Category Strategy Report
for
Arizona State University



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TABLE OF CONTENTS

EXECUTIVE SUMMARY……. **3**

INTRODUCTION……... **4**

SUPPLY MANAGEMENT SITUATION……. **4**

Internal Organization Environment……... **5**

External Organization Environment…….. **5**

Supply Management System……. **6**

CATEGORY ANALYSIS……... **7**

Spend Analysis…….. **7**

Demand Analysis…….. **9**

Supply Market Analysis…… **10**

Price Analysis…… **11**

Portfolio Analysis…….. **12**

Supplier Analysis…….. **13**

Key Factors and Uncertainties…….. **14**

CATEGORY STRATEGY……. **15**

Problem Statements……... **15**

Recommendations……. **15**

Strategy Matrix…….. **16**

Strategic Timeline……. **17**

Contingencies…… **18**

Key Performance Indicators…….. **19**

CONCLUSION…… **19**

APPENDIX A…….. **20**

APPENDIX B…….. **21**

WORKS CITED…….. **23**

EXECUTIVE SUMMARY

Arizona State University has an opportunity for cost savings it must seize in order to reduce costs in the Office Supply Category. This opportunity directly affects the Arizona State Procurement department, faculty, students, and other stakeholders.

The following analysis helps visualize the current supply-chain process of Arizona State University Procurement. The Category Analysis includes a breakdown of spending, demand, supply market, price, and a portfolio analysis to support our recommendation. Key factors and uncertainties are identified as well.

The purpose of this report is to propose new strategies to improve category spending. If these strategies are successful, we have identified **$600,000** (5%) savings in the spend category and a **20% reduction** in the number of suppliers. Additionally, a new cooperative agreement has estimated **2% increase** in discounts based on procurement data and current benchmarks.

This report recommends holding departments and suppliers accountable through the use of training and supplier scorecards. The KPIs included are concrete goals ASU Procurement will be expected to achieve. Risk Management Action is included to prepare the stakeholders to respond to internal and external issues.

INTRODUCTION

Arizona State University Procurement is responsible for purchasing goods and services for instruction, research and operations.

Responsibilities:

- Advise departments on best practices.
- Ensure procurement compliance.
- Manage supplier relationships
- Review and develop contracts.

The National Procurement Institute honored ASU Procurement with the *Achievement of Excellence in Procurement*® Award 10 years in a row.

The purpose of this research is to conduct a **Spend Analysis** of the **Office Supply Category** for Arizona State University. The breakdown created a clear vision for a category strategy recommendation. This data driven report analyzed the spends of **200 vendors** ASU Procurement does business with annually. It also provides an overview of the supply-chain process and the internal and external factors that currently impact ASU Procurement.

The new opportunities in the market for office supply goods along with our recommendation will provide ASU to continue to pursue **Excellence in Procurement**.

SUPPLY MANAGEMENT SITUATION

In this section, we will provide an overview of the current and future issues surrounding the ASU Procurement Department by analyzing the internal and external organization environments as well as the process of the ASU Procurement Department's supply management.

Internal and External Organization Environment

In order to understand the internal and external environments of the ASU Procurement Department. Our group performed a SWOT analysis, displayed in *Figure 1* below.



Figure 1. ASU Procurement Department SWOTAnalysis (2019).

Internal Environment

- **Strengths**:
    - Innovative practices: ASU is the number one university in the country in innovation, and they use various unconventional methods to increase efficiency.
    - Economies of Scale- ASU is one of the largest public research universities in the United States, and they utilize the large scale of consumers to leverage cost savings.
    - Contract with Staples- Staples and ASU have a contract for office supplies that results in a 50% discount from retail prices.
- **Weaknesses**:
    - Departments make unique purchases- Procurement is handled decentrally by the different college and department heads, which can lead to shortages or stockouts. This also prohibits the strength that economies of scale offers.
    - Dependance- Half of annual spend is with one supplier (Staples), yielding quite a bit of supplier power.

