

THE  
CHARTERED INSTITUTE OF  
PURCHASING & SUPPLY



## **PURCHASING CONSORTIA**

July 2003

## PURCHASING CONSORTIA

### 1 Introduction and Definition

It needs to be said at the outset that purchasing consortia\* are not a new idea. For many years farmers and other food producers, for example, have joined forces to maximise their purchasing power vis-à-vis their suppliers and it is from these relatively primitive beginnings that today's structured, very powerful purchasing consortia have evolved.

The following definition is based on the assumption that, in the UK at least, consortia are largely associated with the public sector:

***'A Purchasing consortium is a group of local (or similar) authorities. Such an arrangement may improve price, delivery etc from suppliers, but in doing so such authorities need to be aware of, and avoid conflict with, EU rules on competition.'***

(Source: *The Official Dictionary of Purchasing and Supply* by Compton and Jessop, Liverpool Business Publishing, 2000).

The above definition clearly relates primarily to the public sector. A more general definition, which also has applicability to the private sector, is as follows:

***'A Purchasing consortium ..... consists of two or more independent organisations that join together either formally or informally, or through an independent third party for the purpose of combining their individual requirements for purchased materials, services and capital goods to leverage more value-added pricing, service and technology from their external suppliers than could be obtained if each firm purchased goods and services on an independent basis'.***

(Source: Thomas E Hendrick, *CAPS Focus Study 1997*)

### 2 Success Factors

This co-operation lies at the very heart of the consortium concept. It follows therefore that for any given consortium to be a success, its members must ideally possess a number of characteristics which maximise the potential for such co-operation. For example there needs to be commonality in the items which the members purchase – clearly all organisations forming the consortium need to be in the business of purchasing similar ranges of items, whether it be office furniture, pharmaceuticals or engineering goods. More than that however, for the consortium to operate effectively there should ideally be a relatively high degree of standardisation of the items purchased within the given product range. Clearly it is much easier to exert leverage over suppliers if, say, 100 identical office desks are purchased than if the total of 100 comprises a variety of designs and finishes.

---

\* There is often confusion over whether the word is 'consortium' or 'consortia'. 'Consortia' is the plural form of "consortium" (the word is of Latin origin)

## **2.1 A long-term strategy is essential**

It is difficult to maximise the benefits of a consortium strategy in the short-term. Apart from anything else, members of alliances or partnerships, which are often a feature of consortia, need to develop mutual trust – inevitably this takes time.

## **2.2 Members of a consortium need to offer their support**

To ensure that a consortium operates successfully, the support of all its members is essential. This implies not only financial support, but also a willingness to allocate human resources to ensure smooth and trouble-free operation. It goes without saying that all members of the consortium give an undertaking that they will purchase from an agreed list of suppliers

## **2.3 Buyers and their purchasing departments need support**

By this, the author means the support from top management. If MDs or CEOs are hostile to the consortium arrangement then things almost certainly will not work out

## **2.4 Cultural fit**

It is probably self-evident that, just as (pointed out above) MDs and CEOs need to have a positive attitude towards supplier relationships/alliances, so too do individual members of the consortium; in other words they should ideally occupy a similar position on the continuum from supplier alliances and partnerships through to adversarial relationships; predictably this will be towards the ‘partnerships’ end of the spectrum.

## **3 Typical consortium structure**

Whilst consortia vary widely according to their membership and the products and commodities with which they are concerned, they have certain common features and characteristics. This has been confirmed by a questionnaire-based survey undertaken by CAPS (the research arm of ISM, the US counterpart of CIPS), from which the following findings have emerged (it is emphasised that in the US, unlike in the UK, the term ‘consortium’ tends to be applied both to the private and the public sectors):

- Most of the consortia surveyed (62%) had a relatively stable membership. If new members join they are likely to do so by invitation only
- The most usual procedure for day-to-day transactions is to release orders directly to the suppliers against a blanket contract previously negotiated by the consortium
- Respondents indicated that purchasing through the consortium produced savings of about 13%
- On average, it takes about 6-12 months for a consortium to become an effective procurement tool

Respondents indicated the following as being the main success factors:

- a high degree of trust among members

- consistently high perceived levels of savings
- members having similar buyer/supplier relationship philosophies

#### 4 What are the benefits?

The principal attractions of consortia, in addition to the widely acknowledged advantage of reduced price levels arising from economies of scale include:

- Reductions in suppliers' costs which in addition to the lower prices referred to above promotes higher levels of quality, improved service and the ability to allocate more resources to investment in new technology
- Sensitive financial and commercial information including costs, margins, etc is kept confidential from existing or potential competitors

There is also 'a high degree of trust and professionalism among consortium participants, as well as strong similarity/compatibility of needs, capabilities, philosophies and corporate cultures'

A more comprehensive list of benefits has been drawn up by Keith Yates in a paper presented at a past CIPS National Conference. They are (some are duplicated elsewhere in this document):

