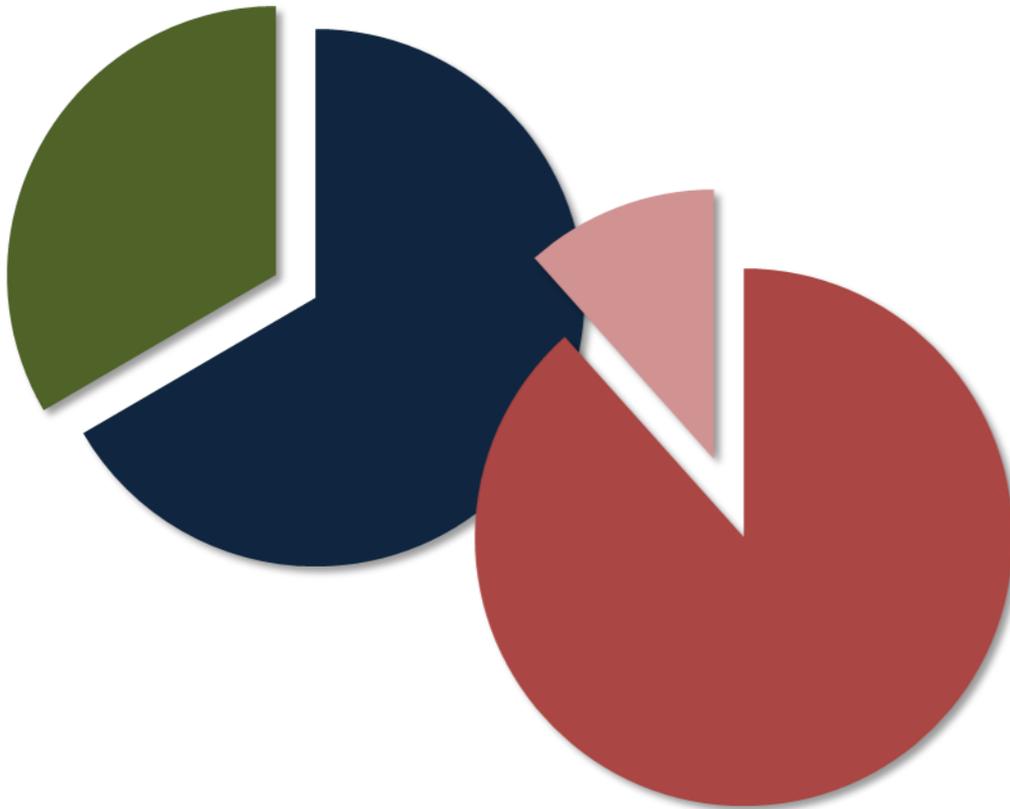


# **PROCUREMENT STILL MATTERS: AN UPDATED LOOK AT THE ECONOMIC IMPACT OF LOCAL SUPPLIERS**



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## INTRODUCTION

In December of 2007, Civic Economics and Wist Office Products released *Procurement Matters: The Economic Impact of Local Suppliers*, which compared the local impact of procurement from a locally-owned wholesaler of office supplies with procurement from a national supplier with local operations. The findings were striking: the local supplier, Wist, recirculated 34.2% of its revenues locally in the form of profits, labor, purchasing, and charitable giving, compared to just 11.6% for Office Max Contract, which maintains a warehouse in the Phoenix area. (The 2007 study is available for download at [www.CivicEconomics.com/library](http://www.CivicEconomics.com/library)).

Five years later, Wist asked Civic Economics to revisit those findings. Our findings vary only slightly from 2007. Local recirculation by Wist in 2011 is at 33.7%, while Office Max Contract is at 12.9%.

## STUDY BACKGROUND

Since its establishment in 2002, Civic Economics has developed, applied, and refined a methodology for measuring the true and relative local impact of businesses of all sizes. While this expertise has been applied in conventional economic development situations, measuring the impact of a proposed development or policy change, it has also facilitated a unique series of studies comparing the economic impact of local businesses and their chain competitors.

In a series of studies in Austin, Chicago, San Francisco, Grand Rapids, and New Orleans, we have demonstrated that locally-owned, independent retailers and restaurants produce substantially greater local impact than their chain competitors, based on both revenue and square footage.

In each case above, the enhanced economic impact of locally-owned firms was driven by four factors:

1. Labor costs, which directly inject money into the local economy through payments of wages and benefits to local residents;
2. Profits, which remain in the community in proportion to local ownership;
3. Procurement of local goods and services for resale and operations; and
4. Charitable giving, when local firms contribute a greater share of revenue to local causes.

The impact of each factor has varied significantly from one line of goods or services to the next and among individual businesses, but in all cases studied to date, local firms have been found to recirculate substantially larger amounts in all four categories.

While those studies focused on retail and restaurant activity, the 2007 Wist study allowed us to study a related and potentially greater opportunity for enhancing local economies: business, public, and institutional procurement. Procurement decisions attract little attention outside of those competing for contracts, but they involve exponentially greater values than the retail trade in goods and services. Large contracts move quantities of goods and services as great as thousands of consumer transactions.

The 2007 study compared the local economic impact of Wist Office Products of Tempe with two major national competitors: Office Max Contract, which operates a warehouse in the Phoenix area, and Staples, which did not. Since that time, Staples has begun operating a fulfillment center in the region, so findings for Staples in 2011 would likely resemble those of Office Max. The same is true for Office Depot, with a facility in Phoenix.

As a matter of full disclosure, it should be noted that funding for this study was provided by Wist Office Products. However, the scope of work was determined by Civic Economics and included broad requirements for data to be provided by Wist. Moreover, contract terms expressly provide Wist with no right to refuse payment based on findings.

### **About Wist**

Wist Office Products has been serving Arizona businesses since 1955. As the largest independently owned office supply company in the southwest, Wist offers a solution to reducing the cost of business products while exceeding service expectations. Wist operates its headquarters office and warehouse in Tempe.

Learn more at [www.Wist.com](http://www.Wist.com).

### **About Civic Economics**

Civic Economics is an economic analysis and strategic planning consultancy with offices in Austin and Chicago. Since establishing the firm in 2002, partners Matt Cunningham and Dan Houston have provided a wide range of services from coast to coast. A particular area of focus has been the economics of regional retail and service provision.

Learn more about the firm at [www.CivicEconomics.com](http://www.CivicEconomics.com).

## STUDY GOALS AND METHODOLOGY

As before, the goal of this analysis is to quantify the economic impact of both Wist and Office Max Contract in the State of Arizona as a proportion of revenue.

The following section describes in detail the methodology for determining the amount of money Wist Office Products (Wist) and Office Max Contract (Office Max) recirculate in the local economy. As described previously, Office Max does operate a distribution center in the City of Phoenix area as a contract supplier of office supplies.

### Methodology

The methodology to calculate the money kept locally for a contract supplier is very similar to that of a retailer. The four main components used to calculate money kept locally for both local retailers and chains remain the same as our previous reports: labor, profit, procurement, and charity. For each of the categories officials with Wist Office Products completed a survey that was supplemented with a phone interview for further clarification. The text box below describes the process that was undertaken to estimate the results for Office Max. Although our confidentiality agreement with Wist Office Products prevents us from divulging answers to specific questions, the following paragraphs describe the major differences between Wist and Office Max for each category.

### Labor

In previous studies, local businesses were found to spend a larger percentage of revenue on labor and this was no exception. Wist provides greater employment wages and benefits through two channels. The first is that the entire management and administrative operation is employed by Wist and located in their Tempe headquarters. While Office Max may have a small locally based management team, most of the management team is located in Naperville, Illinois at their headquarters. Another major

#### **A Note on Confidentiality**

As in all previous studies, Civic Economics promises its private sector clients a great deal of privacy. For all firms, business practices are a matter of great competitive importance. This analysis, for example, required Wist to provide the firm with extensive financial information that is closely guarded in business. The worksheet completed by company officials reveals such things as wage rates, profitability, the cost of goods and services, and a range of other, admittedly intrusive items. Due to the sensitivity of such information, data reporting in this document is limited to aggregated values for all categories of revenue and expenses expressed as a share of revenue.

advantage is that the customer service and sales force for Wist are all located in the Phoenix area. Office Max operates four call centers throughout the country. An order placed from central Phoenix for delivery to the region may well be serviced by sales and administrative personnel in Oklahoma, who, of course, spend their paychecks outside Arizona. Civic Economics made no attempt to compare wage and benefit rates on an hourly or per employee basis, only total wages and benefits paid locally.

### **Profit**

The profits earned by Wist remain in the Phoenix area. Whether these profits are used by the firm's owners to buy retail goods or real estate, give to preferred causes, or even rest in a savings account, it is a good bet that this money resides somewhere in the community and gets recirculated as it is spent or invested. Office Max, as a publicly held corporation, distributes profits to investors throughout the world. Of course, some of these investors are located in the Phoenix region, but that represents a negligible portion of the total cost.

### **Local Procurement of Services**

Wist Office Products also has an advantage over Office Max when it comes to retaining Phoenix-based companies to provide administrative services that Wist does not do internally. Wist also has a budget for marketing in local media outlets. Office Max, as a national chain, needs not contract for such services in each market area. Rather, these services are provided in-house or contracted for through corporate headquarters in the Chicago area.

In a more typical retail impact analysis, we would also include local procurement of goods for resale here. To account for the more complicated supply chain at Wist, however, those purchases are analyzed separately below.

#### **Services Procured Locally by Wist Office Products**

- Truck/Equipment Leases
- Equipment Repair Services
- Office Equipment Leases
- Janitorial Services
- Facility Maintenance Services
- Professional Services (Lawyers/CPA's)
- Landscaping Services
- Banking Services
- Group Insurance Services
- Retirement Plan Services

### **Estimating Results for Office Max**

Because Office Max is a publicly traded company, they provide a great deal of information both in annual reports to shareholders and required filings with the Securities Exchange Commission. Office Max's Contract division covers most of what would be called a contract supply division. Office Max Contract operated 38 distribution centers during 2011 and provided exact revenues and information used to estimate the amount of income that was spent on labor. However, these values included retail stores and activities outside the United States. To remove those retail activities from the total, Civic Economics assumed foreign Office Max retail outlets operated the same as retail operations in the United States and subtracted these from the Office Max Contract results. This provided a clear picture of the supply operation. This is important due to the fact that a retail operation generally spends far more on labor as a percentage of revenue than a contract supply operation does. This adjustment allowed for an apples-to-apples comparison.

### **Charity**

Even though this represents a small dollar advantage for Wist Office Products relative to Office Max, they are proud of their contributions to a wide range of local causes during the past year. As with other locally-owned businesses, Wist's owners and managers are invested in the community and are thus more likely to donate to these types of causes in their community.

### **Aggregate Direct Impact in Arizona**

Adding together the direct circulation of dollars from those categories during the 2011 fiscal year to date, Wist recirculates 22.6% of its revenue locally. This compares to just 12.9% for Office Max Contract. These values have changed modestly from the 2007 findings, and the difference for both firms is largely based on the proportion of revenue that goes to local labor. It is unsurprising that, in a time of economic difficulties for businesses large and small, both firms have experienced greater labor costs as a share of revenue.

In its direct injection of money into the Arizona economy, Wist produces local impacts 75% greater than does Office Max Contract. However, these values capture only a portion of the Wist contribution to the Arizona economy, because we have not yet captured the additional benefits of Wist's local suppliers.