External Environment

- **Opportunities:**
    - Competition- Office Supply retailers are growing in number and driving competition, which can lead to improved contract renegotiation or drive cost savings.
    - Pcard efficiency- The Pcard is the method of internal procurement for ASU employees, and this method is fairly new, so opportunities to improve its usage and efficiency exists.
    - Amazon- Amazon has emerged in the office supply market, and their advantage in shipping and low costs can be utilized.
- **Threats:**
    - Pace of innovation- The quick evolution of classroom and office supplies can lead to obsolescence if procurement is not handled carefully. ASU's reputation regarding innovation may lead to the abandonment of certain products or practices faster than other universities may do so.

Supply Management System

Arizona State has a very well defined and understood supply management process. The process runs very smoothly and if problems or inconsistencies occur, the issue can be pinpointed and resolved fairly simply.

Below, Figure 2 displays the supply management process implemented and utilized by ASU Procurement.

Step 1	➔ Step 2	➔ Step 3	➔ Step 4	➔ Step 5	➔ Step 6
Each department determines their individual office supply needs.	Submit order to desired supplier using Pcard (maximum $10,000 per transaction).	Procurement department required to review and approve that orders do not exceed parameters.	Suppliers process order	Delivery and invoice	Final payment

Figure 2. ASU Procurement Department's supply management process.

Procurement is decentralized amongst different departments at Arizona State University, so the individual departments determine their own unique needs throughout the semester. These

office supplies included a vast array of classroom and office products as needs vary across different departments. Once the need is determined, the order is submitted to the supplier using the university Procurement card (Pcard). These cards act as credit and allow the university employees to make purchases from suppliers on the university's account.

Nextly, the order is processed by the procurement department to ensure that the orders do not exceed the maximum limit of $10,000. If a purchase is requested over the maximum limit, then the Procurement department must review the order and determine if the purchase is necessary and/ or review suppliers for better pricing.

Once the order is processed through the Procurement Department, the supplier processes and fulfills the order. The order is delivered directly to the department who made the purchase along with the invoice. Final payment of the Pcard account completes the process.

CATEGORY ANALYSIS

Spend Analysis



Figure 3. Office Supplies Spends Fiscal Year 2018

The figure above shows the comparison of spending between the top suppliers for Arizona State University in fiscal year 18. The y-axis is the total spending in dollars for each supplier and the x-axis is the name of the top 6 suppliers. We were able to get the complete spends reports for fiscal year 18 from ASU to conduct this portion of the report.

The **total spend for this category on the year was about $11.4 million**, spread across all of the ASU departments and campuses. Looking at this data it is clear that Staples is a preferred supplier to ASU and then from there it is relatively even across the board because of the close amounts of spends for the remaining suppliers. Each year ASU uses over 200 different vendors in total although the majority of their spending is with the top vendors. In fiscal year 18, **Staples was responsible for more than 50%** of the total spends and the top 6 vendors together were responsible for more than 70% of total spends.

In the office supplies category it is usual to see consistent spends across the board. ASU's purchasing and business services department is responsible for all spends in this category and they do not allow any single transaction to exceed $10,000. As a result, most transactions are of similar amounts and no single transaction was exceedingly large and made up a large portion of the spends.

The most important note from this category is the existing **cooperative agreement with Staples**. This allows for ASU to get discounts on any of their products. Staples has a wide variety of products and relatively quick shipping, which makes them an attractive option for purchasing and explains their dominance in this category over other top suppliers. When each department makes a decision on where to purchase from they are allowed to choose and supplier they want, however they are responsible for staying within budget. This typically leads to the department choosing Staples unless they need a specific item from another supplier that staples does not offer. In this case, we have seen many purchases made from other vendors.

When evaluating this category it is significant to note that Amazon is the second major supplier. ASU has worked hard to develop a strong relationship with Amazon in previous years because of their great success and their ability to become market leaders. Amazon has become a major supplier for ASU in other categories and at the same time have become the second biggest supplier for the office suppliers category. Given the fact they are quite a ways behind Staples we believe this is mainly due to the fact that ASU does not have a cooperative agreement with them and therefore cannot always compete with the discounted prices from Staples. Many departments often choose Amazon over Staples currently because they need their order as soon as possible and Amazon has rapid shipping rates that no other company can compete with. Therefore, we expect for **Amazon to compete with Staples for the upcoming request for proposal**. ASU has a large spend in this category and thus has a major amount of buying power, which is why they can play these two companies against each other to negotiate for better discounts year after year.