- increased purchasing clout/leverage
- increased competition among suppliers
- enhanced profile for the Purchasing function
- maximises the feasibility of achieving and maintaining high service levels
- provides a base for possible co-operative projects of a non-purchasing nature
- spreads the burden of costs associated with using specialist advisers
- facilitates the sharing of technical and commercial information

However, as always there are disadvantages, which include:

- limited leverage opportunities because of fixed specifications
- some suppliers have a reluctance to deal with consortia
- there is invariably a start-up lag before cost savings can be realised
- collection of the necessary data from individual consortium members can be very time-consuming

#### 5 A Few Myths

A number of common misconceptions associated with consortia is considered in an article which appeared some time ago in *Purchasing Today*. This was published by NAPM (subsequently becoming ISM (Institute of Supply Management) the American counterpart of CIPS, but some of the points raised are equally applicable to the UK commercial and industrial environment.

### **Myth 1**

#### ***'Buyers find it difficult to maintain effective control of the supplier relationship'***

The article takes the view that in a consortium most aspects of the relationship with suppliers remain under the control of the individual buyers; the key exception is price, which is of course the very reason for the existence of the consortium in the first place.

### **Myth 2**

#### ***'The confidential financial and commercial information of organisations will be made public'***

The author suggests that whilst a certain degree of openness between members of a consortium is essential for its successful operation, it does not by any means automatically follow that any of them should feel under any compulsion to make this information available to any outsiders

### **Myth 3**

#### ***'Supplier co-operation is poor'***

Suppliers invited to do business with a consortium may initially fear that to secure business they will have to make concessions which will adversely affect their bottom line. However, such reservations, justified or not, have to be seen in the context of a higher volume of sales which the consortium may reasonably be expected to generate

The two remaining myths highlighted in the paper, whilst applicable to the US, would seem to have little relevance to the UK. However for the sake of completeness they are recorded below:

#### ***a) 'They (consortia) are not legal'***

The author makes brief reference to the relevant American piece of legislation the Robinson-Patman Act, which in simple terms requires that 'favourable prices received by the purchasing group.....must also be available to comparable purchasers.....unless the pricing differential is cost-justified or granted to meet a competing supplier's price'.

In the UK, consortia do not infringe the law unless their power becomes such that they have the effect of distorting the market.

#### ***b) 'There is a penalty for early withdrawal'***

As far as CIPS is aware there is no financial penalty attached to early withdrawal from a consortium. However, depending on the spend of the organisation, withdrawing it may be necessary to renegotiate price-levels with suppliers.

## **6 Public Sector Consortia**

### **a) Local Authorities**

To quote from a paper published by Paul Gaster Consultancy, purchasing consortia were set up:

*'.....to take advantage of the enormous collective buying power they represent and negotiate economically advantageous framework contracts with suppliers. Part of the service they offer is that they tender in line with EC Public Procurement legislation, freeing the individual organisations from the need to conduct the tendering process themselves, .....and to take responsibility for appraising new*

*products and checking out potential suppliers to an extent which may prove to be problematical for smaller purchasing units'*

The larger consortia such as YPO (Yorkshire Purchasing Organisation) publish comprehensive product catalogues, providing consortium members with a ready-made sourcing tool.

A list of local authority consortia appears at Appendix 1

## **b) Higher Education Sector**

Among the reasons why consortia are appropriate for university purchasing are (it will be noted that some of these reasons also hold good for private sector co-operative purchasing):

- volume leverage where total spend is aggregated to maximise attractiveness to existing and potential suppliers
- similarities of needs and requirements between member institutions
- minimises problems arising from the shortage of the necessary purchasing skills in universities - it is a relatively straightforward task to spread the limited purchasing expertise in universities more widely if a consortium arrangement is in place
- reduces the risk of suppliers setting unjustifiably high price levels

For consortia in universities to be successful there are a number of key requirements (again some of these are echoed in the private sector):

- the decision to co-operate must be voluntary
- autonomy of the institutions in the consortium must not to be compromised
- all members of the consortium should see some benefit to themselves in the proposed joint arrangement
- whilst unit price is important, total cost is also a factor that needs to be borne in mind
- full and regular exchange of information needs to take place

## **7 Performance measurement and best value**

To an increasing extent purchasing consortia are being affected by the best value ethos now prevailing in local government. This is a trend well illustrated in a paper 'A Quart from a Pint Pot – Developing the Effective Use of Consortia' by J Ritchie and T Chadwick, presented at the 1999 IPSERA conference. The theme of the paper, written with close reference to practical experience at the London Universities Purchasing Consortium (LUPC), is that a 3-stage process is recommended for bringing about best practice in as short a time as is realistically possible:

- Stage 1:** Introduction of Best Value supply agreements for goods and services, incorporating the principles of total life costs
- Stage 2:** Best Value supply agreements which include the supply chain process costs

**Stage 3:** The provision of value added services

The authors expand the above stages along the following lines:

i) The importance of taking whole life costs into account in any agreement the Consortium may enter into regarding the purchase of goods and services is emphasised. To illustrate, the authors use the example of the agreement entered into by LUPC for the purchase of PCs, which took into account the total cost of ownership over a three year period. Once the initial price-based evaluation of the tenders submitted by suppliers had been carried out, LUPC applied a further set of criteria which included:

