LEVERAGE

COOPERATIVE PURCHASING

TO GROW YOUR GOVERNMENT SALES
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Part 1. Market overview

Driven by a quest for greater efficiency in procurement, purchases from cooperative contracts have risen in share and importance within the state, local and education (SLED) market. They now represent a potential opportunity for government contractors to grow in both volume of sales and profitability.

Cooperative purchasing
Many vendors are aware of the cooperative purchasing trend in state, local and education (SLED) government but not all have considered the potential of these contracts. Cooperative purchasing involves multiple awards being issued on a single contract, which can help increase volumes for contractors while minimizing sales cost per unit. In this report, we present insights and best practices to assist vendors in considering whether to work with co-op associations and piggyback contracts, two of the major types of cooperative purchasing.

While the current market size is fairly small overall, cooperative purchases are growing steadily as a share of the total based on Onvia’s database of nearly 800,000 total awards since 2012 and around 15,000 cooperative purchases. The share of total awards that can be linked to a cooperative purchasing contract has increased from 1.9% to 2.2% nationwide from 2012 to 2014. One example of this has been the one of the leading national co-op associations NASPO ValuePoint (formerly WSCA-NASPO). They report annualized growth of **15% per year** for the last five years in sales off their contracts, with current facilitated sales of $10.5 billion for 2014.

As this report will show, profitable sales opportunities exist across many industry sectors as well as multiple levels of government agencies.
With different rates of usage by industry, the 2\% overall share in 2014 was not representative of some of the key “commodity” categories that tend to be bought more often through these methods. For example, the share reached 6\% for transportation equipment, 6\% for office equipment and 5\% for IT and telecom purchases. Skewing the overall share lower was the large construction and infrastructure area, with a 1\% share. Without the construction-related sectors, around 3\% of all published awards in our database are made cooperatively.

Benefits for the government customer
SLED agencies continue to struggle with how to “do more with less” because several of their major expense areas are growing faster than annual revenues - namely pensions, liabilities and health care. With modest growth in revenue from taxpayers, these big expense items can end up placing pressure on all the other categories, which may lead to spending declines in order to reach a balanced budget. A recent 2015 survey by American City & County showed that 64\% of agencies worry about “declining budgets” in the next three years. Meanwhile agency staffing is often still below the pre-recession levels. In this challenging environment, agencies can find themselves short-staffed and penny pinching. The so-called “Silver Tsunami” threatens to further “slim” public sector staff through a higher rate of retirement among experienced and aging boomers.

In response, public managers have endorsed various newer approaches in procurement to drive value and raise efficiency such as cooperative purchasing, consolidation, and use of multi-year contracts to reduce the number of times a formal bidding process is needed.

Takeaway for Contractors
Cooperative purchasing involves a fairly small but growing segment of government purchasing, and it appears to align with the newer context of budget-strapped and time-constrained agencies who are “doing more with less.” As this report will demonstrate, cooperative purchasing can be seen as a “win-win” solution that is giving the public sector what they need while offering to participating suppliers a chance to compete less while selling more.
Types of Cooperative Purchasing

Cooperative purchasing includes any instance where two or more government agencies purchase from the same contract to obtain better pricing and efficiency in procurement; typically this will fall into co-op association or piggyback scenarios. According to the National Institute for Public Procurement (NIGP) cooperative purchasing involves “the combining of requirements of two or more public procurement entities to leverage the benefits of volume purchases, delivery and supply chain advantages, best practices and the reduction of administrative time and expenses…”

<table>
<thead>
<tr>
<th>Types</th>
<th>Examples</th>
</tr>
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<tbody>
<tr>
<td>Purchasing from co-op associations</td>
<td>Award: “Approval to purchase a Vermeer Chipper BC1500...in the amount of $49,981, utilizing the pre-bid contract price as negotiated through the National Joint Powers Alliance (NJPA).”</td>
</tr>
<tr>
<td>Involves many agencies belonging to a buying group or association that allows them to make purchases off of a list of contracts negotiated with preferential group pricing for all member agencies.</td>
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<tr>
<td>Piggyback purchasing</td>
<td>Award: “The [Toho Water Authority] staff recommends the Board of Supervisors approve the piggyback of the City of Fort Lauderdale’s annual contract with Wachs Water Services...at a cost of $300,000.”</td>
</tr>
<tr>
<td>When one agency uses an existing contract of another agency to make a “piggyback” purchase with the same terms in order to save time and benefit from the favorable terms negotiated by the original (often larger) agency.</td>
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In traditional government contracting, a vendor will compete for the right to deliver on one specific job. Up-front sales and administrative costs must be offset by adequate margins from that sale. With cooperative purchasing, a vendor can spend the same amount of time competing, but receive multiple "sales" based on a contract they only had to win once.