The only question of concern for Amazon taking over the major share ASU's office supplies spends is whether they could handle such an increase in orders. After a thorough investigation, we found that Amazon has become a major player in the office supplies space and

has already completed contracts with over 1,500 public agencies including major universities, such as Stanford University, and multiple Arizona Public Schools. This shows us they would certainly be able to handle the office supplies for a school of our size and in our location.

Demand Analysis

ASU Enrollment from 2006-2018:

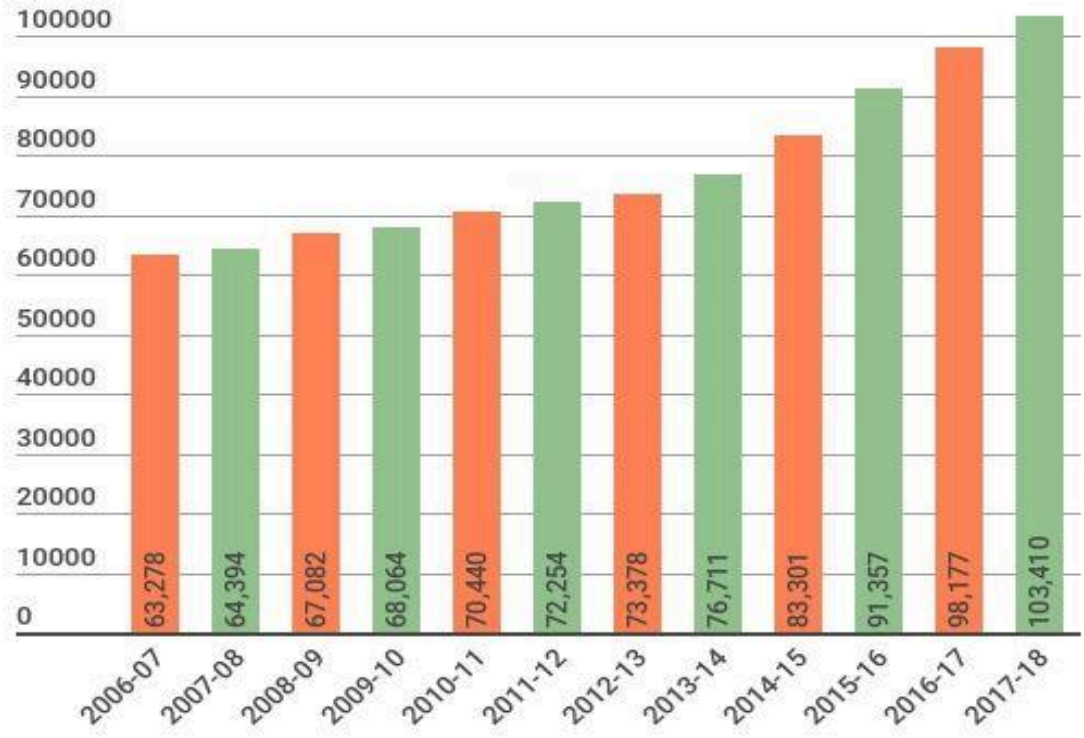


Figure 4. ASU Enrollment from 2006-2018

When determining the amount of office supplies ASU will continue to purchase it is imperative that we use ASU's enrollment as in indicator because of the strong positive correlation between them. At first glance, it is quite clear **ASU increases their enrollment steadily each year**. This consistent increase is by design as ASU aims to expand every year and plans to continue to do this for the foreseeable future. ASU has already gone from just 63,000 students enrolled in 2006 to 103,000 students enrolled in 2018 and they **hope to enroll 125,000 students by 2025**.

This constant increase in students means the demand for office supplies will continue to rise along with it. As more students are added then new departments, programs and staff are added as well. All of which have needs for office supplies and as a result contribute to the increase in demand year after year. **As the demand for office supplies continues to increase so**

does ASU's buying power. Therefore, if ASU increases their buyer power year after year they should be able to negotiate lower rates and receive better discounts at the end of each year as well.

