


Using Local Suppliers



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Introduction

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This document is about using local suppliers.

Definition

At first sight the term 'local' may be defined simply in terms of geographical distance, but the issue is not quite that straight forward; i.e. whilst a supplier located a couple of miles away is clearly local, how far do we have to go before the term 'local' ceases to be valid? 10/20/50 miles? We might also consider the ease of contacting the supplier as a factor, so to the basic criterion of distance we might add 'time taken'. So, as an example, the time taken to go to a meeting with a supplier 10 miles up the M6 north of Birmingham can often take longer than the time taken to travel 60 miles on less congested roads.

A further criterion is the product itself; a buyer may well describe a source of supply 150 miles away as 'local' if the supplier is in a niche market. However, for more commonplace products (plastic mouldings for instance) a buyer may well feel that 10 miles is the maximum for the supplier to be classed as 'local'. In summary, there is not one definition for 'local' in this context, but for the purpose of this document the expression means 'based within easy reach of the buyer'.

Background

With the increasing globalisation of businesses, particularly in their sourcing strategies, the use of local suppliers has previously taken a back seat. However, over recent years the issue of using local suppliers, especially for public sector contracts, has come to prominence. Pressure groups, such as the Countryside Alliance in the UK, lobby organisations to source locally¹. The new Public Services (Social Value) Act 2012 requires local authorities to give greater consideration to economic, social and environmental wellbeing during the pre-procurement stage of purchasing a service.

Local suppliers may be, although not always, small and medium size enterprises (SMEs) and this should be considered by a P & SM Professional when dealing with local suppliers (CIPS positions on practice for using SME suppliers are also available on this site).

Explanation

Benefits of using Local Suppliers

CIPS would suggest that the principal attractions of sourcing locally are that:

¹ <http://www.supplymanagement.com/news/2011/british-schools-urged-to-buy-british-food/?locale=en>

- Promoting the use of local suppliers can result in good PR for an organisation (particularly if it is a large employer in an area) and demonstrates investment in the community
- Local suppliers would place considerable value on serving their local community and the benefits associated with it
- Close proximity makes it far easier to travel to them for supplier development and contract management purposes, as well as for site inspections
- The local knowledge of local suppliers means that they are well-placed to appreciate and satisfy local preferences - this is particularly relevant where specialised products and services are concerned
- Supply chains are generally shorter, leading to greater certainty and predictability of delivery times. This is particularly attractive to companies working on a JIT basis, and for sourcing perishable goods such as food produce as quality will be higher and shelf life longer. An associated benefit is that delivery costs are therefore correspondingly lower, as are expenses when buying people-based services

The Drawbacks of using Local Suppliers in the Private Sector

Possible drawbacks to using local suppliers may include:

- A possible resistance to change
- Too great a dependence of a supplier on a single large buying organisation can lead to complacency in both the financial and technical sense
- Conflict of Interest issues where buyers might be personally involved with local supplier's staff – not a barrier but requires a clear Ethics Policy
- If local suppliers are also small businesses they may be restricted in terms of exercising economies of scale and may then be less efficient than their larger counterparts. However, there are many benefits of using small suppliers, which could include other cost benefits such as reduced delivery costs, so they should not be discounted out of hand
- The difficulty of being able to differentiate between encouraging local suppliers to be competitive and the positive discrimination in favour of local suppliers as a policy

CIPS recognises that P & SM professionals may be put under pressure to place business locally for reasons such as positive public relations. However, CIPS encourages P & SM professionals to determine the best source of supply on objective and relevant criteria, taking into account such business objectives. Competent buyers should be able to assess the merits and drawbacks of using local suppliers and make sourcing recommendations accordingly.

The requirement to develop effective competition has been interpreted in the UK as limiting the ability of P&SM professionals to use local suppliers. However the new Public Services (Social Value) Act 2012 amends Section 4 of the Local Government Act 2000 to give local authorities a specific power to give greater consideration to economic, social and environmental wellbeing of their local areas when tendering for contracts for services. This economic wellbeing can extend to the use of local businesses and social enterprises where appropriate.

The new Best Value Duty (Best Value Statutory Guidance 2011) allows local authorities to consider social value in their functions including greater involvement for voluntary and community organisations as well as small businesses in the running of public services.

Developing the Local Market

CIPS stresses the importance of buyers keeping their supplier portfolios up to date and so enabling them to determine which purchases would benefit the most from local supply. If the buying organisation uses strategic sourcing tools, category management or supplier relationship management the strategies defined in these approaches can be used to identify and manage local purchases. It is important that local sourcing supports the business goals and forms part of a planned procurement strategy (for more information please refer to the CIPS position on practice on strategic sourcing).

If the buying organisation decides to utilise local sourcing where an adequate local supply does not exist, the buyer may wish to try to develop one using supplier and market development initiatives (for more information please refer to the CIPS position on practice on supplier development).