### **Procurement Impacts**

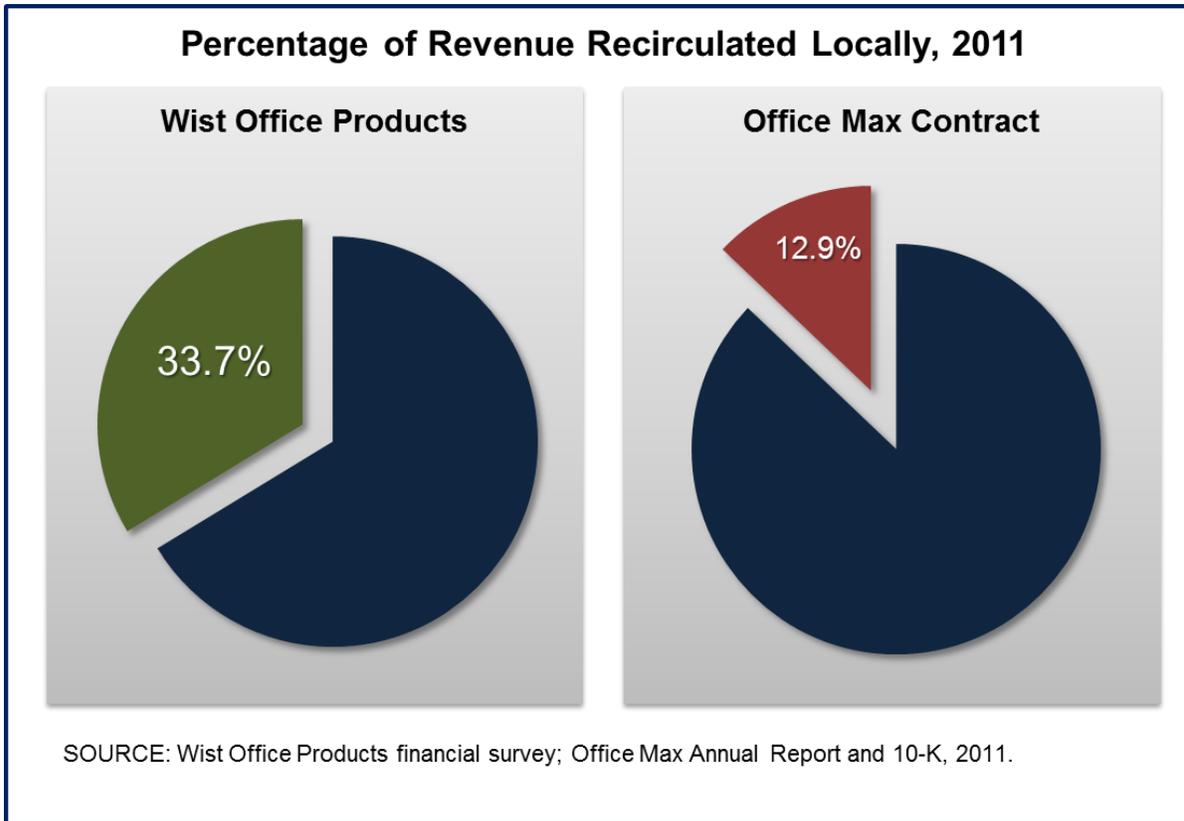
As in the 2007 study, Wist's operations present a striking example of extended economic impacts due to its reliance on other Arizona operations in its supply chain.

As a share of Wist's procurement of goods for resale, 7% goes through local suppliers in Arizona. To estimate the additional impact of this spending, Civic Economics assumed that these local suppliers operate like Wist itself, recirculating the same proportion of revenue locally through labor, profit, procurement, and charitable giving.

Further, as a share of revenue, 40% of the goods sold by Wist to its clients have passed through another Arizona distributor prior to handling by Wist. For this analysis, Civic Economics assumed that these distribution centers operate very much like Office Max Contract, recirculating the same proportion of revenue locally.

**FINDINGS**

Incorporating the enhanced economic activity driven by Wist’s heavily local supply chain provides a complete and accurate accounting of the local recirculation of money by the two firms: Of total revenue at Wist, 33.7% remains in the local economy. Of total revenue at Office Max Contract, only 12.9% remains.



