CITY OF HAMILTON

CORPORATE SERVICES DEPARTMENT

Information Services Division

<table>
<thead>
<tr>
<th>TO: Mayor &amp; Members, Committee of the Whole</th>
<th>WARD(S) AFFECTED: CITY WIDE</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMMITTEE DATE: July 6th, 2010</td>
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<tr>
<td>SUBMITTED BY:</td>
<td>PREPARED BY:</td>
</tr>
<tr>
<td>Roberto Rossini General Manager Finance &amp; Corporate Services</td>
<td>Filippe Janicas 905.546.2424 ext. 5705</td>
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<td>AUTHORED BY:</td>
<td></td>
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<td>Tony Tollis 905-546-2424 ext. 4549</td>
<td>Deborah Hindley 905.546.2424 ext. 3925</td>
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</tbody>
</table>

**RECOMMENDATION:**

(a) That the Office Printing, Equipment and Related Support Services and Supplies Contract, (RFP #C12-03-10) be awarded to Ricoh Canada Inc.;

(b) That the Price per Page model as outlined in Report FCS10053 be adopted;

(c) That the General Manager of Finance and Corporate Services be authorized to negotiate and enter into a contract with Ricoh Canada Inc, as outlined in Report FCS10053, in a form satisfactory to the City Solicitor; and

(d) That the increase of 1 FTE for the management of all City Print Devices and Cell Phones be funded from savings achieved by the new contracts associated with these devices and forwarded to the 2011 Budget process for consideration.
EXECUTIVE SUMMARY

The current print equipment contract with Canon Canada Inc. (Canon) expires on July 31st 2010.

In April 2009, in preparation for a new contract, Information Services (IS) engaged a vendor neutral consulting company, Print Operations Group (POG), to perform an assessment of our print environment and assist with the preparation of a Request for Proposal (RFP), and the analysis and costing of the RFP responses.

Of the 6 bids received 3 did not meet the minimum technical proposal requirements. Ricoh Canada Inc. (Ricoh), Xerox, and Sharp’s responses moved forward to the costing analysis (Step 2). RFP proponents were asked to submit 3 different costing options including;

- **Purchase** – print equipment is purchased by the City with a 5 year extended warranty while toner and services are billed as a fixed amount on a per page basis. This option requires the up front cost of purchasing all the print equipment and does not allow any flexibility in reducing the number of printers. The City would be responsible for environmentally friendly disposal of the units as they come to their end of life.

- **Lease** – the City has use of the print equipment for a specified period of time, the print equipment is returned at the end of contract. A monthly charge is paid for the use of the print equipment with additional charges being assessed for toner and services on a per page basis.

- **Price per page** – the cost of the equipment, toner and all required services are paid for by the City on a per page basis with a minimum pre-defined number of pages identified and a reduced rate for pages used over that minimum number. The print equipment is returned at the end of the contract.

The 5 year all in cost of each proposal, for the 3 different options is outlined on the table below.

<table>
<thead>
<tr>
<th>OPTIONS</th>
<th>RICOH</th>
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<td>PURCHASE*</td>
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<td>$9,651,394</td>
</tr>
<tr>
<td>LEASE</td>
<td>$5,951,340</td>
<td>$6,055,024</td>
<td>$6,705,570</td>
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<tr>
<td>PRICE PER PAGE</td>
<td>$5,970,788</td>
<td>$6,009,448</td>
<td>$6,449,266</td>
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</tbody>
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* Does not include environmentally friendly disposal costs which are unknown at this time but would be an additional cost to the City.
The lowest proposal costing for all 3 options is that of Ricoh.

Although the purchase option is slightly lower than the price per page option ($47,000 per year but before accounting for disposal costs), staff are recommending the price per page option as it provides the best option for future savings and it provides better “performance insurance” as the vendor must see the contract through to the end to achieve profits.

The overall Budget savings in 2011 is estimated to be approximately $94,000. The savings in terms of actual costs (i.e. 2009 vs. 2011 projected) is estimated at $700,000 per year. In order to achieve these savings and more, it is essential that a position be created to monitor and report on the use of print equipment on a regular basis. As well, this position will be responsible for the management of the cell phone and desktop contract which are currently up for renewal. Staff is requesting that this position be funded from the savings from this contract award as well as the savings anticipated from the new Cell Phone contract, and that the approval of this FTE be forwarded to the 2011 Budget process for consideration.