Supply Market Analysis

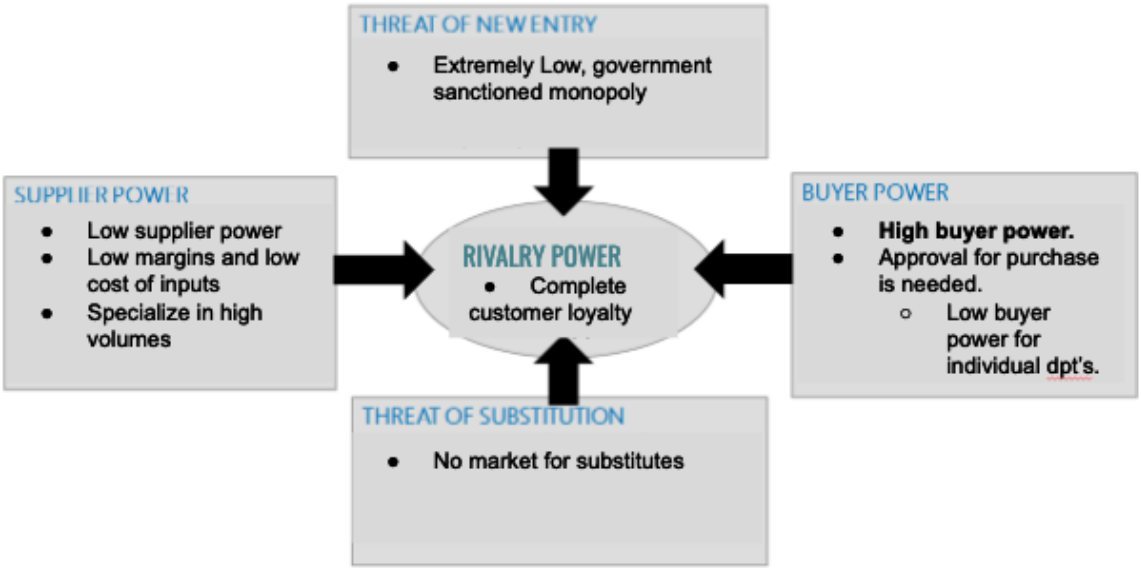


Figure 5. Supply Market Analysis

Our team completed a Porter's five forces analysis in order to analyze the market for office supplies. The **threat of new entry is extremely low** as it takes a great amount of resources to enter the space and be able to provide the volumes necessary to compete with existing prices. Major companies such as Staples and Amazon have worked against one another to bring the prices as low as possible which leaves little room for new entrants to steal any of the profits. In this specific case, the buyers are the individual ASU departments and although they have freedom in supplier choice they themselves have low buyer power due to the fact that they must follow guidelines and each order must be approved before it can be placed. However, ASU as a whole has great buyer power when it comes to negotiating contracts. The competition for their business will continue to grow and companies will be forced to bid against each other and continue to bring down prices.

Similarly, the suppliers for this category have low power because of the high competition and as a result are forced to work with low margins. However, they are able to make their money by specializing in high volumes. This is why it is so important for these suppliers to reach cooperative agreements to help them guarantee they will have business. Finally, there is complete customer loyalty in this category and the switching costs would be significant.

Price Analysis



Figure 6. Producer Price Index: Office Supplies

The figure above shows the producer price index (PPI) for office supplies from 2014 to 2019. At first glance there was a strong increase from 2014-2018 and then a slight **decrease in prices from 2018-2019**. This is due to the fact that during the first section of the graph the demand for office supplies were growing faster than the supply was. As a result, the supply was heavily increased to accommodate the increased demand. This has brought out new competition and inspired growth in existing office supply companies meaning increased competition once again. During the past year we saw prices begin to dip back down again and we believe this trend will continue and thus present more **opportunities for price reductions**.

During the next bid for ASU's office supply business they should include this data as further buying power in any negotiation. They will be able to show their potential suppliers the overall change in the market and discuss why the downtrend in the market should be represented in the new deal. It would not make sense to complete another contract with similar prices when the overall market is beginning to decrease. If Staples is not able to lower their prices the increased competition has allowed ASU to look elsewhere for their office supply needs. They will be able to get lower prices then currently negotiated with similar quality by simply bidding their potential suppliers against one another.

