

# BUYING GROUP PRODUCT CATEGORY COMMITTEES

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This whitepaper outlines a tried and true process for getting the best supplier programs – Product Category Committees.

# BUYING GROUP PRODUCT CATEGORY COMMITTEES



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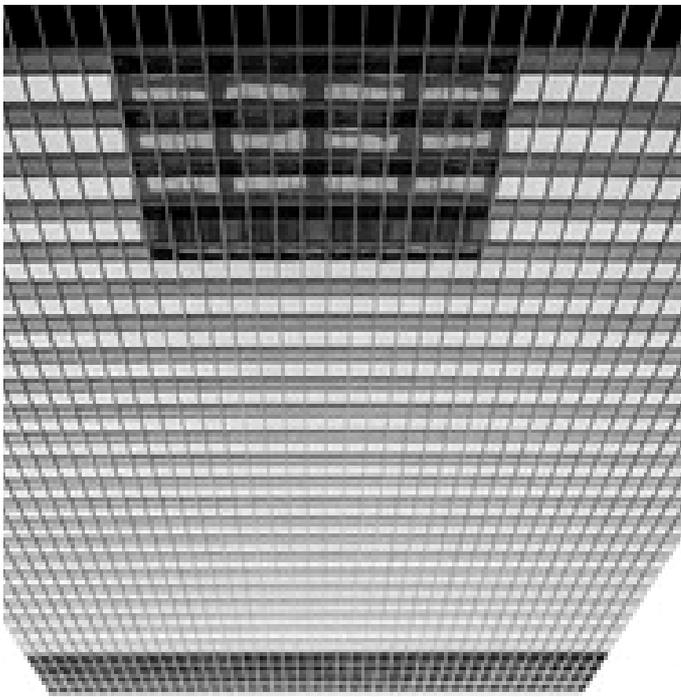
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**Manage**

## Executive Summary

The primary function of a buying group is to facilitate the creation of the best supplier programs for its members. A buying group brings value to its stakeholders when quality programs are in place that improve member profitability while creating growth opportunities for suppliers. There are many ways buying groups perform this function. Some groups perform the function on behalf of its members while others leave it up to the members to do.

This whitepaper outlines a tried and true process for getting the best supplier programs – Product Category Committees. The primary function of a buying group is to facilitate the creation of the best supplier programs for its members.



## **Let's define Product Category Committee first.**

*A Product Category Committee is a select group of buying group members that have a vested interest in the product category being reviewed.*

The key is to engage members in the process to ensure the members own the final selection. When product committee members 'buy-in' to the supplier selection, they will move business to the supplier (or continue buying from the supplier), endorse the supplier, and encourage other members to do the same. Even if the committee member does not move their business to the selected supplier, for reasons covered below, the member's endorsement will motivate other members to move their business. That means more rebates for the group and growth for the supplier – a true win-win!

Ideally, each product category committee member should represent a significant amount of purchases for at least one of the suppliers. The members must be willing to help 'coach' the supplier they are currently purchasing from and make sure the supplier understands the value of the group and the value of the opportunity to present to the group. The members must understand that they are there to represent the buying group. The member probably doesn't purchase from all suppliers included in the category review and will have a natural bias towards one of the suppliers. However, the member is there to select the best supplier for the betterment of the group overall, not just for their business. This is a key tenant to this process and each member must understand why this is critical.

This is not a price evaluation. When a buying group tries to negotiate pricing for all its members, they are doing a disservice to the purpose of the group. Members negotiate pricing on their own, but negotiate rebates as a team representing the buying group. This concept is referred to as Locally Competitive Pricing per Member Marketplace. For more on this concept, please see the BGS Rebate Writeup-Group Pricing.



# Buying Group Management Role

The buying group management is tasked to facilitate and ensure the process is going as planned. It will remain neutral throughout the process but will encourage engagement from both suppliers and committee members. Remaining neutral is a key point, because the members are the experts in using and selling the products being reviewed. In addition, the members are the ones that need to own the final selection, and the selection must be based on the best interests of the group, not the member and not the buying group management team.

