



AE Initiative Summary Business Case – Office Supplies

Business Sponsorship & Ownership

Project Name:	Strategic Purchasing – Office Supplies
Team Members	Tammy Starr (Team Lead), Mike Marean, Don Schwoerer, Tammi Simpson, Lisa Leisure, Rachel Fried, Jeffrey Lewis
Business Unit(s):	Vice Chancellor for Administration – Administrative Excellence
Business Process Owner(s):	UW-Madison Purchasing (central)
Preliminary Cost Estimate:	Preliminary costs will be accounted for in general initiatives across Strategic Purchasing
Preliminary Savings Estimate:	\$4.7M over 5 years

Background

The Administrative Excellence (AE) Phase 1 assessment indicated that the University had the opportunity to generate savings by changing practices relating to purchasing office supplies. In January 2012, the AE Steering Committee, comprised of the Interim Chancellor, the Provost, and the Vice Chancellor for Administration, chartered a team to validate the opportunity and deliver detailed, action-oriented recommendations. The specific charge, as articulated in the team’s charter, described the objective as follows:

“Maximize institution-wide savings [on purchases of office supplies] through implementation of strategies to consolidate vendors, leverage university scale, and substitute purchases [with] commoditized options when possible, without sacrificing service levels.”

The team was asked to develop an understanding of the current drivers and processes relevant to the purchases of office supplies and to use that knowledge to formulate an actionable plan for implementation.

The team conducted its work over 16 weeks, recently presented its recommendations to the AE Advisory and Steering Committees, and received Advisory Committee endorsement and Steering Committee approval.

Approach

The team focused its efforts around three primary activities: (1) categorizing expenditures into sub-categories and identifying high-volume, high-dollar (target) sub-categories; (2) analyzing campus-wide purchasing patterns (through purchasing data and surveys) within the target sub-categories to select products; and (3) quantifying savings.

Identification of Target Sub-categories

The team collected transactional data from five vendors accounting for 96% of office supply purchases over the preceding 12 months. From these data, the team identified five target sub-categories accounting for approximately 50% of total office supplies expenditures: toner, paper, binders, pens, and notepads.

Analysis of Target Sub-categories for Product Selection

In order to determine opportunities for cost savings, the team needed to select products within each target sub-category. The process of selection considered cost and frequency of purchase, but did not include an in-depth analysis of quality, which will be required during implementation. Within each target subcategory, the team analyzed the number, types, and prices of all purchases and focused on identifying items that were either frequently purchased or low-cost. The team then selected products in each sub-category that considered cost, popularity, and sustainability.

Quantifying Savings

After identifying the selected products within the five target sub-categories, the team calculated the difference in cost between the current state of product proliferation and moving to a future state where 80% of the units purchased are the selected product. The team then calculated a weighted-average savings across the five sub-categories and applied that savings range to the other sub-categories within office supplies.

Observations

UW-Madison spent approximately \$6.0M on purchases of office supplies in fiscal year 2011.

Although office supplies purchases are typically concentrated among a few mandatory contract vendors, product proliferation exists within each sub-category. For example, UW-Madison spent approximately \$100,000 on at least 94 unique SKUs of 1.5-inch binders last year, with unit prices ranging from under \$2 to over \$10.

Currently, only 3% of UW-Madison toner purchases are remanufactured toner. On average, branded toner is 30% more expensive than remanufactured toner. The team was initially concerned that usage of remanufactured toner would void printer warranties; however, the team investigated this issue and discovered that remanufactured toner usage would not invalidate printer warranties.

Core Recommendations

The university has the opportunity to save approximately \$4.7 million over five years (assuming 80% compliance), with savings of \$883,000 in the first year by applying the following mechanisms to all purchases of office supplies:

1. Product Standardization – standardize on preferred items for all office supplies, considering cost, user preference, quality, and sustainability.
2. Product Substitution – purchase lower-priced items that serve the same functional purpose without a decrease in product quality.

The team did not quantify, but anticipated additional savings in pricing negotiations. As the university consolidates purchasing of office supplies products it has the opportunity to negotiate better prices for those products.

The team identified two additional mechanisms to support this change: (1) the simplification of business processes to make purchasing of office supplies easier; and (2) the creation of policy to clearly articulate expected behaviors. Implementation of the team's recommendations should take both of these mechanisms into account.

Customer Readiness and Change Management

The team recognized that implementation of the core recommendations is a significant departure from the current state. In order to minimize change management concerns and maximize savings, the team suggests that the following be considered during implementation

1. Simple and clear policies – policy language is unambiguous and policies are known across campus;
2. Clear and open communication – communicating selected products and a feedback mechanism where purchasers can suggest avenues for future product selection;
3. Active management of selected products – regularly review the list of selected items to ensure alignment with evolving needs and changes in the marketplace; and
4. Established metrics to measure performance – create consistent campus-wide metrics to assist with measuring initiative success and participation, and with monitoring policy compliance.