<table>
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Staffing:

A temporary 12 month IS position has been created primarily to manage the Office Printing Equipment and Related Support Services and Supplies contract (Print Contract)
funded from existing resources in approved capital project budget. The Print Assessment Report was completed in July 2009 and recommended a formal print management policy and program to ensure the anticipated savings. Print management includes managing new acquisitions, assessing business unit needs, regular reporting on print usage to management, performing trend analysis and managing the services portion of the contract. IS has a number of contracts that require similar on-going management including the cell phone and desktop contracts. This position will verify the savings that are anticipated through a rigorous print environment and print contract management, as well as those savings anticipated for the other major IS contracts. The intent is for this position to transition into full time after an initial 12 month temporary posting, subject to Council approval. The position would also be directly involved in the deployment of the new print equipment ensuring that:

- Regular reporting and trend analysis of print usage are provided to management, including semi-annual reports to the General Managers and the City Manager.
- The required annual operational savings specified in the RFP are obtained.
- Print needs assessments are completed and required print equipment is provided to business units.
- Acceptance of allocated equipment has been received from each business unit.
- A customer satisfaction rating of at least 80% is achieved for the deployment of the new print equipment.
- Requests for new print equipment are received and managed in accordance with the new Print Management Policy.
- Mandated service performance is managed.
- Print volumes and charges associated with them are verified.

**HISTORICAL BACKGROUND** (Chronology of events)

**Current Contract**

In 2004 the City issued the Print Management and Related Equipment Services RFP C4-04-02 and awarded the current 6 year print contract to Canon, which expires on July 31, 2010. The print rationalisation project of 2004 reduced the City’s print equipment fleet significantly by removing individual desktop printers and replacing them with Multi-Function Devices (MFD’s) for workgroups. The print environment which had consisted of 1,263 units provided by 170 different manufacturers was reduced to a core print environment of 412 units. The savings recognized from that exercise was approximately $383,000. (See Report CM03017/FCS03146)
The reduction of the City’s print equipment fleet from 1,263 to 412 units has not been sustainable; there has been no clear ownership or management of the current print environment resulting in the print equipment fleets growth from 412 to 612 units. Growth has also occurred due to staffing and other program increases.

RFP Development

An Optimized Print Project Team was formed to develop a strategy and to create the requirements for the Print Contract. In order to identify a benchmark, assess the current state of the print environment and define print environment targets, a print assessment by a vendor neutral third party consulting company, POG was initiated by IS. The Print Assessment Report was completed in August of 2009 and from those recommendations the RFP was developed. One of the recommendations in the Print Assessment Report was that on-going management by IS of the Print Contract was required to achieve savings and reduce the growth of the print environment. The new Print Management Policy was developed and a temporary staff position has been created to initially manage the Print Contract and print usage.

RFP Bid Process

The RFP for the Print Contract was issued on January 13, 2010. A bidders meeting was held on January 29, 2010 and the RFP closed on February 16, 2010. Responses were received from: 4-Office, Canon, Konica/Minolta, Ricoh, Sharp and Xerox. The RFP was evaluated as a 2 step process with only those proponents that passed the Step 1 - Technical Proposal evaluation moving forward to Step 2 – Costing Analysis. The Ricoh, Sharp and Xerox proposals all successfully passed the Technical Proposal evaluation and moved forward to Step 2 the Costing Analysis.

Two proponents who did not receive sufficient scores on their Technical Proposal Evaluation to move on to the Step 2 Costing Analysis requested de-brief meetings. Those meetings were held on May 5, 2010 with 4-Office and on May 7, 2010 with Canon and involved staff providing an explanation to the proponents as to why they had not met the minimum score required for their proposal to move forward to the Step 2 Cost Analysis. Subsequent to the de-brief meeting Canon requested a formal explanation of why they had not met the minimum score on a particular section. This was provided to them in writing and they were invited to identify any additional information within their proposal that they believed had not been reviewed. Canon subsequently requested and was given an opportunity on June 16, 2010 to make a delegation request to Audit and Administration Committee. The result of which was the following direction to staff:
That Staff meet with Canon to discuss the outstanding issues with the award of tender and that this form part of the materials brought before Committee when the tender is to be awarded.