Here is an overview of the process:

Prepare	Select	Rollout	Expand	Manage
<ul style="list-style-type: none"><li>• Select Product Category</li><li>• Establish Product Committee</li><li>• Select Suppliers</li><li>• Prepare Suppliers</li></ul>	<ul style="list-style-type: none"><li>• Supplier Presentations</li><li>• Refine Supplier Offers</li><li>• Select Final Suppliers</li></ul>	<ul style="list-style-type: none"><li>• Process- Owner vs. purchaser. How to influence the purchasing decision of the organization</li><li>• Tracking</li></ul>	<ul style="list-style-type: none"><li>• Repeat process with other categories</li><li>• Add more Product Committees as needed</li><li>• Leverage meetings</li></ul>	<ul style="list-style-type: none"><li>• Repeat process for key categories annually</li><li>• Review smaller categories periodically</li></ul>

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# Prepare

## Selecting Product Categories

The first product categories to be reviewed will depend on the maturity of the buying group or the existing process. For example, if a buying group is brand new, or new to this process, the most challenging product category probably is not the best category to select.

At this stage, the goal is twofold:

1. Establish the product committee process
2. Get a win on the board for the group

Ideally, the largest product category should be reviewed first. However, if the category has several dynamics that create complexity in the purchasing decision, that category should not be the first in the review process. Dynamics include significant switching costs for members, suppliers with defined geographical sales boundaries, or large capital expense products. The product category should be straightforward when it comes to the purchasing process and significant for the group as a whole.

The best way to start is to list all the categories purchased by the group. For each category, identify the amount of spend for the group, rank the category by overall purchases by the group, and add a complexity ranking. The complexity ranking is based on the purchasing dynamics listed above and can be as simple as high, medium, or low. Start with a category that is in the top 3 to 5 in terms of purchases, as well as having a medium or low complexity. Group purchase volume might not be available, so the final category selection will need to be validated by the product committee.

Using a survey is a great way to get more information about the categories and the suppliers within each category the members are interested in and have the purchases to support. The surveys can be conducted anonymously if the group is concerned about getting accurate information. Here are some examples of surveys:

- List of categories that members would like to add.
- Annual purchases by category.
- List of suppliers in a specific category that members would like to add.
- Annual purchases by supplier in the category.

The best information is to have the actual purchases by each member or at least for the group. This is extremely valuable when working with suppliers in the supplier selection phase. Without this information, the suppliers will have to be provided with an estimate. It's always better to be able to back up the amount of spend.



If a supplier is not in the buying group, they may or may not know which members are in the buying group and may figure out how much spend they are currently enjoying. However, the supplier will not know how much spend is going to their competitors. That part of the equation really helps the supplier understand their true growth opportunity. The specific competitor information should not be shared, but the supplier should understand the potential of converting the group's competitive spend. At this point, the savvy suppliers will focus on partnering with the group to find ways to get that competitive spend converted.

# Establish Product Committees

The purpose of the committee is to identify, evaluate, and select potential Preferred Suppliers to supply the group within a specific product category. For groups starting out, there can be multiple product committees, each with a focus on a different product category. The members for each committee are specifically picked to achieve the best results. For an individual product category, the committee members act as the product experts and will review each supplier's proposal to the group.

The best committees are formed by a group of members, with each member purchasing a significant amount from at least one of the suppliers included in the review. In addition, members of the committee should represent the top purchases in the category for the group and will include 4 to 6 members. The suppliers included in the category review should be vetted and confirmed by committee.

Once the suppliers are confirmed, the members should make the initial contact with the supplier to let them know about the invitation to present and determine if the supplier is interested in being part of the process. The member contacting the supplier should then become the 'coach' for that supplier.

The buying group management will then educate the supplier on the process and provide the detailed agenda for the presentation to the Product Committee. At that point, the coach's role is to make sure the supplier understands why this is important and ensure the supplier is clear on what's at stake.



# Selecting Suppliers

Suppliers will include current suppliers to the group as well as companies that are not currently part of the group. This is a negotiation process for the betterment of the group, so all suppliers that fit the criteria should be selected. There should be specific criteria established for inclusion of suppliers. The criteria will evolve as the group evolves, so the initial criteria will probably not work long term because of the changing needs of the group.



# Suppliers Preparation

The buying group management will help the suppliers prepare for the review. The supplier will be provided with the format for the review, which will include the program elements of the deal. Components include product offering, payment terms, competitive position of their brand, service levels, fill rates, returns policy, freight policy, locally competitive member marketplace pricing policy, group volume plateau rebate level programs, and any other pertinent information. The same agenda and requirements will be provided to each supplier presenting in a product category.