Strategies for implementing this kind of approach include:

- Undertaking initiatives for local market development
- Working with local suppliers in developing their business/products/services
- Buyers explaining to customers their reasons for using local suppliers
- Buyers encouraging their suppliers to extend the local supply chain by buying locally themselves
- Buyers encouraging other buyers and bodies (e.g. Chamber of Commerce, Federation of Small Businesses) to collaborate with them in developing the local supplier base

Ways in which Local Authorities in particular can help the local market include:

- Developing a guide to supplying goods and services to local authorities
- Reducing barriers to entry for local SMEs to become suppliers
- Making local firms aware of their needs in advance through a PIN (Prior Indicative Notice for OJEU procurements), Contracts Finder, or local advertising, where appropriate.
- Organising local 'Meet the Buyer' events and inviting other public sector representatives to participate
- Holding supplier briefings for local companies about selling to the Local Authority and other local public sector bodies
- Working with local industry bodies such as Chamber of Commerce, Federation of Small Businesses, Women's Business Network, etc.

Barriers to Local Sourcing

Barriers to local suppliers gaining business in larger organisations and the public sector include those arising from within the buying organisation itself and those arising from wider sourcing policy decisions such as the increased use of collaborative procurement arrangements, maximising economies of scale and national/global sourcing strategies.

Practical considerations which may arise in implementing a policy of purchasing from local suppliers may be illustrated by reference to the NHS (this example is taken from one particular NHS Trust but has broader applicability). In this Trust, much healthcare expenditure is directed at national/multinational suppliers providing medical products and services; the opportunity for using local suppliers is limited as the predominantly retail local supply structure is targeted

at the individual consumer. IT consumables, closely followed by stationery and printed forms are the only product areas where there may be an alternative local market but such products represent a relatively minor percentage of expenditure.

Within the health care sector there is an increasing reliance on national purchasing agreements where there is little that a local supplier can do to challenge prices across the range sourced. This applies also to non-healthcare products which the NHS requires from time to time. As an example, to satisfy the requirements for building materials, contracts are currently being sought with national chains such as Wickes rather than with local builders' merchants.

Within organisations, procurement process barriers to local and SME suppliers include:

- High costs of bidding
- Repetitive and lengthy pre-qualification process
- Unreasonable contract terms
- Inappropriate (unaffordable) insurance levels – not linked to pre-estimate of loss for the contract
- “Hands-off” procurement process prevents dialogue and explanation of value proposition
- Qualification difficult or impossible together with large numbers of potential suppliers even for small opportunities makes quoting unattractive
- Procurement timescales and amount of effort needed prevent suppliers with limited resources from entering the competition

To help SME's the government has introduced a number of measures to ensure that SMEs, charities and voluntary organisations can successfully compete for Government business. These include the following:

- The creation of Contracts Finder, a facility that provides access to public sector procurement related information and documentation free of charge
- The abolition of Pre-Qualification Questionnaires (PQQ) for contracts under £100,000 in value
- The introduction of a streamlined PQQ for contracts over £100,000 in value
- The introduction of Product Surgeries which are designed to enable selected SMEs to 'pitch' innovative products and services to a panel of senior decision makers in departments
- The creation of an SME Panel where SMEs engage directly with the Minister for the Cabinet Office and senior officials on the programme
- The appointment of an SME Champion in each of the main Central Government departments²

Conclusion

In conclusion, there are benefits to using local suppliers which should be considered by organisations and the P&SM professional as part of a planned sourcing strategy. However, the final selection, irrespective of the sector within which the buyer is working, should always only be based on objective and relevant criteria and business goals, and not on trends or management dogma.

² <http://procurement.cabinetoffice.gov.uk/sme-growth-agenda.php> last accessed 25 May 2012

CIPS Group Easton House, Easton on the Hill, Stamford, Lincolnshire, PE9 3NZ, United Kingdom
T +44 (0)1780 756777 F +44 (0)1780 751610 E info@cips.org

CIPS Africa Ground Floor, Building B, 48 Sovereign Drive, Route 21 Corporate Park, Irene X30, Centurion, Pretoria, South Africa
T +27 (0)12 345 6177 F +27 (0)12 345 3309 E infos@cps.org.za

CIPS Australasia Level 8, 520 Collins Street, Melbourne, Victoria 3000, Australia
T 1300 765 142/+61 (0)3 9629 6000 F 1300 765 143/+61 (0)3 9620 5488 E info@cipsa.com.au

CIPS Middle East & North Africa Office 1703, The Fairmont Hotel, Sheikh Zayed Road, PO Box 49042, Dubai, United Arab Emirates
T +971 (0)4 327 7348 F +971 (0)4 332 5541 E mena.enquiries@cips.org

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