

Using Local Suppliers

CIPS is expressing beliefs on using local suppliers as this is a common consideration in the selection of suppliers and an area which has as many advantages as it does pitfalls.

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Introduction

Whilst the sourcing choice, whether in the private or in the public sector, should usually be based on value for money and the most economically advantageous option, having first taken factors such as security and continuity of supply into account, buyers should also give careful consideration to the benefits as well as the disadvantages of choosing local suppliers.

Some buyers have to work within a policy of promoting and encouraging business for the local community, for reasons of public relations for instance, and effectively developing local suppliers and services. Generally however, CIPS would encourage all buyers to always ensure they employ objective and relevant criteria when determining the most appropriate source of supply.

On the other side of the coin many large, geographically-dispersed suppliers are able to maintain a 'local' profile presence. This can then jeopardise the existence or survival of local entrepreneurs who could well be in a position to deliver superior quality goods or services at lower prices.

Buyers therefore, need to be aware of the broader considerations which come into play when considering the most appropriate source of supply. For instance while government policy is to support small and medium sized enterprises (SMEs), (one such example being the Department of Trade and Industry (DTI) Quality and Manufacturing Initiatives of some years ago) such policies are threatened by factors like the prevalence of national purchasing agreements which are able to deliver significant benefits such as greater cost efficiencies but which can also mitigate against awarding business to local suppliers.

CIPS Positions on Practice

CIPS views, opinions and beliefs are stated throughout the document; however the broad practice statements which underpin the text are as follows:

- CIPS recognises that purchasing and supply management professionals are often put under pressure to place business locally for reasons such as positive public relations; however CIPS encourages purchasing and supply management professionals to determine the best source of supply on objective and relevant criteria
- CIPS appreciates that public sector buyers need to comply with the EC Procurement Directives and not use geography as a basis for awarding contracts over the relevant thresholds
- During any sourcing activity buyers should normally also consider the benefits (and disadvantages) of choosing local suppliers

- Buyers should always be aware of the importance of keeping their supplier portfolios up to date, so enabling them to determine which purchases would benefit the most from local supply.

A Definition -What Do We Mean By 'Local Supplier'

At first sight the term 'local' may be defined simply in terms of geographical distance but the issue is not in fact quite that straight forward. Thus, 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 miles? 20? 55? 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. But 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 no one appropriate definition for 'local' in this context but for the purpose of this practice document the expression means 'based within easy reach of the buyer'.

Benefits of Using Local Suppliers

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

- 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. An associated benefit is that delivery costs are normally lower

Local Suppliers - Drawbacks Private Sector

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CIPS would suggest that when using local suppliers there is the potential risk of 'getting too close for comfort' especially if buyers find that the supplier's staff include company people they know socially and to whom they may even be related. This can obviously lead to difficulties in the supplier selection and contract award process (which to some extent can be overcome with a clearer ethics policy). Even without close connections of this nature, difficulties can still arise with local suppliers in the sense that if they fail to honour their contractual obligations, like any supplier, it may be necessary to terminate the contract which can lead to undesirable local publicity.

Further possible drawbacks to using local suppliers may include:

- A possible resistance to change
- Too great a dependence on the buying organisation which can lead to complacency in both the financial and technical sense
- 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. There are however, many benefits of using small suppliers and reference should be made to the CIPS practice document on small suppliers.
- 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.

Competent buyers should be able to assess the merits and drawbacks of using local suppliers and make sourcing decisions accordingly.

The Public Sector

The public sector must not discriminate on the basis of geography for any contract over the relevant threshold in the EC Procurement Directives.

However, the question of whether or not to buy locally has bedevilled local government for years - on the one hand there is the need to achieve (and be seen to have achieved) value for money and on the other hand, a desire to support local businesses. The dilemma has been brought back into the limelight by a) the introduction of Best Value, which has increased the need for local authorities to demonstrate that value for money is being achieved and b) by the growing influence of eCommerce which will greatly widen choice in the marketplace and put pressure on local companies to remain competitive.

The current emphasis on Best Value has made it more difficult to justify a decision to try and source purchases locally when at first sight the prices being charged would seem to indicate that this would be uneconomical. It is important therefore to calculate the true cost of a purchase, including its impact on the policy outcomes of the authority. The problem is however that the benefit often does not accrue to the department or individual making the purchase when there is a local sourcing decision.

CIPS would draw attention to the publication 'Developing Local Suppliers' produced by SOPO (Society of Purchasing Officers in Local Government) which puts forward a number of disadvantages in dealing with local suppliers which are particularly relevant to local authorities. Some of these (which may also be applicable to organisations in the private sector) include:

- The requirement, under the EC Procurement Directives, to award the contract to the most competitive tenderer regardless of location, and based on lowest price or MEAT (Most Economically Advantageous Tender)
- Paying more than you need
- Lower quality products and services
- Encouraging a false sense of security in local businesses and reducing their competitive ability
- Risk of discouraging innovation
- Risk of loss of probity and transparency

Developing the Local Market - Potential for Partnerships

CIPS would stress the importance of buyers keeping their supplier portfolios up to date, so enabling them to determine which purchases would benefit the most from local supply. If a local supply is readily available then well and good, but the likelihood is that an adequate local supply does not exist, in which case the buyer may wish to try to develop one.

Strategies for implementing this kind of approach include:

- Working with local suppliers in developing their business
- Buyers explaining to customers their reasons for using local suppliers
- Buyers encouraging their suppliers to extend the local supply chain by buying locally
- Buyers encouraging other buyers and bodies (Chamber of Commerce, for instance) 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
- Making local firms aware of their needs in advance through a PIN (Prior Indicative Notice) on the OJEC pattern
- Organising 'Meet the Buyer' events and inviting other public sector representatives to participate
- Holding supplier briefings for local companies about selling to the local authority

Conclusion - A Practical Example

Practical considerations which may arise in implementing a policy of purchasing from local suppliers may be illustrated by reference to the NHS (example taken from one particular Trust but has broader applicability).

In this particular 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 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.

The logo for CIPS Knowledge Works is located in the top left corner. It features a dark blue square with a white grid pattern of vertical bars of varying heights. Below the grid, the text 'CIPS' is written in a large, bold, white sans-serif font, followed by 'KNOWLEDGE' and 'WORKS' in smaller, white, all-caps sans-serif font. Below this, the words 'Knowledge Summary' are written in a white, sans-serif font.

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Within the health care sector there is an increasing reliance on national purchasing agreements where, from experience 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.

In conclusion, there are several benefits of using local suppliers which should be considered by the purchasing and supply management professional - but the final selection, irrespective of the sector within which the buyer is working, should always only be based on objective and relevant criteria.