The supplier should also be encouraged to add a partner component to the presentation (as discussed above). The members don't just want rebates from suppliers. They want to find ways to grow their business and figure out ways to get business from their competitors. Good suppliers are good doing this. The supplier should include details of how they plan to help the members do this. For example, the supplier might commit to allocating x% of his sales team's time to make end-user calls with the members' sales people. Another example might be providing training programs on products and sales conversion techniques. However, the supplier should not provide training during the presentation!

The buying group management will review the proposal of each supplier and ensure all elements required are met as well as make sure the presentation stays on point (i.e. does not include product education/selling).

# Select

## Supplier Presentations

The product committee will review overall program components including the proposed rebate programs, for each supplier presenting a product category.

The preferred method for the review will be in-person meetings with the committee and the suppliers participating in the review. Face-to-face discussions are the best way to negotiate and the member travel costs should be funded by the buying group. The suppliers will 'pass each other' in the halls as they rotate presenting to the group, which encourages competition. Also, the member 'coach' for the supplier can provide feedback to the supplier after the review has been completed. Without violating any of the confidentiality policies of the buying group, a good member coach will let the supplier know about any changes or improvements that should be made in order to be in the running to capture the business of the group. It's up to the supplier to take this feedback and modify their proposal.

The committee asks questions during the presentations, but will not decide which supplier, or suppliers, will be the Preferred Supplier(s) for the product category at the meeting. The suppliers will have a chance to review and refine their offers. The committee will reconvene at a later point, in person or by conference call, to review the refined offers and make their selections.

## Refine Supplier Offers

The supplier will receive feedback during the presentation and after the presentation by their 'coach'. At this point the supplier has a chance to modify their offer. If needed, suppliers will be asked to price a market basket of products at locally competitive prices, as if being sold to a specific member based on a specific annual purchase volume. The pricing will be reviewed to determine if the like products from each supplier are priced competitively and how they compare to the pricing currently being paid by that member from their current supplier.

This is really a 'check' to make sure a supplier didn't increase prices to offset a larger rebate, as well as to confirm that they are locally competitive for that member. The entire financial package needs to be evaluated, including margin for the member, payment terms, rebates, marketing, and any other financial offers put forward by the supplier. This is not a price negotiation for the buying group, just a verification that the supplier is maintaining locally competitive market pricing for this selected member's marketplace. This process may need to be completed again in different geographical regions of the country depending on the nature of the product category.

## Selecting Final Suppliers

Depending on the need and the program elements offered, one or more suppliers can be selected as 'preferred' suppliers. Other suppliers might be selected to be part of the group, but are brought onboard as 'listed' suppliers. The key difference is that 'preferred' suppliers will have a better financial offering for the members. However, the 'listed' supplier will still offer a program that many members can take advantage of. This is a key component when dealing with large switching costs.



# Rollout

## Process

Once the supplier or suppliers have been selected to represent a product category, buying group management will create a rollout plan. Key elements of the plan will be:

### 1. Supplier value proposition

- The core of the communication to members is the supplier's value proposition. Members might already know the supplier, but they might not fully understand the new value proposition the supplier is now bringing to the group. A clear value statement will be the key to the communication regarding the new supplier. It should include the product benefits, program benefits, and financial benefits (for owners only).

### 2. Communication to the members

- The member owner will need to understand the details of the deal. The written communication should not include the rebate details (see Rebate writeup for more information on why these details are not put in writing).
- The non-financial components should be in writing, but the financial components should only be communicated verbally to the owner. It's up to the owner to determine who else he feels need to understand these details. The owner is the one that will have to drive behavior by the member organization and communicate why the supplier was selected and what's in it for the member business.
- The purchaser will need to be influenced to actually start making the purchases from the newly added supplier. This influence is best coming from the owner, but depending how the member is organized, the purchasing organization might need to understand some of the financial components of the detail. This will be up to the owner.
- The purchaser will need the non-financial components of the detail so they understand how to contact and order from the supplier if a relationship doesn't already exist.

### 3. Supplier Support

- The supplier should clearly identify what type of support they will provide to the group. The supplier should identify how they are going to help identify conversion opportunities for members.
- The supplier is joining the group for the growth, so members need to understand the path needed to provide a growth opportunity for the supplier.

### 4. Supplier Communication

- The buying group should meet with supplier sales people to make sure they understand who the buying group is and what the advantages are of being a preferred or listed supplier to the buying group.