The table provides a sense of what is possible in terms of contractor sales volumes once a vendor wins a national contract through a leading co-op association.

<table>
<thead>
<tr>
<th>Co-op association</th>
<th>Current Sales (billions)</th>
<th># of Suppliers</th>
<th>Sales per supplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>NASPO ValuePoint</td>
<td>$10.5</td>
<td>291</td>
<td>$36,082,474</td>
</tr>
</tbody>
</table>

Sources: Supplier count from ProcureSource.com  •  Sales for NASPO from interview with Onvia

Based on Onvia's database, median cooperative association award values are around $90K, higher than a typical median award of around $75K. Vendors working with one of the leading national co-op associations NASPO ValuePoint can earn annual business averaging $36 million from that one co-op association based on the high volumes of purchases. Combined, a total of $10.5 billion in sales is linked to this group. If every purchase was made with the median purchase size of $90K, the average vendor would handle around 400 sales per year with a contract that in this case generally lasts for five years.
Volume pricing that vendors extend to co-op associations is not based on individual customer size but on the estimated total amount of business possible in a year or over the life of the contract. This scale of volume would likely dwarf the size of any one large contract that vendors might have with traditional contracting.

When a supplier wins a contract through a co-op association, some marketing or outreach is still needed to help the government members of that association understand the goods or services being provided. This is done in a protected environment where a company’s brand is already featured. Vendors still have to commit to that ongoing awareness building campaign to realize their potential sales volume.

Even when there are multiple overlapping brands or products listed, there are still the dual benefits:

1. No extra competitive bidding at the point of sale
2. The “retail” power of that association to make the supplier’s offering visible and available to thousands of interested decision-makers.

Takeaway for Contractors

With contractors potentially earning annual business in excess of $30 million from their partnership with a single large co-op association, it is easy to appreciate the implications in terms of both volume and profitability. Even with the suggested ongoing marketing efforts undertaken, the cost per sale would still be much less than in a traditional competitive bidding scenario requiring a considerable investment for each new customer.
Cooperative purchasing users vs. overall procurement

Co-op associations see more activity from state agencies (36%) than they do cities, counties or other levels of SLED government. One reason for this is that the dominant co-op association NASPO ValuePoint ($10.5B sales) is set up as an association of state governments, which also allows buying from local government agencies. Solutions are developed primarily to benefit their state government members, who collaborate in decision-making for all new items offered.

Cities (21%) and counties (13%) are clearly making purchases through the co-op associations. However, in comparison to the “all awards” baseline made of both traditional as well as alternative buying, they do not seem to have fully embraced this particular approach. In general, these local agencies seem to prefer to do business with their own state government contracts or those of other neighboring agencies.

Piggyback purchases are dominated by cities (41%) with only 5% coming from state agencies. State governments generally do not need to “piggyback” because they are often large enough in purchasing volume to have better pricing leverage than an individual city, county or school district. Firms need to identify whether a new bidding opportunity allows for piggybacking when they decide whether or not to compete. Around 5,000 bids and RFPs in Onvia’s database since 2012 mention “piggyback” status.

A review of the source of demand for co-op associations and piggyback purchasing shows important differences by level of government.

Takeaway for Contractors
Understanding “level of government” trends can help contractors consider which type of purchasing vehicle to target, taking into account their areas of public sector expertise as well as the requirements of each type.
Part 3. Determine top purchase categories

We created a “buying index” for cooperative purchases in order to shed light on what types of products and services tend to be purchased more or less often compared to normal levels for government contracting. Whenever the index climbs above 1.0, that particular area or industry is “above average” in terms of having more sales than would be expected.

The top categories for cooperative purchasing are office equipment, IT, transportation and industrial supplies.

When taken as a group, these four industries are commonly viewed as more “commodity” oriented, with a focus on volume, highly competitive prices per unit and less need for consulting.

Office equipment was 4.2 times its expected level for co-op associations and 2.5 times above normal for piggyback purchases. IT/telecom was also stronger for co-op groups, with a score of 3.2 versus 1.7 among the piggyback segment. However, the categories of transportation equipment and industrial supplies showed stronger index scores for piggyback purchases (2.6 and 1.8, respectively) compared to lower co-op association indexes of 1.7 and 1.3.

