

# Is co-op purchasing all it's cracked up to be?

No good deed goes unpunished. Recent research shows cynicism over cooperative purchasing is unfounded.

In December 2014, procurement professionals were vindicated for using a process often attacked by politicians and the public: cooperative purchasing. In plain English, Utah's auditor general dispelled allegations regarding the state's relationship with the WSCA-NASPO national cooperative purchasing program:

- That the state's purchasing director was receiving illicit benefits and/or unduly influencing contract awards;
- That not all state companies were getting the opportunity to bid;
- That local arms of nationally contracted companies weren't getting in on the action;
- That contracts don't address administrative fees;
- That taxpayers, not vendors, were paying those fees.

Now called NASPO ValuePoint, WSCA-NASPO is a 501(c) (3) organization formed in 2013 when the National Association of State Procurement Officials (NASPO) merged and then spun off two cooperative purchasing programs: the Western States Contracting Alliance (WSCA) and NASPO Coop-

erative. The split was made so NASPO ValuePoint could concentrate on contracting and NASPO on professional development without the appearance of impropriety. Ironically, confusion over the legal details caused many people to assume NASPO ValuePoint is a for-profit company.

Suspicion probably would not have been so great if the organizations didn't have \$41 million in administrative fee reserves, a 192% increase over four years, at the time.

Like other cooperatives, business increased dramatically after 2006 as cities, counties, and states grappled with Great Recession budget cuts. With almost \$10 billion annually in contract sales in all 50 states, NASPO ValuePoint is the nation's largest cooperative and has very low administrative fees.

The auditor general concluded that Utah taxpayers benefit twice from the Purchasing Division's role as lead agency for 22 of NASPO ValuePoint's 54 contract areas. The agency saves \$41,000 to \$82,000 annually on labor and receives more than \$500,000 in reimbursements for awarding contracts — goods and services the agency would

have had to research anyway — for the cooperative as a whole.

"Cooperative purchasing is one of the best tools developed over my career to get departments things they need to get their job done," says Jay McCleary, recently retired deputy director of finance for the City of Red Wing, Minn. The city has used cooperative purchasing for more than 20 years, first with the State of Minnesota Cooperative Purchasing Venture and later with WSCA.

"It's saved a lot of money over the years," McCleary says. "First, combining purchases offers a better pricing structure. Two, I don't have to spend my time writing specifications for every purchase. In the 1980s, I wrote bid specs for a fire truck that turned out to be 200 pages long. Now we get a committee together, go down a checklist to decide what features we want, and then compare our list to the co-op contracts."

## Evolution of a spending model

Government agencies have long banded together to buy goods and services in bulk. Over time, vendor participation and geographic reach spread to the point

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where several cooperatives, like NASPO ValuePoint, are national in scope.

H-GACBuy, for instance, started out as a regional organization 30 years ago. The government-to-government procurement service is a unit of the Houston-Galveston Area Council and a subdivision of the State of Texas. Because the Texas Interlocal Cooperation Act allows statewide cooperatives to be used by local governments nationwide, contracts have been used by Joplin, Mo., after the 2011 EF5 tornado and communities affected by Hurricane Sandy in 2012.

Co-ops also liaise between purchasers and vendors to improve contracts or mediate disputes. They work with city, county, and state legal representatives to determine whether the process is allowed in a particular jurisdiction and whether a contract was competitively solicited and awarded.

Vendors find much the same value in cooperative purchasing as do purchasers. Just as it takes time to write a request for purchase, it takes time to submit a bid.

“These programs have made it easier for suppliers,” says Mary Andrews, customer general services manager for Alamo Group Inc., a manufacturer of

tractor-mounted mowing and grounds maintenance equipment in Seguin, Texas, that works with several national cooperatives. “We can concentrate on responding well to one request instead of to thousands.”

In return, vendors can waive fees and offer value-adds like FOB delivery and free accessories.