Staff met with Canon on June 21, 2010 and reviewed written materials received prior to that meeting from Canon that specifically identified the locations within their proposal that it felt staff should re-consider and which it felt would lead to a change in the scoring of its Technical Proposal sufficient to move forward in the process. Subsequent to its meeting with Canon, the RFP evaluation team re-reviewed Canon’s proposal taking into account the specific information within it that had been highlighted to it by Canon. The outcome of which was to determine that Canon still did not meet the minimum requirements for its technical proposal to move to Step 2 – Costing Analysis.

Print Management Policy

The final Print Management Policy, developed with POG, and which incorporated suggestions arising from its presentation to each Departmental Management Team (DMT), was presented to and approved by the Information Services Working Committee and to SMT for final approval on June 24, 2010. The policy clearly identifies allocation criteria and the process for staff to request a new or additional printer and the approval process required.

POLICY IMPLICATIONS

Purchasing Policy, Section 4.4, Policy 4 – Policy for Approval Authority; requires Council approval when the Request for Tenders is a Corporate Contract.

The Print Management Policy has been developed to ensure clear direction when requesting the acquisition of additional functionality or additional print equipment, or the movement of print equipment. The Print Management Policy was reviewed by each DMT and feedback from those meetings has been incorporated into the Policy. The final Policy was presented to SMT for approval on June 24, 2010.

RELEVANT CONSULTATION

- The Purchasing Division partnered with Information Services throughout the print assessment.
- The Legal Services Division participated in the RFP development process.
- The Print Management Policy has been presented for review to each Departmental Management Team meeting.
Information Services Working Committee (ISWC) was consulted regularly throughout the Print Assessment and RFP development.

The Information Services Procurement Committee has been consulted at regular intervals during the RFP development process.

The Optimized Print Project Team consisted of representatives from IS, Finance, Public Works, was instrumental in determining the guiding principle for the print project and working with the third party vendor engaged to provide a current state print assessment.

Staff from each Department and Administrative staff from the Councillors area were requested to attend interviews and assist with developing the recommendations for a target state during the print assessment.

A web survey was distributed to over 300 staff members in various departments to determine what current printing requirements were and what future needs may be. We received 110 responses a 36% response rate which is high for web surveys.

The RFP evaluation team consisted of representatives from IS, Community Services, Planning and Economic Development and Human Resources

ANALYSIS / RATIONALE FOR RECOMMENDATION

In May 2009, in preparation for a new Print Contract, IS engaged a vendor neutral consulting company, POG, to perform an assessment of our print environment, to assist with the preparation of an RFP, and to conduct the cost analysis of RFP responses.

The Print Assessment Report showed that although the number of printers was radically reduced when the current contract was deployed six years ago reducing the number of printers from 1263 to 412 units the number of printers had over the term of the current contract grown by more than 40%. Using industry benchmarks, the Print Assessment Report made a number of recommendations including a “target state” would reduce the number of printers throughout the City from 614 to 569 units. It also recommended that centralized print management must be put in place to contain print costs.

Using that Print Assessment Report as a foundation, the Print Contract RFP was developed. The five year term of the Print Contract is recognized as the industry standard and coincides with the life-cycle of large Multi Function Devices (MFD’s). It also allows for a technology refresh after five years that would meet the changing requirements of the business units. Some of the Print Contract requirements include:

- A detailed deployment plan, which will ensure that equipment provided is the “best fit” for the needs of each business unit.
• A detailed service delivery program and associated remedies for non-compliance.

• A centrally managed software solution for printing to assist in print workflow management and cost controls.

Three costing models: purchase, lease and price per page were analysed. The price per page option is recommended as the best option for the City.

