



IEM Group, Inc

3003 Summit Boulevard
Suite 1500
Atlanta, GA 30319

404.460.7050

www.IEMcorp.com

Business Insights

Volume 4 – April 2004

How can We Benefit from Cooperative Buying?

Definition – It's not a new idea

Cooperative Purchasing, Buying Groups, and Purchasing Consortia are all terms for the same broad concept. Two or more legally distinct and independent organizations determine to join together for the purpose of 1) leveraging their combined spend, 2) improving the responsiveness from suppliers, 3) learning best practices and commodity expertise, and 4) improving their knowledge of the optimal purchasing and legal processes and procedures.

Examples range from earlier groups of farmers to more recent hospital groups, large companies in geographical proximity, and even the concept of wholesale distributors. More recently, the trend of outsourcing procurement or logistics utilizes similar concepts to provide a lower cost solution. Today, non-profits, for profits, and even governments are pursuing Cooperative Purchasing. For example, Most states have either "Interlocal Cooperation" or "Joint Powers" authority in their statutes that allows entities from one state to purchase and cooperate with entities from another state.¹

Why doesn't every Firm use Cooperative Purchasing?

That is a great question! In our opinion, the typical reasons include:

- ❑ Concern over the Unknown
- ❑ Concern of a Loss of control
- ❑ Concern of Legal Constraints:
- ❑ Concern of Supplier Reactions
- ❑ Large suppliers may resist, in order to maintain their higher margins
- ❑ Firms already have Preferred Relationships which are highly leveraged

However, the answers to these concerns actually demonstrate how you may be increasingly at a competitive disadvantage not to participate!

When to use Cooperative Purchasing

Like many good ideas and fads, not understanding when, why, how, and with whom frequently leads to disappointing results. Whether procurement outsourcing, a form of cooperative purchasing, or cooperative purchasing, "the majority of the press, statistics, and interest being generated comes from aggressive messages and marketing from providers."²

Most large consulting houses depend on fads to grow their business. In the area of supply management, these consulting companies (most of whom had developed large IT outsourcing and solution sales expertise) began selling the hype of E-Procurement. When the reality of frequent negative ROIs and limited functionality became apparent, they shifted to selling the idea of Marketplaces. When the Marketplaces failed in the dot com bust, they shifted to BPO (business process outsourcing) for procurement. The primary reason why they have not focused on cooperative purchasing is that they cannot generate the same margins. Don't expect major press and interest from solution providers on cooperative purchasing.

All of these fads have value. None are the silver bullet that consultants would like you to believe. Companies need wisdom to

¹ "Cooperative Purchasing in the 21st Century", by Bob Wooten, Inside Supply Management, February 2003, pp. 4-5.

² "Procurement Outsourcing", Sourcing Interests Group, 2003, pp. 1-3



focus on what are realistic expectations versus being led down the next “good idea” that is poorly implemented or continues to create a negative ROI on a total cost basis (including the cost of your people’s time).

So, when should you consider cooperative purchasing? Only after you have internally optimized your supply management organization. Otherwise, you may be leaving money on the table and losing competitive differentiation.

Cooperative Purchasing leverage for common items...find out more by contacting the IEM Group today!

IEM Group, Inc.
3003 Summit Blvd., Suite 1500
Atlanta, GA 30319

Phone: 404-460-7050

www.IEMcorp.com

What is the IEM Group Value Proposition for Cooperative Purchasing?

- ❑ **Experience**
 - Broad Business Background and Acumen
 - Knowledge of how to work with multiple cultures and languages globally and across divisions
- ❑ **Focus**
 - Common internal requirements (Indirect Expense Management™)
 - Highest Perceived Quality at the Lowest Total Cost
- ❑ **Results**
 - Routinely exceed industry standards
 - Development of leading edge paradigms
 - Elimination of maverick spending
- ❑ **Vision – The Indirect Expense Management Company™**
- ❑ **Mission – Create Client Competitive Advantage by Increasing Client Profits and Productivity**