Portfolio Analysis

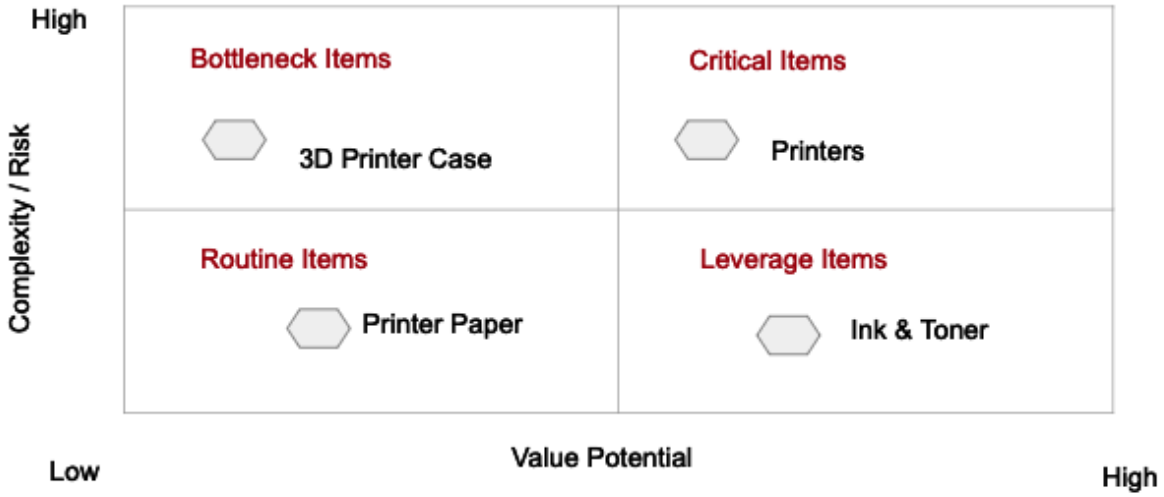


Figure 7. Portfolio Analysis

The above figure shows our portfolio analysis for the office supplies spends category. The bottleneck items include 3D printer cases and anything else that is complex yet necessary and often bought infrequently. Printers are a major critical item because ASU must have a large amount of them for daily use and they are quite expensive. Thirdly, leverage items would be ink and toner because they are simple products, but important for daily use. Finally, there is an abundance of routine items, such as printer paper that are simple, cheap items used daily.

Supplier Analysis / Evaluation

No.	Supplier	Annual Spend	Cost	Variety of Products	Lead Time	Quality
1	Staples	$4,829,970	Low	High	2-10 days	High
2	Amazon	$612,870	Low	High	2 days	Medium to high
3	Dell	$582,826	Medium	Low	6-14 days	High
4	Goodman's Inc.	$490,027	Medium	Medium	4-10 days	Medium

Figure 8. Supplier Evaluation card

The above figure shows a **comparison of the top 4 suppliers** currently being utilized by ASU for office supply needs. Each supplier was judged off of how cost effective they are, the variety of products they offer, their lead time, and their overall quality. The two major suppliers, Staples and Amazon, have quite similar scores. The only major difference between the two is that **Staples scored slightly better in the overall consistent quality** of their products and **Amazon has a slightly better lead time** than Staples. Other than that, both of these suppliers offer low costs, a wide variety of products, and have the capability to take on a large volume of orders if called upon.

Upon evaluation of this chart, Dell seems to score low and raises concern for their high usage rate. However, their red categories can easily be explained by the type of products they supply to ASU. **Dell offers a specialized group of products** (which explains the red score for variety of products) that are of higher cost and require much more customization. The lead time being so long is due to the fact that often their products are made when the order is placed because of the fact that many of their products can be customized. In return, it takes longer to put the orders together and ship these complex items than it does for Staples, Amazon, or Goodman's to ship out standardized products such as printer paper, pens, pencils, staplers, etc.

Overall, the **driving factor for the purchases ASU makes is the price and availability of product.** The first concern is determining who has the product and then who has the lowest price. Due to the cooperative agreement Staples is typically the first choice, but when they do not have the product needed the other suppliers are readily available to fulfil the need.

