agencies over their procurement outcomes. In addition, any participating agency can garner the assistance of the cooperative organization to bring the supplier in line with the contract terms and service expectations.

COOPERATIVE MARKET

The cooperative industry has grown past its "adolescent phase." An abundance of new players entered the market during its growth spurt over the past decade. Maturation

has recently slowed the number of entrants and brought consolidation among several of the major players to increase and diversify their offerings. In the last three years, for instance, OMNIA Partners acquired The Cooperative Purchasing Network and US Communities. Rebranding has occurred in the industry with WSCA becoming NASPO ValuePoint in 2014 and the National Joint Powers Alliance becoming Sourcewell in 2018. On the other hand, increased competition has also spurred specialization, as cooperatives seek to create unique services and identities. For example, E&I Cooperative Services offers cooperative contracts primarily in the education sector, while NPPGov specializes in fire and life safety equipment and supply contracts, which allows these cooperatives to address highly specific consumers.

A thorough description of the cooperative purchasing market is made difficult by hazy definitions. If broadly defined as two or more entities purchasing together through one contract, there are thousands of cooperatives across the country. No tally exists in this regard and many of these can result in one-off purchases. On a more structured level, many states and larger counties have cooperative programs in place that allow coordination across their jurisdiction. Some cooperative programs operate on a national level. These groups can differ structurally from one another and offer distinct value propositions. They may operate as member-driven nonprofits or private for-profit companies that employ procurement experts and former purchasing officers from around the country to develop contracts. Ultimately, some government organizations may demonstrate a preference for one type of organizational structure, while others look to contracts, pricing, vendor selections, and terms and conditions as their final determinants.

Cooperatives originated to promote supply-chain advantages and save agencies money. As users have recognized and appreciated the value of cooperatives' knowledge transfer function, cooperatives' role in procurement has evolved to the status of industry expert. Education is inherent in the open sharing and use of these contracts. However, some organizations have extended this function by establishing procurement education as a central marketing strategy, creating industry-leading materials to enhance public understanding and generate interest in cooperative purchasing. Large cooperative organizations release blog posts, newsletters, and market research to improve member expertise. Crosby Grindle of NPPGov, a national cooperative

purchasing group, noted that cooperatives “are in a unique position to provide guidance. We focus a lot on education, and a lot of that is just about purchasing in general. Sometimes we help procurement officials and even if they don’t end up using our contracts, they’re in a better position to use what they need for their own purchases.”

Local, regional, and national cooperatives play distinct roles for their members. National cooperatives offer enormous portfolios and serve a wide audience. In many cases, their purchasing power and aggregated member insights generate the most competitive products and pricing on the market. Yet procurement experts recognize the value of regional cooperatives, as well. “Consolidated coops represent larger volume and have more staff resources,” Grindle said. “But the smaller regional coops are overseen by a conglomerate of localities that are comfortable with each other and trust each other.” Agencies should make a thorough assessment of their needs and the market’s offerings in deciding whether to purchase through a national or a regional program.

COMPLIANCE

Much has been said about the value cooperatives bring to public agencies and the time and cost savings they yield. The top priority for purchasing staff, however, is to comply with public procurement procedures and local legislative regulations. It is extremely important that cooperative groups follow best practices to ensure compliance in their portfolios. Especially with an evolving industry, one mistake in this area could be widely detrimental. To maintain a standard of excellence across the cooperative sphere, cooperative groups and vendors have joined to form the National Cooperative Procurement Partners (NCPP), the association for cooperative procurement.

The NCPP leads legislative advocacy efforts and creates educational materials to promote the strategic use of cooperatives. The goal is to serve as a resource for procurement teams or new buyers who may (1) be unfamiliar with or relatively new to the use of cooperatives, (2) avoid cooperatives out of a fear of noncompliance, or (3) opt instead to bid all their own contracts in a time-consuming, but seemingly more risk-averse, approach. The evolving nature of the industry and increasing use of cooperatives place

increasing emphasis on the assurance of compliance, as well as on the education and advocacy of cooperative legislation and contract language. Professional procurement organizations and associations across the nation support cooperative procurement by regularly publishing educational material, advocating best practices, and encouraging the philosophy of adding value to the procurement process.

VENDOR PERSPECTIVE

Vendors derive significant benefits from contracting through a cooperative. Greater volume and less time spent in the competitive bidding process has the potential to increase profits. Additionally, cooperative programs help vendors meet their needs and goals. Sergio Paneque, who has served as chief procurement officer for both the city and the state of New York, said, "I think if you purchase intelligently, you can use coops to effectively listen and deliver to your taxpayers—both the vendor community as taxpayers as well as other citizens."

Procurement professionals across the country want to develop relationships with vendors, and cooperatives provide a platform for fostering a mutually beneficial relationship. Some cooperatives have established vendor advisory boards, which work with vendors to establish best practices and address "pain points" they face in the typical procurement process. Vanessa Fleenor of NETWORK said the company is "closely aligned with its cooperative partner across all functional areas of the respective organizations. We truly partner together, conducting strategic business reviews, annual planning sessions, program sales training, co-marketing initiatives, joint selling activities, and sharing of subject matter expertise."

Michael Ready of John Deere notes that cooperatives have largely transitioned to current price book pricing, meaning all current products remain on contract during the life of the contract. Many procurement agencies still use a historical price book model, which sets prices at the outset and holds them static for the life of the contract. While this method provides stability and predictability, depleted supplier inventories and discontinued products may necessitate substitution. According to Ready, the current price book model benefits both parties through more efficient sales and fewer

customer complaints. John Deere participates in multiple advisory boards, joining dozens of suppliers across a range of industries working to find better ways to efficiently address public needs. "Cooperatives encourage a high level of collaboration between the public and private sectors," said Ready, "promoting mutual success."

Noting benefits to vendors, entities, and residents, Kevin Loubert of Steelcase called cooperative contracts a "win/win/win" option. According to Loubert, cooperatives provide vendors with the opportunity to propose "solutions that have been competitively bid using a procurement process that benefits all parties." He added, "You have to ask yourself, isn't it about time?"

DRAWBACKS

While cooperative groups cannot solve every problem procurement officers face, and not every government contracting situation immediately leads to a cooperative solution, the industry continues to develop solutions that benefit participating agencies across the country.

One problem that some vendors may face in public procurement is significant barriers to entry. High volumes, cross-country service requirements, as well as complex legal requirements may rule out small businesses and startups capable of providing better outcomes. By aggregating volume, some research suggests cooperatives can exacerbate these circumstances, excluding suppliers and promoting oligopoly in the vendor market.¹¹ Procurement officers have expressed increased interest in supporting small, local companies; historically underrepresented suppliers; and environmentally sustainable businesses. Several cooperative procurement experts note that the industry is working on creating the conditions for small businesses to thrive on large contracts. For some nationally scaled contracts, large suppliers that have received awards have subcontracted with local suppliers for portions of the work. Through this type of creative contract structuring, cooperatives hope to offer a unique value proposition to meet local needs.

.....
¹¹ Nigel Caldwell, Christine Harland, and Jan Telgen, "International Research Study of Public Procurement," *The SAGE Handbook of Strategic Supply Management*, 2013.

As noted, since cooperative contracts are initially solicited to serve the greatest need possible, this process does not always provide highly individualized products, services, or terms and conditions. In this case, a cooperative may not be tailored perfectly toward any one entity's particular needs. For example, curriculum and special education products targeted toward children with specific learning needs might often lend themselves better to an individual procurement process. However, well-written contracts have allowed cooperatives to expand into previously untouched areas of the procurement market, and many agencies are learning that some products and services they once considered unique to their jurisdiction can actually be obtained through a cooperative.

In some cases, depending on the product, the locality of the supplier, or the unique marketplace, a competitive standard procurement process may generate better pricing. The question then becomes: Does that difference in price offset the time and resources spent conducting a standard solicitation? Does it account for any changes in service quality? Are there extra value-added features, outside of pricing, in the cooperative that may not be gained in an independent solicitation? These are the questions that procurement managers must answer for their own agency to make an informed decision.

CONCLUSION

Cooperative purchasing clearly can add value. The challenge for chief procurement officers and elected officials is to achieve the right balance where they receive value from cooperative purchasing while retaining the ability to control overarching policy and specialized local conditions. The primary advantage for acquisition officers will be the opportunity to push routine work off to nationally accepted practitioners and/or to secure specialized expertise from those cooperatives and, in turn, free up their time and funds for more complex and unique issues. Other benefits include the cultivation of industry expertise, top-tier pricing and service, a more comprehensive value proposition, and the development of cross-agency relationships.

The goal will be to maintain a healthy, mutually beneficial relationship between cooperatives and purchasing bodies. Multiple procurement officials expressed concern

in interviews that some entities become too reliant on cooperatives. Others suggested that some entities do not trust cooperatives enough, even when they should. “There is a need to recognize the balance between supporting our peers in public procurement and having them see cooperative purchasing as a threat to their existence,” said Jeremy Schwartz of Sourcewell. “That’s something we have to be cognizant of—cooperative purchasing is most effectively positioned as a strategic sourcing option, not the exclusive public procurement option.” When the balance is right, the value to public employees and the communities whom they serve can be immense.

APPENDIX: INTERVIEW SOURCES

Eleven procurement experts were interviewed for this paper, including both public agency procurement staff and cooperative program staff:

- Beth Fleming, Chief Procurement Officer, Denton County, Texas
- Richard Gay, Director of Procurement, Houston Independent School District, Texas
- Marcheta Gillespie, former Director of Procurement, City of Tucson, Arizona
- Crosby Grindle, President, NPPGov
- Ken Heckman, Senior Vice President, OMNIA Partners
- Sergio Paneque, former Chief Procurement Officer, City and State of New York
- Richard Pennington, General Counsel, NASPO ValuePoint
- Sabra Schell, Executive Director of Marketing, E&I Cooperative Services
- Jeremy Schwartz, Director of Operations and Procurement, Sourcewell
- Jason Soza, Chief Procurement Officer, State of Alaska
- Jana Vargas, Director of Procurement, San Diego County Regional Airport Authority, California

Representatives from three suppliers with cooperative contracts were also interviewed:

- Vanessa Fleenor, Network Services Company
- Kevin Loubert, Steelcase
- Michael Ready, John Deere



A publication of the

Ash Center for Democratic Governance and Innovation
Harvard Kennedy School
79 John F. Kennedy Street
Cambridge, MA 02138

616-495-0557
www.ash.harvard.edu