These last two areas tend to feature larger, heavier objects or those that may require a special service or delivery component. These may make more sense to buy from a local/regional vendor using piggyback contracts versus a national vendor offered through a co-op association that does not always have convenient dealer locations.

Takeaway for Contractors
Opportunity exists for businesses operating in all industries, but IT, office supplies, industrial supplies and transportation equipment contractors should take particular note of the areas of higher concentration.

In general the cooperative contracting model skews strongly toward commodities, but there were also differences between co-op associations and piggyback purchases in the four top categories.
Part 4. Examine the value of cooperative purchases

We analyzed the total number of awards in Onvia’s database that were linked to cooperative purchasing and compared dollar amounts of purchases. There were fewer cooperative purchases than normal in the smallest segment of under $25K and around 30% more purchases than normal for the middle range of $25k - $100K as well as $100k - $500K.

In terms of typical amounts spent, purchases from cooperative contracts did not vary significantly between co-op association and piggyback scenarios. Overall around $90,000 was spent each time on a median (midpoint) basis. This compares with around $75,000 spent for the typical award (see chart below). These midpoint figures may not reflect smaller purchases not reported as awards in our database.

Cooperative purchases vs. all awards by dollar value

Median size of purchase

Takeaway for Contractors
Cooperative purchasing offers more potential for award values of $25K-$500K. The impact on revenue can be substantial with many customers, even though larger purchases are somewhat less likely to be made through cooperative contracts.
Part 5. Explore total government sales of contractors

It appears the most successful firms are engaged in cooperative purchasing

Nearly 60% of contractors that had at least $20 million in government revenues expect to be positively impacted by cooperative purchasing in 2015 while only one in four contractors with under $5 million in government revenue expect growth to be driven by this factor. Onvia’s recent 2015 survey of contractors examines these trends and goes into more detail about expectations for growth in the year ahead.

Example industry:
Within IT, the big names are involved
Looking across the larger list of 15,000 cooperative purchases including piggybacking revealed the top vendors in technology were generally also top household names, such as Dell, HP, Verizon, Motorola, Xerox, Apple and AT&T.

Takeaway for Contractors
Contractors with larger government sales have certain understandable advantages in areas like solid brand awareness, the ability to invest in well-funded and carefully planned sales and advertising budgets and a greater ability to deliver at a scale appropriate for a national co-op supplier or a piggyback contract with multiple customers.

Smaller firms can grow their government business by building awareness and competing for contracts that allow piggybacking or opportunities with smaller scale co-op associations (i.e. regional educational co-ops, regional councils of government, etc.)
Part 6. Identify top co-op associations to work with

Contractors interested in working with co-op associations can begin by identifying the top groups and learning more about which ones might represent the best fit with their industry segment experience or sales territory.

While piggyback purchases are typically made by cities or counties with neighboring agencies or their state government, co-op association purchasing is generally highly concentrated among a fairly small list of national groups.

### Top co-op associations identified

Far and away the largest national co-op association is NASPO ValuePoint, representing nearly 2,000 reported purchases since 2012 in Onvia’s database where major co-op organizations were named. GSA’s Schedule 70 and 84 authorizing state and local agencies to buy was second, followed by New York’s large BOCES network of educational co-ops. Most of these groups focus broadly across the industries but four on this list were education-oriented.

