

INDUSTRY NEWS

If you have good news to share - email it to Simon@IDealerCentral.com

State of Georgia Terminates Office Supplies Contract with Office Depot; SEC Launches Formal Probe of Company

Following publication last month of a report that charged Office Depot with a broad range of pricing errors, selective discounting and other irregularities under its exclusive, sole-source contract for office supplies with the state of Georgia, state purchasing officials announced they have terminated the contract and placed Office Depot on temporary suspension.

"Various performance issues by Office Depot have been identified and documented within the past few months, including numerous pricing, service delivery issues and overall lack of responsiveness," assistant commissioner of purchasing Tim Gibney wrote in a letter to state agency and university procurement officers.

The state has had problems with Office Depot's performance for several months and last August, sent a formal "cure" letter to Office Depot demanding improvement.

"While some progress has been noted," Gibney said last month, "the errors committed by Office Depot have simply occurred for too long with too much effort being expended by the state to assist them in delivering the level of service and pricing outlined in our state contract ... Unfortunately, those efforts have proved futile and it is simply time to find other sources."

The report that was released prior to the state's decision was prepared by consultant Rick Marlette and analyzed purchasing activity in September 2007 under the \$60 million contract.

Among the issues identified by the report were:

- Pricing irregularities on the contract's core office products items list, that resulted in the state paying several different prices for the same core items, 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 the products that are in the best interest of the 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 that were no longer available.
- 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'.
- Exclusive use of product numbers assigned by Office Depot to identify items, making it almost impossible to compare products on the contract with similar items from other vendors or locate a range of alternatives for discontinued items.
- Lack of any formal procedure for dealing with discontinued items, enabling Office Depot, the report charges, to discontinue unprofitable core items at will and replace them with much higher priced substitutes at any time.
- Web site ordering irregularities, including price changes on items when they are added to a shopping cart, failure of 'Keyword' searches to located low-priced core items and more.

In addition, the report found pricing under the contract that was higher than Office Depot's regular retail web site at www.officedepot.com For example, Georgia purchasing officials spent nearly \$41,200 on laser printers

and laser fax machines under the contract last September. However, they could have bought the exact same units through Office Depot's retail web site for only \$32,900, the report charged.

Georgia is not the only state to encounter problems with Office Depot. State auditors in North Carolina last year found Office Depot overcharged their state by at least \$40,000 under a similar, sole source supplier contract.

Their report found incorrect prices on over 1,500 transactions in the first seven months Office Depot held the contract, as well as a number of items covered under the contract that were not available for purchase.

In an unrelated development, Office Depot confirmed last month that the Securities and Exchange Commission is currently conducting a formal investigation into whether the company violated federal securities laws, the Associated Press reported.

The SEC first started looking at Office Depot's communications with financial analysts last year, as well as its policies and practices in other areas including inventory receipt, timing of vendor payments, timing of recognition of vendor program funds and intercompany loans.

Office Depot said it is cooperating with the SEC, and said it may face sanctions, including monetary penalties, if the SEC determines it has violated securities laws, according to the AP report.

[continued on page 12](#)