Now that the national model is generally accepted, co-ops are expanding their offerings:

- Technology (SCADA, GPS systems, fleet telematics);
- Pumps, pipes, and fittings for water treatment;
- Perishables such as fuel, fuel cards, and chemicals;
- Services and service contracts; and
- Training and professional development courses.

Even so, objections like the ones Utah’s Purchasing Division encountered are not uncommon.

### #1: contracts are not true competitive bids

“When a city executes a contract, it has to go before the mayor and commission-

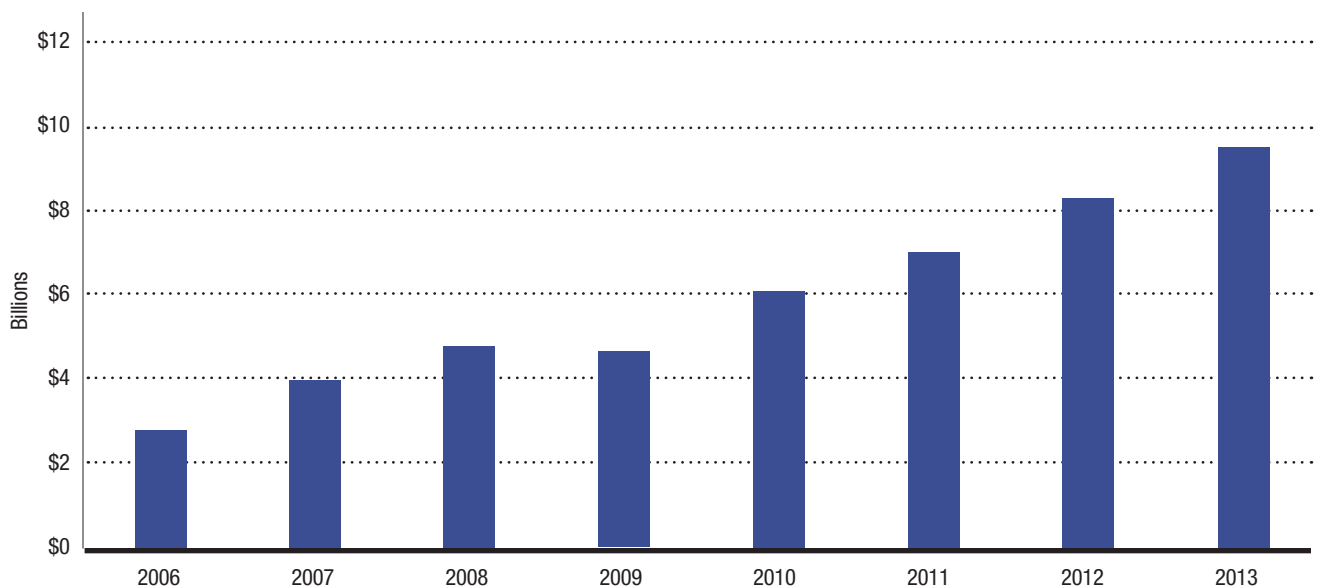
ers,” says Jeremy Schwartz, director of contracts and marketing for the National Joint Powers Alliance (NJPA). “All records become public information. With the Internet and social media, there are no secrets.” Cooperatives are cognizant of their duty to accountability and transparency. NJPA, for example, stresses:

- Documentation of due diligence in the competitive process;
- Auditing compliance; and
- Best value versus price only contracts.

H-GACBuy Cooperative Purchasing Program Manager Ronnie Barnes suggests reviewing bid processes and applicable statutes to determine how closely the co-op’s contracting process adheres to your agency’s procurement requirements.

Cynthia Duprey is an accredited purchasing practitioner (APP) and retired purchasing manager for the City of South Gate, Calif., who is now a government purchasing consultant. She recommends: “Does the contract say it was awarded ‘based on competitive bid’ or on ‘procedures compatible with our policies’? If in doubt, ask to see the list of participating bidders.”

