

# CHAPTER 14

## Purchasing Cooperatives



### Practice

Health care and restaurant franchises have been quicker than schools to join purchasing cooperatives. This dialogue explores some of the reasons schools have not joined cooperatives.

**"I am not sure about all this conversation related to forming a purchasing cooperative."**

*"I know, I have mixed thoughts. I need to reduce cost, and from all reports that probably would be possible if several small and medium size districts combined our purchasing dollars."*

**"I have heard reports that the cost of administering the cooperative exceeded the cost savings."**

*"I read an article that indicated that building a warehouse was what usually caused that problem."*

**"I read that same article and they said that the cooperative had to be large enough to gain the attention of manufacturers."**

*"Yes, but the article did not say how big."*

**"One of the things I worry about is losing the flexibility to try new products. With a captive audience it is important that I introduce new foods often in order to keep the customers from getting bored."**

*"I talked to one supervisor who said you do have to be flexible in the products you use to gain the price advantages of joining a cooperative."*

# CHOICE

**"Yes, a supervisor told me that joining the cooperative forced them to find new ways to use products, rather than purchasing a different product. She said the cooperative provided a lot of assistance in finding new, more flexible products."**

*"I have heard several people say that joining a cooperative saved them time and therefore they had more time to devote to other tasks like marketing and food presentation."*

**"I have to be honest and admit that one of the reasons I am resisting joining a cooperative is that I do not want to give up control of the purchasing task. I realize I have to overcome that bias, because food has gotten so complex I need help in writing product descriptions and using some of the more innovative purchasing systems."**

*"The other day I went by the county co-op to buy some tomato plants and I thought to myself, this is a perfect example of a successful cooperative. The county co-ops were formed by farmers many years ago to get better prices and quality in seed and other farming needs."*

**"I would have to convince the superintendent and school board that we should join."**

*"Almost everyone you talk to who has joined a cooperative says they would never go back to purchasing as an independent."*

**"Selling them would be just like everything else you present. I understand the cooperative administrator gives you a lot of support in developing your presentation."**

*"Perhaps we could use the need to apply principles of food safety to the purchasing function as a reason to join a cooperative."*

**"Evaluation of vendors and product protection is an area of practice where I need additional support."**

The food service administrator in most school districts must be a combination of nutritionist, accountant, personnel manager, maintenance supervisor, food technologist, food

sanitation supervisor, and technology specialist. Large school districts may have a staff of individuals who specialize in each of these areas, but in small and medium sized districts the

limited number of staff and the diversity of skills required present some complicated opportunities. Information

Today the typical food service operation purchases more than 500 food items to meet the demands of students and other customers. With the continuing development of a wide array of processed food products, it is impossible for one person to keep adequately informed of the products available. Just when you think you understand the characteristics of a product and can determine comparability, the manufacturing process or ingredients change. When analyzing this dilemma you realize that chain restaurants do not develop food descriptions in the local units. One of the things the franchise fee buys is the expertise of the corporate headquarters staff.

Schools do not have corporate headquarters. Perhaps purchasing cooperatives can serve in this role.



The 1996/97 USDA school food purchase study indicated the share of school districts participating in cooperative buying programs had grown dramatically since the 1984/85 study. In 1996/97 more than one-third of all public school districts participated in cooperative buying compared to fewer than 10 percent in 1984/85. The study further indicated that, although small school districts are the most frequent participants in cooperative buying, almost one-fourth of the large districts took part. Participating districts reported

buying more than 60 percent of their food purchases through cooperatives.

Purchasing cooperatives offer a partial answer to the product knowledge dilemma. Each member of a purchasing cooperative brings to the purchasing team a knowledge of products for the collective benefit of all school districts. Furthermore, the

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benefits of purchasing cooperatives can extend beyond purchasing. When food service administrators meet to work on cooperative business, they can use the opportunity to address other problems in their school districts.

A purchasing cooperative's success depends on the flexible attitude of its food service administrator members. Members need to accept some changes in order to reach a cooperative's full potential in terms of cost savings, service and quality improvements.