Key Factors and Uncertainties

There are a few major key factors and uncertainties for the office supply spends category at ASU. First of all, it is important to continue to evaluate the PPI year after year when negotiating for new prices. This will be a key indicator for the deals that ASU is able to negotiate. If the PPI continues to drop in future years, like our group expects it to, then ASU will be able to use that to their advantage.

On the other hand, it is always uncertain whether supplier competition will continue to increase and also whether it will even stay at the current level. As margins continue to be driven down it would not be unheard of for some major suppliers to leave the market or at least decrease their share within the market.

Overall, ASU has a very stable enrollment increase year after year and they will be able to count on their buyer power remaining high. Therefore, regardless of the amount of competition amongst suppliers there will consistently be a desire between suppliers to earn ASU's office supplies business because of the great volume they require year after year. This will allow them to keep their prices as low as possible despite the volatile PPI and the possible decrease in suppliers.

CATEGORY STRATEGY

Problem Statement

After reviewing the category analysis, it is apparent the ASU Procurement of office supplies is not as efficient as it should be. However there is room for improvement in the following areas:

1. **Decentralization of the departments-** Each department determines what it needs and utilizes minimal communication between each other.
2. **There are an excessive amount of vendors-** Too many vendors to hold accountable for cost, quality, and reliability
3. **Current Cooperative agreement** composes over 50% of spending
4. **Decisions are not always data-driven-** The new financial management system was launched last year. This new system has a learning curve buyers and other staff must endure to take advantage of consolidated data

Recommendations

Based on the research, our team recommends the following **4 strategies** to have the most effective impact on the Procurement department and the ASU experience as whole:

1. **Educate** stakeholders about the **Financial Management System** to diminish the learning curve required to capitalize on the investment
2. **Reduce** the number of suppliers to decrease unnecessary spending- gain **visibility** on current vendors with **supplier scorecards**
3. Increase the opportunity for **discounted** rates with a **new cooperative agreement**
4. **Marginalize P-Card Spending** through encouraged communication and better **training** on purchasing at the department level

Strategy Matrix

Main Objective	Supply MGT Objectives	Category Objectives	Organiztion	Supply Base	Quality	Cost	Contracts/bids	Processes
Innovative and Attainable Public Research University	Sourcing: Pulling Reports	Hold suppliers accountable	Capitalize on consolidated data	Reduce number of suppliers	Suppliers maintaining quality			Evaluating Supplier Scorecards
	Procurement: Data-driven analysis	Educate the department on the Financial Management System				Greater scope of overall cost		Implementing SOPs for cost savings
	Buyers: Competitive Pricing	Assure competitive pricing through cooperative agreement				Reducing spends	Cooperative Agreement	
Contingencies			Communication lacking	Undiversified supplier base		Costs do not reflect PPI	Dependence on single supplier	Resource management
KPIs				Reduce # of suppliers to 160		Contracted rates must drop 5%	2% increase in discounts	

Figure 9. Category Strategy Matrix

The strategy matrix above illustrates the objectives of the category spend strategy we recommend.

Main Objective: ASU as an organization has built a reputation as a highly attainable public university. The strategy focuses on the "attainable" aspect of the organization's mission as a whole by incorporating strategy to reduce costs.

Supply Management Objectives: This includes stakeholders such as the Procurement Departments, IT, and executives.

Category Objectives: To reduce office supply spend category and maintain quality, the following objectives must be completed-

- Hold suppliers accountable
- Educate the department on the new FMS
- Assure competitive pricing with cooperative agreement

KPIs and Contingencies discussed below

Strategic Timeline

Figure 10 illustrates the following time critical steps implemented to give procurement the opportunity to buy smarter, optimize its reporting, and analyze data effectively.