## IMPLICATIONS

While this study might be used simply to praise Wist and similarly situated local suppliers of other lines of goods or in other communities, Civic Economics believes that it provides a strong economic rationale for reevaluating procurement policies and screening bidders with an eye toward enhancing the local or regional economy at no additional cost to the purchaser.

### **Doing the Math on Local Procurement**

Assume a local hospital, government agency, or educational institution purchases \$5 million in office supplies in a given time period:

If that contract were made through Office Max Contract, only \$645,000 would remain in the state of Arizona. Similar values would be expected for Office Depot and Staples, as well.

If the same contract were made through Wist or a similarly situated local supplier, more than \$1 Million additional dollars would find its way to the people of Arizona.

## **Procurement Policy**

Conventional procurement policy focuses on price and service considerations alone, and the data provided for this analysis indicates that Wist is highly competitive, if not superior, on both fronts. However, these findings suggest that firms and institutions with long-term investments in a given community might benefit from giving additional consideration to the enhanced economic impact of truly local firms.

## **Private Sector**

In the private sector, large businesses and institutions are substantial purchasers of office products as well as countless other lines of goods. In all cases, price and service are paramount considerations. In addition, however, those same establishments generally recognize that their long-term health is closely tied to the health of the community in which they operate. This is true of for-profit firms such as banks, manufacturers, retailers, and service providers as well as non-profit institutions such as hospitals and educational institutions.

These private sector customers are in a prime position to benefit from the economic benefit of procuring goods from locally owned firms. Without legal and bureaucratic hurdles to overcome, policy change for the good of the community is easily achieved. Moreover, such a change can be expected to produce goodwill in the community.

## **Public Sector**

Even more than in the private sector, public sector institutions are in a prime position to capture benefits from the enhanced economic activity associated with local suppliers. Additional dollars recirculating in the local economy generate taxable transactions, employ local citizens, and promote the economic vitality of the community. This is true for the State and its institutions, and for counties, municipalities, and other political subdivisions.

Civic Economics understands that there may be bureaucratic and legal hurdles to overcome in promoting local procurement preferences. Given the vast sums at stake, however, a policy change is clearly justified by the economic benefits that will accrue to the people of Arizona. In the meantime, it is likely that purchasing agents of the state and its subdivisions can, without any policy change whatsoever, begin recognizing the highly competitive local suppliers that exist in numerous lines of goods. Truly open bidding is the simplest first step toward reform and the economic activity it can generate.

## CONCLUSION

Civic Economics is grateful for the opportunity to update 2007's influential *Procurement Matters: The Economic Impact of Local Suppliers*.

The premise that locally-owned and operated businesses generate greater local economic activity than their chain counterparts has become widely understood and accepted. In communities across the nation and abroad, public policy has adapted to this reality through a variety of planning and zoning tools.

Even more widespread is the consumer-driven "buy local" movement. In the Phoenix area, Local First Arizona is among the leaders in this movement, with hundreds of participating businesses and supportive individuals uniting behind a marketing campaign to allow concerned citizens to support those firms that make Phoenix special.

Despite the widespread consensus that local retail firms promote strong local economies, there has been little research into the economics of local contract procurement even as national firms have entered every market in America. Prior to the 2007 study, neither Civic Economics nor any other research organization could put a dollar value to the impact of traditional local suppliers like Wist.

Now, with the release of this five year update to *Procurement Matters*, the answer is clearer than ever: local suppliers generate dramatically greater economic activity than their chain competitors. Revenues that pass through Wist Office Products provide nearly three times the local economic impact than the same purchases through Office Max Contract, which does have a warehouse in the Arizona market. Similar results would be expected for Office Depot and Staples, as well.

Civic Economics thanks Wist for their willingness to share sensitive and proprietary business data in furtherance of this research, and looks forward to joining the conversation this study will promote in the coming months and years.