<table>
<thead>
<tr>
<th>Co-op association or joint buying group</th>
<th>Primary focus</th>
<th>Geography</th>
<th>Awards in Onvia’s database</th>
</tr>
</thead>
<tbody>
<tr>
<td>NASPO ValuePoint (formerly WSCA-NASPO)</td>
<td>All areas</td>
<td>Nationwide</td>
<td>1,838</td>
</tr>
<tr>
<td>GSA (for local and state purchasing)</td>
<td>All areas</td>
<td>Nationwide</td>
<td>916</td>
</tr>
<tr>
<td>BOCES (New York cooperative educational services)</td>
<td>Education</td>
<td>Statewide</td>
<td>779</td>
</tr>
<tr>
<td>NJPA - National Joint Powers Alliance</td>
<td>All areas</td>
<td>Nationwide</td>
<td>473</td>
</tr>
<tr>
<td>TCPN - Cooperative Purchasing Network for Public Schools</td>
<td>Education</td>
<td>Nationwide</td>
<td>404</td>
</tr>
<tr>
<td>U.S. Communities</td>
<td>All areas</td>
<td>Nationwide</td>
<td>353</td>
</tr>
<tr>
<td>KCDA Purchasing Cooperative</td>
<td>Education</td>
<td>Nationwide</td>
<td>267</td>
</tr>
<tr>
<td>National IPA</td>
<td>All areas</td>
<td>Nationwide</td>
<td>136</td>
</tr>
<tr>
<td>PEPPM</td>
<td>All areas</td>
<td>Nationwide</td>
<td>130</td>
</tr>
<tr>
<td>AEPA - Assoc. of Educ. Purchasing Agencies</td>
<td>Education</td>
<td>Nationwide</td>
<td>96</td>
</tr>
</tbody>
</table>
Part 7. Implications: Best practices for contractors

Government contractors have a significant opportunity to grow their volume of business through participating in cooperative purchasing, either through a co-op association or piggybacking scenario.

01 Is cooperative purchasing right for my business?

Established & Trustworthy
If a company wins a contract that will potentially have "sales" by multiple agencies they will most likely be an established firm with a solid track record of prior government work with satisfied customers. That doesn't mean they have to be large in total sales but they shouldn't be so small that their financial stability could be called into question. In cooperative purchasing there is an added emphasis on trustworthy contractors who will be able to deliver on their promises and satisfy the needs of multiple different purchasing agencies.

02 What type of cooperative purchasing should I target?

Competitive Pricing/High Volume
Contractors that win cooperative government contracts need to have the ability to offer competitive pricing that can compare with the biggest volume discounters in the market either on a pure-price or total-value perspective. Vendors have to think in volume terms and be ready to quickly turn around new purchases as they come in. Price per unit is normally more important than expertise or specialized services, although many types of services are usually included in the lineup of solutions available for purchase. If your business model is oriented toward high service at premium prices, this type of purchasing may not work very well.

In general, regionally known companies would be better served competing for government contracts that allow for piggybacking by local agencies or purchasing through a smaller regional co-op association. Contractors serving government agencies on a national basis should consider competing for contracts with national co-op associations.
What are the next steps in pursuing cooperative purchasing contracts?

Contractors should research the advertised opportunities at the co-op association and the public agencies they want to influence, sign up on their vendor lists and keep track of when new contracts are being procured. For contracts with a piggyback option, Onvia recommends building relationships with key government contacts 6-12 months before a bid or RFP is issued.

Finally, upon winning a contract, you need to be prepared to promote and market your new contract. Major national brands typically are publishing press releases and promoting their cooperative contracts right on their website homepage, letting potential government customers know of that option for using them at a special negotiated rate.

Additional promotions can also be conducted to educate the members of a co-op association about your contract/solution or to influence potential agencies who may choose to piggyback on your contract that has that option. Rather than cold calling government agencies at random, contractors can use a bid intelligence service to search for agencies that have purchased a product or service like theirs in recent years or are planning for purchases in their upcoming budgets and spending plans. A more targeted and efficient campaign can then be undertaken to influence the higher potential agencies and decision-makers to purchase off of your new co-op association or piggyback contract.

Summary

Vendors and suppliers who participate in co-op associations or piggyback contracting have a unique opportunity to grow their volume of business with reduced marketing and operations costs per sale. Cooperative purchasing tends to be heavily skewed toward the “commodity” industries of office equipment, IT, transportation and industrial supplies, and there are different rates of utilization depending on the level of government that is making purchases. Typical purchase sizes appear to be comparable to or slightly larger than those in the broader market and companies with at least $20 million in government sales are the most likely to already be working in this area. However, the fact that a sizable share of the vendors with smaller sales are engaged in cooperative purchasing suggests this trend has the potential to benefit a wide range of contractors who do business in the public sector.
ABOUT ONVIA

Onvia specializes in providing business intelligence solutions to vendors to grow their government business, helping them get ahead of the bid and RFP process. Active vendors in the government market that need timely, comprehensive and unique insights in their industry vertical, key buyers and competitive landscape should visit www.onvia.com and request a demo to speak with a Business Development Manager in their industry. Onvia helps clients strategically grow their government business with solutions for project intelligence, agency intelligence and vendor intelligence in the public sector.

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Onvia - www.onvia.com
(800) 575-1736