


8 A Supplier Partnering Agreement at the University of Las Vegas¹

Mr. Bob Ashby, newly hired as the purchasing director at the University of Las Vegas (ULV), was offered a partnering agreement by the Nevada Office Supply Company (NOSC) whereby ULV, all other state institutions of higher education, and all state K-12 School Districts could purchase office supplies at discounted pricing, provided they were named a sole provider of office supplies. Mr. Ashby was given this offer without benefit of competitive bidding and was given only 15 days to accept the offer.

General Background Information

Besides serving the various educational institutions in the State of Nevada for over 15 years from its warehouse in Southern California, NOSC has also been the major supplier of office supplies to most of the major casinos in Las Vegas and Reno during that same period. It has recently opened a warehouse in the Las Vegas Valley due to its continual growth and increased sales. It has a good reputation for its products, pricing and service. With the continued growth of the gaming business in Las Vegas and Reno, the continued growth of both the higher education and K-12 educational system throughout Nevada, and the explosive population growth of the Las Vegas valley, it expects its growth and sales to increase by approximately 20% in the next twelve months.

ULV's Source Selection Policy

NOSC is one of eight suppliers of general office supplies used by ULV. It currently provides approximately 50% of ULV's annual U.S. \$300,000 office supply needs and has done so since NOSC became a force in the Las Vegas office supply market 15 years ago. Mr. Ashby's queries to his staff and user departments have found a consensus that while other suppliers might from time to time provide better pricing, quality and service, overall NOSC has provided the best combination of these requirements. Further, he has found that when ULV has issued bid requests for office supplies, each of the eight suppliers typically has offered competitive pricing, products and service.

In order to achieve greater efficiencies with regards to writing fewer purchase orders, writing and administering fewer contracts, reducing the number of delivery trucks on campus, and reducing the number of supplier catalogs floating among the campus users, Mr. Ashby, prior to receiving NOSC's offer, was considering reducing the number of suppliers to one major and two or three backup suppliers. Mr. Ashby could find no history that annual requirements or fixed-price agreements had ever existed between any

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office supply companies and ULV, nor had any such discussion ever taken place. All prior purchases had been based solely on the pricing, quality and availability on any particular day.

Besides ULV, the State of Nevada has one other University, two State Colleges, three Community Colleges, and 17 School Districts. By state law, if one of these educational entities enters into an agreement, any of the other entities may tie-in to that contract without the need to seek further quotes or bids from other suppliers. Each of these entities' office supply purchases from NOSC matches ULV's by percentage, that is, they are also purchasing approximately 50% of their office supplies from NOSC. In total, they spend between U.S. \$1,000,000 and U.S. \$1,500,000 per year on office supplies.

The Partnering Agreement

NOSC had approached Mr. Ashby with its proposal to enter into ULV's first ever partnering agreement for office supplies. In this agreement, ULV would be offered discounts between 50% and 70%, depending on the specific category of the office supply being requested. Additionally, it would provide daily deliveries of supplies to users. In return, ULV would agree to use NOSC exclusively for the purchase of office supplies. NOSC would also install its software program, one that would allow individual users to order supplies from NOSC directly from their desktop and then to have those orders delivered the next day to their location. NOSC would also work with ULV's IT Department to insure the compatibility of their software with ULV's system. There would be no fee for the software or its installation. The offered discounts would be from NOSC's standard catalog pricing, and neither the pricing nor the offered discount could be lowered within the contract year. Pricing increases could be requested at the end of the contract year; however, any price increases or discounts required the final approval of Mr. Ashby.

Marketing to Other Educational Entities Within the State

Another condition of this partnering agreement is that ULV would have to try to convince the other educational entities within the State to tie-on to its contract with NOSC and purchase all of their office supplies from them as well. If one of these educational entities used NOSC as its sole supplier of office supplies, it would receive the same pricing and catalog discount as ULV, but it would not be penalized if they failed to do so.

As an additional incentive for ULV to agree to NOSC's proposal, ULV would receive a 2% rebate from all combined purchases by them and the other educational entities if their combined purchases exceeded U.S. \$1,000,000 per year. NOSC would monitor these transactions and provide reports to Mr. Ashby quarterly.

Special Conditions

NOSC does not want the other educational entities to receive the 2% rebate and, in fact, does not want them to even know of its existence. Additionally, since NOSC was

the company taking the initiative to develop this offer, they did not want ULV to question other suppliers as to their willingness to enter into this or a similarly proposed agreement.

NOSC has given Mr. Ashby 15 days to respond. Mr. Ashby, therefore, has only a short time to recommend to his vice president of finance whether or not this agreement is in ULV's best interest.

Discussion Questions

1. What legal issues, if any, might be involved in NOSC's proposal?
2. What are the ethical issues involved in NOSC's proposal?
3. Is this a true a partnering agreement? Discuss.
4. How should Mr. Ashby analyze the proposal?