## CHOICE

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Flexibility can be minor the way granulated sugar is packaged, for example or as complicated as choosing the ingredients for a chicken nugget.

Each of the school district representatives in a newly created co-op must make a strong commitment of time for the first two years. During the first year, combining the product lists and specifications, testing products and projecting quantities will take the most time. Each food service administrator must be satisfied with quality decisions of the cooperative since the administrator's primary responsibility is the quality of the food served in the individual districts.

### Cooperating without forming a cooperative

There are many ways school districts can cooperate to improve the purchasing process without a legally constructed purchasing cooperative. Working together on common purchasing projects allows a group of school districts to determine if they would like to move to a more formal purchasing cooperative.

Some of the common purchasing projects which schools can implement:

- ▲ Complete a comparison of products currently used by each school district.
- ▲ Plan and attend a product knowledge improvement workshop.
- ▲ Develop common descriptions of the products to be purchased.
- ▲ Develop common formats for bid forms.
- ▲ Screen products for prior approval of brands.
- ▲ If state law permits and vendors agree, one school district could purchase at the price bid for another school district.
- ▲ The group could issue one bid and receive one response from the vendors, with each local school district (or school board) making a separate bid award.

Although school districts can make improvements through cooperating, real cost savings will not be realized until a single purchase entity is formed. Cost savings and service improvements reach maximum potential when the economies of scale are applied.

### Legal counsel

Legal counsel with purchasing experience will be necessary to the co-op. Most state laws require some type of formal agreement between districts who join a cooperative. The laws related to cooperatives vary widely



**LEGAL  
BRIEF**

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among states. One of the first steps in forming a purchasing cooperative is to research the laws of your state. Having the assistance of legal counsel with purchasing experience during this process is important to success.

In addition, increased competition and the resulting drop in food costs lowers vendors' tolerance for errors in bids. Vendors overlook bidding errors for a single district, but press a point with a cooperative. Most cooperatives will require counsel during the bid award process.



### **Guidelines for successful purchasing cooperative operation**

- ▲ In a traditional food purchasing market, a small or medium-size district has to purchase whatever is available. Changing to a cooperative gives the member districts a combined buying volume that allows them to influence some of what is available in the market place. To maximize buying power, the group should reach agreement on the products that are purchased. As an example:
  - (1) Five brands of breaded chicken nuggets are approved.

**To maximize buying power, the group should reach agreement on the products that are purchased.**

- (2) The bid should be awarded to only one brand.
- (3) All districts must purchase the brand awarded the bid.
  - ▲ Consensus should be reached on as many products as possible.
  - ▲ Member school districts should never purchase items off the cooperative bid, if a similar product is available on the cooperative product list.

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- ▲ Cooperatives should provide a method for member school districts to purchase all items necessary to produce their menus. A cooperative that provides a means for purchasing only the high volume products could increase the total food cost for member districts. The member school districts could pay more for low volume items because the minimum order size decreased.

## CHOICE

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- ▲ After the initial organization year, the member school district should not be required to forecast the quantity it will purchase each year. The cooperative should be able to use historical data to predict the quantities required. The cooperative should monitor the quantities purchased against quantities bid.
- ▲ Operating a certain way over a period of years creates a comfort zone. Change makes people uncomfortable. Natural resistance to change often prompts school food administrators in other districts and the vendor community to try to "divide and

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conquer" the cooperative. To combat this, during the formative stage the cooperative should elect a single spokesperson and refer all questions to that individual.

Although manufacturer's or distributor's management supports a cooperative's objectives, distributor's sales representatives may see a threat of reduced commissions. The street representatives and broker community tend to try the "divide and conquer" approach with new cooperatives.

- ▲ Informed upper management and school boards are essential to the success of a cooperative. Many sources will pressure the school district representative to the cooperative and, if unsuccessful, will try to escalate the issue upward in the organization. If upper management and the school board are informed they will support their representative. Early indication of understanding and support will discourage opponents from going over the cooperative representative's head.
- ▲ A central menu for the cooperative is not necessary to operate successfully. If a central menu is a long-term objective of the cooperative, delay implementation of the menu for a minimum of two years. During the formative years of a cooperative there are many issues on which the member districts must reach consensus. Reaching consensus on menus is not critical to success. It is best to delay this discussion until the member school districts have developed strong working relationships. A new cooperative

group, like any group, can be overwhelmed by too much change.

- ▲ The cooperative can maintain one nutrient data base for the commercially purchased items to support the member school districts' menu planning.
- ▲ The cooperative should analyze delivery requirements (directly to a food preparation site vs. a central warehouse or storeroom) for consistency. An easy method for analyzing delivery requirements is to determine the average invoice amount for all sites. Study carefully wide variations in the average invoice amount of a delivery. Large central preparation kitchens and school districts that operate central warehouses, with the capacity to receive full- or mixed- truckloads of products, often result in large average invoice amounts. Including these large delivery sites in the same bid with smaller delivery sites probably is not feasible.
- ▲ Determine which steps in the purchasing process are controlled by the local school board and which are mandated by state law and apply to all member districts. State laws and the local board processes that cannot be changed influence the time lines and procedures of the cooperative.
- ▲ The quality of the first "request for prices" influences, to a large degree, the cooperative's reputation. The instructions that

explain how the bid award decision will be made should be very clear. Will one bid award be made, or will each member school

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district make a separate award? Good communication with potential vendors is very important at this step in the process. Convince vendors that member school districts are speaking with one voice.

- ▲ The majority of cooperatives have member school districts place their orders directly with the successful vendor. In order to better manage the business of the cooperative, a long range objective should be to use technology to manage order placement for the total cooperative.

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## CHOICE

### Choosing a purchasing cooperative administrator

Each cooperative will struggle with the daily details of management. Cooperatives have to make product movement decisions. Will orders for food and supplies, and the resulting billing and payment, go directly from each school district to the vendor? Will the cooperative operate a warehouse or have "Just in Time" delivery direct to the sites?

One objective of the cooperative is to maintain low overhead costs. A cooperative's administrative unit must issue and award bids, handle contract issues related to service or product quality, track costs, and prepare for the next bid cycle. One approach is to develop a list of duties and assign them

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to the school district members of the cooperative. In this scenario a single district typically does most of the work for the other districts.

To sustain the success of a cooperative, a long-term administrator is necessary. As cooperative members gain product knowledge, the need for a food technologist will become obvious, especially if the cooperative is very large. A strong administrative unit authorized to hire permanent staff will be necessary.

One potential answer to cooperative administration is one district becoming

the administrator for other districts. Other potential cooperative administrators include a non-profit organization, a professional association, a State Department of Education, the State General Services Commission, a college or university. The benefits of cooperatives are worth the efforts needed to overcome the administrative obstacles.

Recently several cooperatives have hired a service provider (distributor). In some situations the member school districts have delegated some of the task of cooperative administration to this distributor. School districts should be aware of the language found in 7 CFR Part 3016.60 before adopting this approach. This section of Federal regulations reads in part

"(school/school districts) may enter into a contract with a party that has provided specification information to the grantee (school/school district) for use in developing contract specifications for conducting such a procurement. In order to ensure objective contractor performance and eliminate unfair competitive advantage, however, a person that develops or drafts specifications, requirements, statements of work, invitations for bids, requests for proposals, contract terms and conditions or other documents for use by a grantee (School/school district) in conducting a procurement shall be excluded from competing for such procurements. Such persons are ineligible for contract awards resulting from such procurements regardless of the procurement method used.

However, prospective contractors may

provide grantees (school/school districts) with specification information related to a procurement and still compete for the procurement if the grantee (school/school districts) and not the prospective contractor, develops or drafts the specifications, requirements, statements of work, invitations for bid, and/or requests for proposals used to conduct the procurement."

### **Purchasing cooperative size**

Some of the benefits of a purchasing cooperative will be realized regardless of the size. When making a change it is important to make long range plans to gain the maximum advantage from the cooperative. The larger the cooperative the more flexible the members must be, but also the lower prices will be.