Table 1 below outlines the 5 year costs for all three options:

**TABLE 1 Proponent Costs (5 Year All In)**

<table>
<thead>
<tr>
<th>OPTIONS</th>
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</tr>
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<td><strong>LEASE</strong></td>
<td>$5,951,340</td>
<td>$6,055,204</td>
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</tr>
<tr>
<td><strong>PRICE PER PAGE</strong></td>
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</tr>
</tbody>
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*Does not include disposal costs, which are unknown at this time but would be an additional cost to the City.

The least costly proponent is Ricoh. Although the purchase option is less expensive excluding disposal costs, staff and the consultant are recommending the Price per Page option. The benefits of this option are detailed below:

<table>
<thead>
<tr>
<th>Costing Option</th>
<th>Possible 15% Fleet Reduction</th>
<th>5% Annual production target over a 5 year term</th>
<th>Disposal Costs to the City</th>
<th>Additional Vendor Leverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase</td>
<td>$0</td>
<td>$115,000</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Lease</td>
<td>$380,000</td>
<td>$115,000</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Price per page</td>
<td>$380,000</td>
<td>$256,000</td>
<td>N</td>
<td>Y</td>
</tr>
</tbody>
</table>

As noted the above savings are not guaranteed, the vendor has agreed to strive to achieve these savings.

**Fleet Reduction**

The City of Hamilton may reduce its required fleet size by 15% without penalty during the deployment phase of the Print Contract. This cannot be achieved with a purchase of print equipment. The total capital costs for the term of the Print
Contract is $2,558,251, which means that a potential savings of up to $380,000 in capital costs could be exercised in a price per page model that would be lost if the print equipment is purchased.

Potential Operational Savings

For the term of the contract, the target reduction in total operation costs for each 12 month period is 5%. This is a goal set out in the RFP and the vendor has agreed to strive to achieve. If the purchase option was exercised, the 5% reduction would be on the estimated operating costs of $2,306,374 resulting in an annual savings of $115,000. With the price per page option the potential 5% savings would be on the total estimated costs achieving a potential $256,000 in annual savings. While these savings cannot be guaranteed, with management of the print environment and a close working relationship with the vendor, targeted savings are expected to be achieved. Staff will report on the status of these savings to the City Manager, as part of the reporting commitment in the Print Management Policy.

Future print equipment upgrades to more cost effective technology is easier to achieve with the price per page option. The City only needs to manage to the contract minimum to engage a new supplier, and may negotiate an early fleet renewal with a price per page model with the current supplier. Capital equipment life amortization requirements may prevent transitioning to more cost effective technology under the purchase option.

Vendor Leverage

The price per page option is a type of “Performance Insurance”. The Print Contract contains a number of Service Level Agreements (SLA’s) that have been developed to assure the City that the Vendor will remain a reliable, committed supplier for the entirety of the contract and which ensures that the supplier has a significant stake in meeting the Print Contract requirements. The Purchase option does not allow the City to shift to the supplier the risk of not maintaining the SLA’s while the price per page option ensures that the City has significant service leverage with the vendor.

Disposal Costs

Environmentally friendly asset disposal can be a significant cost for technology assets. In a price per page model, the equipment remains the property of the supplier with neither environmentally friendly asset disposal nor future costs of such disposal being an issue for the City as such obligations and future costs would be the vendors. Under the purchase option, disposal costs would be a City responsibility.

Communication of Costs

The communication of the direct printing costs related to individual usage will help instil an improved sense of responsibility and accountability in all levels
within the end user community. Specifically, staff will know how their activity is reflected in the cost of the service.

As outlined in Table 2 below, the actual 2009 net Canon related printing costs were $1,365,000. The 2010 Budget for these devices is $910,000. The ongoing net annual operating cost for 2011 is estimated at $816,000, resulting in a Budget savings of approximately $94,000 annually.

It should be noted however that the actual Gross cost of the current devices is $1,745,000 annually. If approved the actual year over year gross savings is estimated to amount to more than $700,000 annually.

