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New Report Charges Office Depot with “Pricing Irregularities” and More on Georgia State Office Supplies Contract

Office Depot has engaged in a range of practices that include unrealistic pricing, selective discounting and use of discontinued, substituted and duplicated items that have resulted in significant overcharges related to its exclusive office supply contract with the state of Georgia, according to a report published earlier this month by an independent office products pricing expert.

The report, prepared by consultant Rick Marlette, is based primarily on an analysis of September 2007 purchasing activity under the \$60 million contract.

Problems and issues identified by the report include:

- **Pricing irregularities on the contract's core office products items list.** Products for purchase under the contract fall into two groups: core and non-core items, with pricing on core items, with the exception of copy paper, fixed for the length of the contract. However, according to Marlette, the state paid several different prices for the same core items in September, with one example showing a difference in pricing of over \$700.
- **Failure to publish a catalog of core contract items,** limiting state employees' ability to identify and purchase products that are in the best interest of state taxpayers.
- **Failure to verify the core list prior to awarding the contract,** which resulted in a contract whose core list contained a significant number of deleted items. In addition, Marlette said, A. T. Kearney, the consultants retained by the state to manage the bid process, failed to verify that every item was available on the designated ordering Website prior to the contract going into effect. Also, they did not verify proper pricing was being charged on the ordering Website before the contract went into effect.
- **Selective application of discounts to 'catalog items only,'** despite the fact that the original bid documents specified bidders were to bid category discounts on their 'entire product offering'.
- **Lack of any formal procedure for dealing with discontinued items.** Office Depot, the report charges, is free to discontinue core items at will, making it possible to discontinue unprofitable items and replace them with much higher priced substitutes at any time. And contract items are identified by Office Depot's own number system, making it extremely difficult to determine if the

product has indeed been discontinued by the manufacturer.

- **Failure to review the design and implementation of the ordering Website.** The report charges items can change price when added to the cart, core items do not come up in 'Keyword' searches, and out-of-stock situations are not always handled in the state's best interest.

"A. T. Kearney clearly did not know what they were doing when it came to producing a core list," Marlette charged. "Relying on Office Depot to produce the core list, the state's usage figures, and to use the Office Depot made-up SKU item numbers in the official bid was simply asking for trouble."

According to Marlette's analysis, over 530 items on the core list were not sold to the state in September, representing over 25 percent of the items used to secure the bid. "Any vendor can bid incredibly low prices if they don't have to deliver the product," says Marlette.

His report also identifies numerous examples of pricing for state purchasers in September that was actually higher than regular Office Depot retail pricing. "The state spent \$41,182.73 on laser printers and laser fax machines in September, 2007," Marlette points out. "If I myself, acting as an individual, were to buy the exact same laser printers and fax machines as those purchased by the state, I would pay only \$32,897.32. I would save over \$8,000 by using the Office Depot retail Website."

In addition, Marlette says, the state would have saved another \$1,000 on its purchases of file cabinets and storage cabinets in September if they had used the Office Depot retail site.

State Rep. Al Williams, a member of the Economic Development and Tourism Committee of the Georgia House of Representatives, described the contract as "penny wise and dollar foolish."

"We've told small office suppliers that in spite of the fact that you build houses here and pay taxes here, we're not going to do business with you," Rep. Williams charged.

"It's no incentive to the entrepreneurial spirit when you have to work against the state government you helped build," he said. "This country is strong because of small, independent businesses but more and more, we are forcing small business off of Main Street and turning to faceless big corporations instead. It's a sad day whenever that happens."

For a copy of the full report on the contract, [click here](#).