FIGURE 1: NASPO VALUEPOINT CONTRACT GROWTH



Source: State of Utah Office of the Legislative Auditor General

## #2: contracts don't provide the best possible value

Commodities like paper or disposables like rags, hoses, funnels, brushes, and steel wool may be best purchased at lowest price, but capital expenses are a different issue.

Multiple award schedule (MAS) contracts account for things like extended service or warranty. The co-op awards a contract to more than one bidder based on different criteria — variety of attachments offered, say, or the warranty — so the buyer can compare value options.

Some contracts, particularly with the national co-ops, state in the terms and conditions that the vendor has “guaranteed their lowest government price.”

## #3: contracts leave local businesses out of the loop

Vendors usually extend co-op pricing throughout their distribution network so locally owned franchises receive commissions and service contracts. Some states require a separate contract for installation, which usually goes to a local company.

“Distributors are a vital link as contracts also need (and some mandate) local support, a pre-site shop survey, installation, and follow up service,” says Steve Perlstein, government sales and marketing manager for Mohawk Lifts, a vehicle lift manufacturer based in Amsterdam, N.Y. that works with national and regional cooperatives. The company’s local representatives perform site visits to ensure that equipment being ordered fits a department’s needs.

“Because most equipment contracts are with national manufacturers, we look for the availability of service and warranty providers that are local to us,” says Mary Joyce Ivers, fleet and facilities manager for the City of Ventura, Calif., Public Works Department. “We recently issued a purchase order for seven police utility vehicles. Even though our local Ford dealer was the second-lowest bidder, they were awarded the bid based on the local vendor preference ordinance.”

Although NASPO ValuePoint allows contracts to be bid by specific area, Utah’s

Purchasing Division wasn’t requiring the use of local dealers or distributors whenever possible. The state’s report recommended the division “create an official policy encouraging purchasing agents to find appropriate situations to encourage distribution through local dealers or distributors.”

## #4: Lack of knowledge

Cooperative purchasing’s evolution has led to the development of professional standards and best practices.

In addition, the National Institute of Governmental Purchasing (NIGP) and Universal Public Procurement Certification Council (UPPCC) provide training and awards for both purchasing agents and vendors:

- Certified Public Procurement Officer
- Certified Public Procurement Buyer
- Achievement of Excellence in Procurement Award
- UPPCC Agency Certification Award
- UPPCC Sterling Agency Award

## #5: Lack of teamwork

Open communication with your municipality’s purchasing department is imperative. They’re procurement professionals but may need guidance on the role of cooperative contracts for specialized equipment and materials used by public works departments. Partner with them from the day you start thinking about a major purchase, whether it be equipment or a service or maintenance contract, so any

research you’ve done on a particular co-op isn’t wasted.

For equipment, California fleet manager Ivers reviews the purchasing department’s short list to evaluate things like lifecycle costs, reliability, durability, and fuel conservation, which is a significant factor in California. This shares the responsibility for considering multiple criteria to ensure the wisest decision is made for the public works department.

Even though they may not know the difference between a backhoe and a mini-excavator, knowledgeable purchasers brings valuable information to the table. They’re trained in specific state regulations and computer research. They can pull a list of available resources; specifications for equipment, services, and materials; regulations affecting the item; and even grants that might be offered for a type of equipment or service — all information that can affect the search for a cooperative contract.

## #6: There is no one-size-fits-all co-op

Co-ops were created to simplify procurement. But as more vendors participate in more co-ops, the model could become burdensome for both purchasers and vendors.

One thing vendors consider when responding to a co-op request is how geographically broad the program is. To remain competitive, many participate in

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For more information

[www.pwmag.com/best-practices/prudent-purchasing.aspx](http://www.pwmag.com/best-practices/prudent-purchasing.aspx)

“Prudent purchasing: Here’s what you need to consider before signing a cooperative contract.” Includes the sidebar, “But my vendor said: Dispelling the biggest myths about cooperative purchasing”

PUBLIC WORKS, June 2007

[http://le.utah.gov/audit/14\\_11rpt.pdf](http://le.utah.gov/audit/14_11rpt.pdf)

A Review of Allegations Concerning Utah’s Purchasing Interaction with WSCA-NASPO

Office of the Legislative Auditor General

State of Utah

more than one national program. This has caused duplication of products and services that buyers can compare and contrast among co-ops.

“Public entities are so short-handed and under such pressure to save money that they’re shopping contracts between various co-ops all over the country,” says Alamo Group’s Andrews. “Smaller entities that traditionally purchased off state contracts now find that purchasing from national co-ops is cheaper because of their greater purchasing power.”

Red Wing’s McCleary says sorting through contracts is easy thanks to improvements in vendor and co-op websites. That may be, but belonging to too many co-ops is counterproductive time-wise for vendors. Some are becoming selective, potentially limiting the purchaser’s opportunities.

Mohawk Lifts, for example, considers terms and conditions when evaluating a co-op. “Are they equal to other established contracts and favorable to Mohawk?” says Mohawk’s Perlstein.

Some co-ops have developed market niches, and purchasers have learned where to look for the best deals. For instance, Iver’s fleet department in California recently bought a GPS system through one national co-op and a fire truck through a different co-op.

“Natural selection may determine how many survive,” says H-GAC Buy’s Barnes. “The ones that market smartly and provide the most value can create loyalty from both member agencies and vendors.”

Even so, co-ops have become a vital part of the purchasing equation for public works, relieving departments of a necessary burden — the competitive bid process — so they can concentrate on delivering service and maintaining the safety of a community’s infrastructure assets. **PW**

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**FIGURE 2: A SAMPLING OF ADMINISTRATIVE FEES**

Cooperative	Administrative fee (%)
NASPO ValuePoint	0.25
General Services Administration	0.75
U.S. Communities	1 to 2.5
National Joint Powers Alliance	2
The Cooperative Purchasing Network	2
National Intergovernmental Purchasing Alliance	2.5 to 3

Source: State of Utah Office of the Legislative Auditor General

## BIRTH OF A COOPERATIVE CONTRACT

A NASPO ValuePoint contract begins when member states share an unmet need. If the co-op’s board decides to pursue a contract, a lead state and a sourcing team comprised of purchasing staff from multiple states are chosen to support soliciting bids and developing the contract.

After a contract is awarded, member states sign an addendum that makes any changes necessary to comply with that state’s purchasing and contracting guidelines.

## BEST PRACTICES

- Read the contract or have your city attorney read it. It’ll explain how the cooperative solicits, awards, and manages participating vendors.
- Confirm that documents relating to a contract you’re considering are available from the co-op.
- Because they’ll be researching co-ops to find the best deal, work early and often with your municipality’s purchasing department to ensure they find a contract that meets your specific needs.
- If you don’t have purchasing professionals on staff, use the co-op’s product experts to quickly learn the nuances of a product you’re not familiar with. Rely on them as a member of your team.

## NATIONWIDE CO-OPS THAT SERVE PUBLIC WORKS

H-GACBuy: [www.h-gac.com/coop/hgacbuy.aspx](http://www.h-gac.com/coop/hgacbuy.aspx)

NASPO ValuePoint: [www.naspovaluepoint.com/#/home/contracts](http://www.naspovaluepoint.com/#/home/contracts)

National Cooperative Purchasing Alliance: [www.ncpa.us](http://www.ncpa.us)

National IPA: [www.nationalipa.org](http://www.nationalipa.org)

National Joint Powers Alliance: [www.njpacoop.org](http://www.njpacoop.org)

NPP Government: [www.nppgov.com](http://www.nppgov.com)

The Cooperative Purchasing Network: [www.tcpn.org](http://www.tcpn.org)

U.S. Communities: [www.uscommunities.org](http://www.uscommunities.org)