**TABLE 2 City of Hamilton Budget**

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>2009 ACTUAL</th>
<th>2010 BUDGET</th>
<th>2011 Budget Est.</th>
<th>Estimated Actual Savings</th>
<th>Estimated Budget Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Printers</td>
<td>$1,175,000</td>
<td>$ 914,000</td>
<td>$1,044,000</td>
<td>$131,000</td>
<td>$(130,000)</td>
</tr>
<tr>
<td>Non Contract</td>
<td>$ 570,000</td>
<td>$ 250,000</td>
<td>0</td>
<td>$570,000</td>
<td>$ 250,000</td>
</tr>
<tr>
<td>Total Gross Cost</td>
<td>$1,745,000</td>
<td>$1,164,000</td>
<td>$1,044,000</td>
<td>$701,000</td>
<td>$ 120,000</td>
</tr>
<tr>
<td>Recovery</td>
<td>$ 380,000</td>
<td>$ 254,000</td>
<td>$ 228,000</td>
<td>$ (26,000 )</td>
<td>$ (26,000 )</td>
</tr>
<tr>
<td>Net Tax Levy</td>
<td>$1,365,000</td>
<td>$ 910,000</td>
<td>$ 816,000</td>
<td>$ 94,000</td>
<td>$ 94,000</td>
</tr>
</tbody>
</table>

**Print Management**

In parallel with the RFP evaluation, a governance policy for print management has been developed. The Print Management Policy represents a set of print equipment criteria guidelines that will enable IS to logically, rationally and economically allocate, replace and/or reduce distributed print, copy, fax, scan and multi-functional equipment to better support the City’s business, financial and environmental goals and objectives. The Policy has been reviewed by each Departmental Management team (DMT) and by the Information Services Working Committee and was presented to Senior Management Team on June 24, 2010 for approval.

The Print Assessment Report recommended the following, which provided the foundation for the Print Contract:

- Approve one organization-wide print management policy which supports two modelled target states. One for large administration areas and one for all
smaller field locations. These two environments will clearly acknowledge and address the City’s entire print requirements.

- Create a management policy that will govern the selection, deployment, and management of all print equipment going forward.

- The City currently spends $1.75 million per year to support the distributed fleet of print/output devices. Optimization efforts will reduce the annual cost to $1.044 million if the City makes the correct investments or adjustments to governance, process management and staffing.

- Introduce a new standard suite of “security certified” robust network connected multi-functional technology to print, copy, and fax and will establish a scanning platform for the entire City from which to drive further automation and optimization efforts.

- Deploy good quality colour print equipment to ensure those that need colour have access but provide metrics and governance to help all users understand the costs associated with colour printing. Colour printing typically costs 7 to 10 times more that black and white printing.

- Deploy a centrally coordinated service to optimize and manage the entire print environment. It will be critical to maintaining and sustaining the print strategy through the on-going measurement and management of the print environment. This critical investment will deliver the productivity and cost reductions if effectively implemented.

- Environmental sustainment and conducting trends analysis on the Key Sustainment Indicators (KSI’s) should be an integral part of the centrally managed program.

- Create a communications and awareness program around the deployment of print equipment to secure up-front end user buy-in and to educate end users on the features, benefits, and cost effective use of the new technology.

The tasks highlighted in the recommendations above will form part of the duties assigned to the temporary position described earlier.
ALTERNATIVES FOR CONSIDERATION:

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

The consultant secured by the City, POG Consulting, does not recommend remaining with the “Status Quo” due to productivity, performance, user satisfaction and technological limitations of the current fleet.

The following is an excerpt from the Print Assessment Report of August 2009

“The City of Hamilton has significant reasons to go to market to seek a full fleet refresh. Many units are showing significant wear and no longer suit the performance needs of the city. Additionally, the equipment mix is no longer suitable and significant productivity gains will be experienced by refreshing the full print environment. “

As another option, the City did receive a unsolicited proposal to extend the current contract for 24 months. Under this scenario we would continue to use our existing 6 year old equipment (same units as we currently use). Canon states that we would reduce current costs by $750,000 annually versus the $700,000 annual savings under the recommended approach. However there is significant uncertainty in the Canon proposal because maintenance and disposal costs for the entire printer fleet are unknown.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)


Skilled, Innovative & Respectful Organization

• A skilled, adaptive and diverse workforce, i.e. more flexible staff

Financial Sustainability

• Effective and sustainable Growth Management

Growing Our Economy

• Competitive business environment

Environmental Stewardship

• Reduced impact of City activities on the environment
Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.
Values: Honest, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork