B. Sackin & Associates
Supporting the School Foodservice Industry

Memo

To: Joe Cook, PINCO

From: Barry Sackin

Date: 3/10/16

Re: summary of Executive Committee discussion

Thank you for allowing me to join your meeting yesterday to share some thoughts on PINCO's bids. I believe the organization is moving in a positive direction by reviewing its procurement practices. This memo will speak to some options regarding what is currently your broad line distributor bid.

PINCO is a complicated entity because of the diversity of its membership and the range of product categories that the co-op procures for the member districts. Finding a balance that gets the best prices for all members is challenging. The fact that you bid commercial as well as commodity processed items complicates things.

<u>What items belong on which bid?</u>

As we discussed, winnowing your broad line bid down to a manageable number is to everyone's advantage. Asking distributors to bid on every item that a PINCO district might need is cumbersome. On the other hand, both from a legal standpoint as well as best value pricing, not bidding items leaves districts open to paying more than necessary.

It is likely in the co-op's best interest to use velocity reports to identify those items whose aggregate purchases total a majority of the value of the contract. For example, the co-op might determine that it wants to bid all items that, in aggregate, account for 75-80% of purchases from the distributor. This might be only one third of the items on the bid.

The question is then how to secure pricing for the remaining items. Two approaches suggest themselves. In either case, the methods should be identified in the bid document. One method is to inform prospective bidders that PINCO member districts may purchase additional items from the awarded distributor and request that pricing for these items be consistent with the distributor's methodology for establishing prices on the bid, i.e. a price that

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includes a target markup. Or you might request that prices for the additional items be no higher than the best price offered to other, comparable non-commercial customers . Include language that the co-op will randomly check prices offered.

An alternative method would be to state that member districts may purchase additional items from either the awarded distributor or another source. You might include language that the awarded distributor will have the first option for additional purchases. Each district will follow its own method for these procurements. You can monitor pricing by comparing prices on the velocity reports.

Districts should use the appropriate procurement method for their non-bid purchases. While the Federal "small purchase threshold" (bid limit) is currently $150,000, California sets the value at $87,000. Therefore, any purchases by an agency above $87,000 must use the formal, sealed bid method. I suspect that any items that would meet this standard will likely be sufficient to be on the PINCO bid. There are differing opinions about whether purchases are individual or aggregate. Recent USDA guidance actually suggests breaking orders into smaller procurements. Regardless, all procurement must be fair, open, competitive and transparent.

In bidding broad line, the variation in PINCO member districts poses interesting challenges. The larger the individual shipment, the more economical the proposition. Incentivizing larger shipment is advantageous to both the distributor and the co-op. It is recommended that the bid include a reasonable minimum drop quantity for all schools/districts. Additionally, it may be possible to negotiate a per case discount based on the size of the shipment. For example, an invoice would include a discount for shipments above the minimum, with a schedule depending on the size of the shipment. It would be worth discussing this concept with prospective bidders.

<u>Center-of-Plate/Frozen Items</u>

As I understand current PINCO practices, the co-op includes commercial COP items like beef, pork, poultry, pizza, etc. on the broad line bid. Commodity processed items are bid separately for purchase by PINCO directly, with delivery to the co-op warehouse and redistribution to member districts. Several changes are suggested.

First, it is recommended that you separate COP items from the broad line bid using that for what is generally called "canned and staples". The remaining items might be referred to as "frozen" items. There are a number of reasons for this recommendation. It is possible that there would be more responsive and responsible bidders for each of the two different groups of products – canned & staples and frozen. This may, in turn, improve pricing. Also, some broad line distributors may not carry all of the brands and SKUs that the co-op wants.

Second, it is possible to bid frozen differently from canned & staples. Because of the volume of frozen items, and the likelihood that frozen items may be available as commodity processed, it is possible that the co-op would be better served by bidding these items directly with the manufacturer, and bidding distribution as a fee-for-service separately. Using this approach, bidders would be asked to provide a fixed per case delivery fee (fee-for-service pricing). The same shipment size schedule might be applied, including combining all items regardless of which bid they are bought against. Also, it is possible that PINCO can request drop-shipment to the co-op warehouse from the processor, saving distribution costs. There are a number of concerns and considerations to direct ship that can be discussed should this be of interest to you.

In bidding with manufacturers, PINCO would ask for two prices – commercial and commodity processed. It must be noted that the commercial price may not be the same as price determined by the sum of the pass-through-value of the commodity ingredients and the fee-for-service by the manufacturer. There are additional costs in the commodity program that are not present in commercial production. The bid would state that schools are to receive commodity pricing when the co-op has an available balance of the USDA Foods ingredient(s), and commercially equivalent products and pricing when there is no available balance.

To achieve the greatest benefit from the bid process, it should not be a "market basket" award. That is, you should try and award to only one manufacturer, and certainly not more than two. Some current bids simply establish prices and the member districts can buy from whichever vendor they choose. This defeats the purpose of the bid process and greatly disadvantages vendors, which inevitably is reflected in the prices offered.

Similarly, bids should reflect an honest estimate of usage and, if possible, include a guaranteed minimum purchase quantity. Some vendors may request language that also sets a cap on their liability if the quantity exceeds estimated usage. Pricing is based on some level of certainty for production planning. Significant increases in volume may adversely impact a company's ability to produce.

In making an award, the price factor should be weighted based on expected usage of commodity and commercial products. Current usage from velocity reports and estimated availability of USDA Foods will inform the weighting. For example, if PINCO member districts expect to use 1,000,000 pounds of beef products, but expect to have only 700,000 pounds of USDA Foods beef available, the weight would be 70% X commodity price plus 30% X commercial price. While this is not perfect because of the uncertainty of the USDA Foods program, it is a reasonable basis for the award decision.

<u>Award Matrix</u>

A change to your current matrix is suggested. As I read it, points for pricing are awarded as a tier, the lowest aggregate cost of the bid gets 50 points, second low gets 40 points, etc. I would suggest using a prorated scale instead. This would better reflect the variance in pricing. For example, let's say the lowest price bid is $250,000 worth 50 points. The next lowest at $255,000 is vastly different than second lowest being $300,000. So you might set the lowest price as the benchmark, and the remaining bids are scaled as a percentage of that. A $255,000 bid would be 250,000/255,000 [= 98%], and the points would .98 X 50 of 49 points. The $300,000 bid would be

250,000/300,000 [83.3%] or 42 points. [note – his is not mathematically correct but A- it is close enough, and b) the correct formula can be provided. It does simplify the explanation] For close bids, service will have greater importance in the award.

<u>Non-bid Items</u>

The question came up about how to add to items to an existing bid, particularly when considering a roll-over. A "material change" to a contract would generally be considered anything that, had another bidder known this would be considered, might have bid differently. If a material change occurs, a new procurement must be undertaken.

The problem can be addressed by leaving some latitude in the bid. For example, the bid might state that PINCO reserves the right to add items similar in nature or using similar ingredients. So if, for example, an award is made to a beef processor, additional beef items like new products may be added. At such time as a new item becomes significant and results in a significant increase in the value of the bid, it should either be bid separately or the entire bid should be re-let.

Similarly, the bid might include language that PINCO reserves the right to purchase items not offered by the successful bidder from other vendors. Again, how the procurement is conducted for the alternative items should be dictated by approved procurement methods for the size of the procurement.

I think this covers most of what we discussed yesterday. I would be more than happy to provide additional information for specific questions you or your member districts may have. Also, some of the suggested changes are pretty major and require deliberation by the co-op and time to craft new procurements. You may be best served incorporating small changes this round and considering the larger changes for next year.