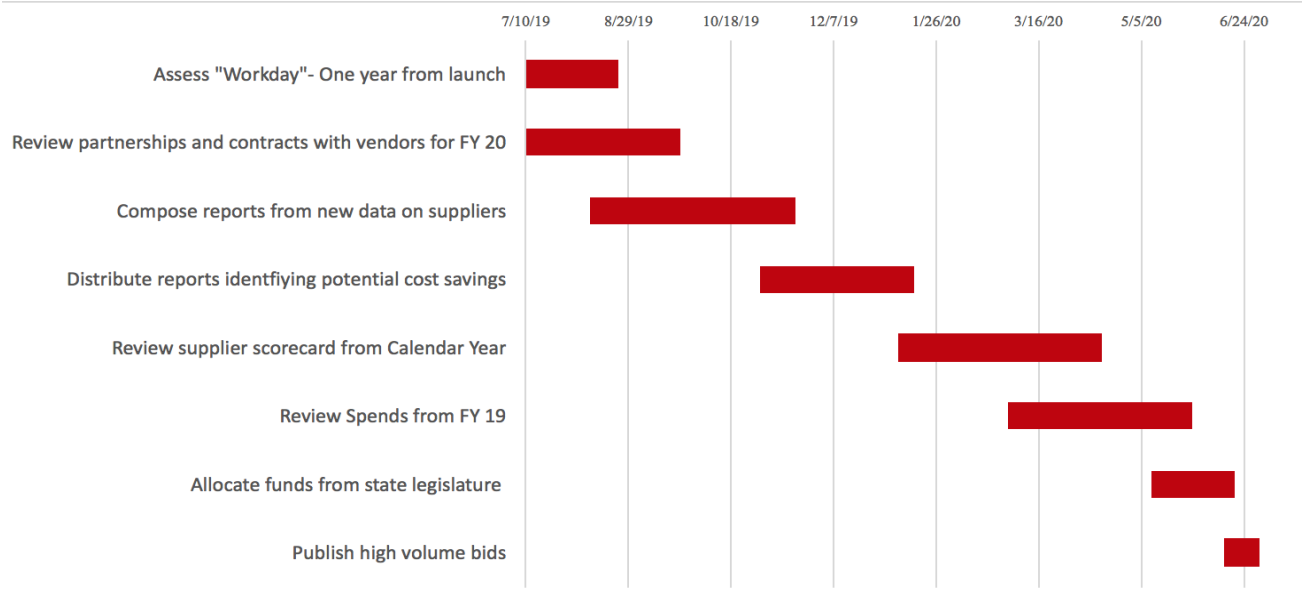


Figure 10. Gantt chart of Strategic Timeline

In order to capitalize on this opportunity, we recommend ASU Procurement follow these **8 Steps** that will take roughly **12 months:**

1. A**ssess "Workday"- One year from launch-** The consolidation of data is pivotal to key decision-making. Workday is a cloud-based software ASU invested in to have all of its financial data in one place. Becoming familiar with this new software is the first step towards improving category spending.
2. **Review Partnerships and contracts with vendors for FY20-** Along with learning the new financial management software, reviewing the contracted pricing and agreements with current vendors plays a significant role in determining the future bid prices. We also recommend researching the PPI at this time as well.
3. **Compose Reports from new data on suppliers-** This time is intended to identify the top suppliers and research new suppliers.
4. **Distribute Reports identifying potential cost savings-** This step gives procurement the opportunity to share the findings from reviewing supplier report with stakeholders.

5. **Review Supplier Scorecard from Calendar Year-** By this step it will be about halfway through the category strategy process. The allotted time will be for evaluating supplier scorecards.
6. **Review Spends from FY19-** Can be achieved through evaluating supplier spending in the office supply category for the following year.
7. **Allocate funds from the state legislature-** Requires procurement knowledge on benchmarking last years budget with estimated supplier prices.
8. **Publish high volume bids-** Sending out more bids than the previous year will give additional opportunity for suppliers to have competitive pricing.

Contingencies

The table below lists internal and external contingencies that may affect ASU Procurement. The Risk Management Action is listed to identify a plan for responding to such contingencies.

Contingency	**Risk Management Action**
Internal- Department communication lacking	Explaining new actions for purchasing including the P-Card process, and incentivize departments to submit RFQs together
Internal- Training Financial Management System	Reducing the time needed to understand how to view ASU "Workday" purchasing software
Internal- Auditing purchases	Not only holding suppliers accountable but making sure departments are requesting cost effective goods or services
External- Department resources strained as demand increases	With increasing number of admissions, training new employees is neccessary
External- Source less from a single supplier	Relying too heavily on a single supplier is risky

Table 1. Contingencies

Key-Performance Indicators

KPI	Today	Goal	Notes
Reduce suppliers in spend category	200	160	20% reduction goal for FY 20
Reduce Spends in Office Supply Category	$11.5 million	$10.9 million	5% reduction goal for FY20
Increase Discounts with new Cooperative Agreement	*Confidential*	*Additional 2%*	2% increase in discounts minimum with future contracts

Table 2. Key Performance Indicators

CONCLUSION

In conclusion, although ASU has done a strong job in the past managing their office supplies categories there is continuous room for improvement. Their increase in buying power year to year will allow them to continue to negotiate contracts with lower prices.