## Tracking

It's likely that the supplier is already doing business with some members. This is a good baseline to track the supplier's growth with the group. Leveraging central billing will help identify which members are utilizing the supplier and which ones are not. A member might have good reasons to not utilize a supplier (switching costs, etc.), so this will need to be incorporated into the analysis. However, some members might not fully understand the new value proposition of the supplier, since they've become a Preferred or Listed Supplier with the group.

Tracking progress every month for the first year of a new supplier will help identify which members are not supporting the group by using the supplier. Three months after the supplier joins, members not using the supplier should be contacted to understand why they are not using them. The supplier value proposition might need to be communicated again to all members.

*Tracking progress every month for the first year of a new supplier will help identify which members are not supporting the group by using the supplier.*

Another advantage of tracking new suppliers is taking full advantage of the growth rebate offered by the supplier. Each month, the members should know how close the group is to achieving different thresholds of a rebate growth program of a supplier. Tracking is a key element to optimizing this. If members know they can help achieve a higher group rebate plateau level with their additional purchases, they will figure out how to buy and or sell more to help hit the next rebate level and generate the additional benefits.





# Expand

## Debrief

Before expanding the process to new categories, debrief with the team to identify what worked and what didn't.

Take these lessons learned and adjust the process.

## Repeat Process

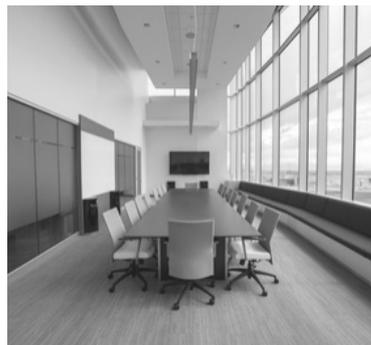
As a group becomes more familiar with the Product Category Committee process, the members will see the value and want to be more involved with the process. Members will start to lobby for the next category to be reviewed.

## Add more Product Category Committees

Depending on the size of the buying group, there is an opportunity to create several product committees. The purpose would be to review more product categories in a shorter period of time. This is especially valuable for new buying groups or buying groups new to this process. The buying group management must be able to support multiple committees, so know your resource limitations before adding too many committees.

## Leverage Meetings

Take advantage of annual meetings! Most buying groups have an annual meeting that suppliers and members attend. This is a great time to review smaller product categories. Both members and suppliers have already paid for their travel to the meeting, so the costs can be significantly reduced for the buying group. Make these reviews the day before or the day after the official start or end of the meeting. Not all members or suppliers will be involved, so treat this as a special invitation for those participating in the reviews.





# Manage

## Repeat the Process for Key Categories

Suppliers should be evaluated annually to ensure they are meeting expectations of the group. If suppliers are satisfying the expectations of the group and its members, they should be given the chance to fully benefit from the contribution that they've made to the group by having their agreement for an additional term without any competing suppliers displacing them in their product category.

If suppliers are not doing what's expected, it might be time to review the category again, and to give other suppliers, who might want a shot, a chance at securing the business. A review of product category should happen before the expiry of their agreement with the group.

Competition between suppliers is great for the group and provides a chance to increase rebates and/or improve the supply chain through cost reductions for the members. However, if suppliers are performing, they need an opportunity to benefit from the initial commitment they made by supporting the group to begin with.

## Establish an Ongoing Product Committee

Once the group feels they have the right suppliers in the right categories, a product committee should continue to be used to help manage the group. For example, this committee could be given the power to add "listed" suppliers for smaller categories when needed. Suppliers will always want to be part of the group and it might be a good idea to add a smaller supplier with a great offering. Instead of going through the product category committee process, it might make a lot of sense to put the ongoing committee in a position to approve "listed" suppliers.

Additionally, the product committee can help the group determine when reviews of existing suppliers should be held. They can also help in resolving issues with current suppliers or suggest supply chain improvements.

## Review Smaller Categories Periodically

Smaller categories don't always stay small. Tracking and monitoring member purchases from group suppliers, helps the buying group understand where the opportunities exist.



# Best Practices In This Whitepaper Were Developed by



## **Buying Group Services Inc.**

Buying Group Services Inc. (BGS) is a leading firm specializing in the formation, development, and operation of Buying Groups. We manage Buying Groups into achieving competitive buying power with primary focus on providing services across North America. BGS has collectively been working for, members of, or suppliers to buying groups and purchasing cooperatives for a combined total of over 100 years.



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