- references from other customers of the suppliers under consideration
- quality considerations including post-delivery service and 'year one' failure rates
- in-depth supplier appraisals
- technical assessments undertaken by all members of the consortium

LUPC used their experience in this particular case as a learning curve to improve their expertise for further Life Cycle Costing-based procurement decisions.

ii) The authors suggest that consortium agreements should take process costs into account in the supply of goods and services; they take the view that 'process cost savings covering the supply chain process from order to invoice payment represent a very substantial area to influence through professional procurement'. The principles and parameters involved are illustrated by reference to a 'one stop shop' or 'managing agent' agreement for the purchase of laboratory supplies.

In addition to the usual evaluation and assessment criteria associated with whole life cost agreements, other factors and criteria taken into account included:

- drawing up a list of laboratory supplies at 'best value' prices
- the ability to communicate electronically
- the progressive involvement of further suppliers in the laboratory equipment market

iii) Provision of Value Added Services

The provision of such services exemplified by the LUPC approach includes:

- giving professional advice on procurement including information on the EC procurement regime
- the development of best practice guides and the production of model terms and conditions
- advice on the recruitment of procurement staff and the development of appropriate training programmes
- an assessment service for applicable third party agreements especially in terms of quality standards and legal compliance

The authors conclude by underlining the importance of the adoption and use of effective measures not only for assessing consortium performance in its own right but also to

provide the groundwork for the development of any benchmarking programmes which may be considered appropriate. As far as LUPC is concerned it is emphasised that in future increasing emphasis will be placed on qualitative, as opposed to quantitative, methods of assessment.

## **8 Legal aspects**

Legislation relating to anti-competitive trading practices is traditionally aimed at suppliers. However, in the discussions relating to the implementation of current UK and EU competition legislation, the Director General of the OFT has expressed concern at collusive tendering between buyers to dictate prices and terms to suppliers; agreements between members of a consortium may of course be interpreted in this way. There is however, a direct UK equivalent to the US Robinson-Patman Act, referred to on page 4.

## Appendix - List of Local Authority Consortia

**These are as follows:**

### **Central Buying Consortium**

Northants County Council  
Gambrel Road  
Northampton  
NN5 5BB  
Tel 01604 611504

This, the largest of the local authority buying groups, comprises 17 councils in such areas as Coventry, Northants, Bucks, Oxfordshire, Kent and Southampton

### **Consortium for Purchasing and Distribution Ltd**

PO Box 1170  
Trowbridge  
Wilts  
BA14 8XX  
Tel 01225 771350

Based in Trowbridge, the CPD is able to supply goods and services throughout the UK

### **Counties Furniture Group**

CFG Design Office  
The Shirehall  
Abbey Foregate  
Shrewsbury  
SY2 6ND  
Tel 01743 253371

CFG has approximately 70 local authority members and is based in Shrewsbury

### **Eastern Shires Purchasing Organisation (ESPO)**

Leicester Road  
Glenfield  
Leicester LE3 8RT  
Tel 0116 265 7878

As the name suggests, ESPO covers the East Midlands and includes Leics, Lincs, Cambs and Norfolk

### **Kent County Council Commercial Services**

30 Gibson Drive  
West Malling  
Kent  
ME19 4QG  
Tel 01622 605352

This is the Kent CC purchasing and supplies organisation which in addition to Kent, serves Sussex, Surrey and many of the London boroughs

**Local Authority Purchasing Partnership**

Stockport MBC  
Finance Division  
Corporate Purchasing Office  
Birdhall Lane  
Stockport  
SK3 0XS  
Tel 0161 304 4429

The former name of GMPC (Greater Manchester Purchasing Consortium) accurately describes its area of coverage

**North Eastern Purchasing Organisation (NEPO)**

Stonehills  
Pelaw  
Gateshead  
NE10 0HW  
Tel 0191 495 0933  
NEPO covers Tyneside, Teesside, Wearside and the surrounding area

**Welsh Purchasing Consortium**

Rhondda Cynon Taff CBC  
The Pavilions  
Cambrian Park  
Clydach Vale  
Cardiff  
CF40 2XX  
Serves the 12 constituent authorities in the principality

**West Mercia Supplies**

PO Box 265  
Shrewsbury  
SY3 5WR  
Tel 01743 227302  
Shropshire, Hereford and Worcestershire are the main areas covered

**Yorkshire Purchasing Organisation (YPO)**

41 Industrial Park  
Wakefield  
WF2 0XE  
Tel 01924 824477  
Covers County Councils, District Councils and Metropolitan Boroughs in Yorkshire as well as in adjacent parts of Lancashire

**Source: Municipal Yearbook 2002**

For further information and references on this subject contact the Professional Practice Team at CIPS for subject searches on our OLIB library system. Examples of keyword/title search results include:

- Case studies
- Articles

- Conference papers
- Books
- Websites