Our analysis of the market has shown us that ASU can take advantage of the current dip in over prices for office supplies and use the increased competition against each other to negotiate reduced prices. Overall, the goals we have set are ambitious, but realistic at the same time. We believe the number of suppliers is far too high considering they have a current cooperative agreement with Staples. There is no reason many of these departments should be using multiple suppliers when they could be receiving reduced prices from Staples. This is why we suggested they set a goal of decreasing the total suppliers from over 200 down to 160. At the same time this will help them accomplish the goal we have set for them to reduce their total spends for the category by 5% (from $11.5 million to $10.9 million). Finally, with the upcoming request for proposal we expect for them to be able to negotiate even lower discounts then they currently receive. If they are able to properly bid their suppliers against each other they should settle on the lowest possible prices.

Overall, ASU has a lot of room for growth in this category with the current state of the market. If they can properly negotiate their next contracts and focus the majority of their spends on the awarded supplier they will easily meet this goal. If done properly, they will have the

opportunity to take their increased buying power each year and turn that into consistently lower prices.

APPENDIX A

- ASU procurement Department.
- Key contact: Jackie Blessington.
- Blessington's official title- Assistant Director, Supply Chain Administration.
- Scope of the Project- We were given free reign to choose, so we focused on office supply procurement.

Project Management Approach

Team Member	Roles and Responsibilities
Preston Magonigal	-Outlined and formatted presentation and report -Category Analysis: Demand Analysis, Supply Market Analysis, Price Analysis, Portfolio Analysis, Supplier Analysis / Evaluation, and Key Factors and Uncertainties -Conclusion
Jordan Radich	-Found Key contact and was the main corresponder with client -Conducted: portfolio, supply market, organizational environment analyses (presentation) -Supply management situation (report) -Introduction, Appendix A, Works Cited -Evaluated 5 groups with assistance
Anthony Holland	-Performed PPI analysis -Implemented strategy matrix and strategy timeline -Executive Summary -Breakdown of problem statements and contingency table -Recommendations

General Project Management

- We began with a **google drive** where the initial data was placed and we created a **powerpoint**.
- We used **google docs to collaborate** on both the presentation and report.
- We met to work together on the presentation and report on **four separate occasions**.
- Our **final meeting** was March 22 to begin and work on the report.

Milestones

- **02/06/19**- First meeting and correspondence with Blessington
- **02/15/19**- Team began conducting analyses and preparing presentation
- **03/11/19**- Completion and presentation of powerpoint.
- **03/23/19**- Review findings and discuss with client

APPENDIX B

Group O- Maintenance Mart

- Excellent table displaying the supply management process
- Demand analysis could have used more data and research
- Portfolio analysis focused on routine items, since there are few other categories janitorial supplies covers
- KPI of 100% driver turnover seems unrealistic
- Quality of the slides and presentation were high

Group R- P.F. Changs

- Very detailed SWOT analysis
- Spend analysis is vast, graphs could have been more focused
- Pie chart for demand analysis very well detailed and explained
- Labor cannot be in both the leverage and bottle cap category of portfolio analysis

Group P- College Bar

- Recommended using less expensive liquor to cut costs
- Pushed for a greater use of excel to record data
- Good use of three different graphs for spend analysis
- KPI's are not very precise

Group G- Vessl

- Emphasized the bottleneck item
- Excellent attention grabber by passing out the product

- This group really made it clear how each of the components of their product were broken down into the portfolio analysis. This makes understanding each of the components very easy and it helped the audience understand the category
- Should have narrowed down the recommendations and options

Group Q- Andy's Water and Ice

- Supply management process lacked detail
- Good use of weighted average to use in Supplier Analysis
- Recommendations and KPI's are attainable and clear cut
- Summary could be more detailed

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