One of the benefits of joining a cooperative is the ability to influence the products available from local distributors. A reasonable size objective would be that you purchase a truck load of a high volume product often

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enough to guarantee the distributor adequate inventory turns. A truck of product is approximately 40,000 pounds. Meal equivalents in the range of 100,00 to 200,000 will provide the volume to turn a truck load of a high

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volume item once every other week. When forming a purchasing cooperative, discussions with manufacturers and distributors will provide some valuable insight into this issue.

### **The role of purchasing cooperatives in handling USDA Commodities**

Cooperatives often consider some involvement with USDA commodities as a service to the member school districts. Below is information prepared by the Office of the General Counsel, USDA on May 2, 2000.

"May buying cooperatives handle USDA commodities on behalf of school food authorities?"

CHOICE

If so, who is responsible for any commodities that are lost or damaged?

A buying cooperative is unlikely to qualify as a recipient agency. However, a buying cooperative may handle USDA commodities in a number of circumstances. The legal authority for doing so and the responsibility for the commodities depends on the way the buying cooperative is organized and on the entity with which the distributing agency holds an agreement. A buying cooperative's organizational structure may depend on State or local laws governing member school food authorities and cooperative organizations. A buying cooperative may be a separate legal entity or simply an alliance of school food authorities that enter into an collective agreement under which designated member(s) agree to fulfill certain responsibilities on behalf of the group. Buying cooperatives that are not separate legal entities are probably the most common type of buying cooperative.

Below are a number of scenarios under which a buying cooperative may handle USDA commodities.

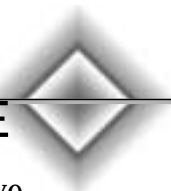
**Scenario 1:** The buying cooperative, which may or may not be a separate legal entity, facilitates contracting by the member school food authorities by negotiating favorable contract terms. The member school food authorities then contract for the goods or services. The distributing agency only holds agreements with the school food authorities. The member school food authorities are responsible for pursuing claims directly against the warehouse,

distributor, or processor for any lost or damaged commodities.

**Scenario 2:** The buying cooperative is a separate legal entity with which the distributing agency has an agreement to distribute USDA commodities to its member school food authorities. The buying cooperative also has agreements with its member school food authorities. In this case, the buying cooperative acts as a subdistributing agency (see the definition of "subdistributing agency" at 7 CFR 250.3). If commodities are damaged or lost, the buying cooperative is responsible for the donated commodities until they are delivered to the member school food authorities (or to a warehouse, processor, or other party designated by the school food authority).

**Scenario 3:** The buying cooperative is a separate legal entity with which member school food authorities contract to provide certain services like warehousing, distributing or processing commodities. The buying cooperative itself then contracts with the warehouse, distributor, or processor. The distributing agency holds an agreement only with the member school food authorities and not with the buying cooperative and delivers the commodities to the location designated by the school food authority.

In this case, if commodities are damaged or lost, the school food authority is responsible for pursuing a claim against the buying cooperative who would then presumably pursue a claim against the warehouse or other



responsible party. This is similar to situations in which a recipient agency contracts with a processor for processing USDA commodities and asks that the distributing agency deliver the commodities directly to the processor. The recipient agency, not the distributing agency, is responsible for pursuing any claims for lost or damaged commodities once they have been delivered to the processor."

### **Steps to form a purchasing cooperative**

- (1) Research the alternatives and choose the cooperative administrative unit.
- 2) Research state law and take the necessary steps to establish the cooperative legally.
- 3) Develop written Guidelines (see page 177-179) to guide the decision making of the cooperative.
- 4) Develop a comparison of the products currently purchased by member districts.
- 5) Negotiate which products will be included in the cooperative bid and their descriptions. A new cooperative should seek advice from an experienced cooperative in the same geographic area.
- 6) Estimate quantities of items that are to be bid.
- 7) Evaluate the market place and determine whether to sub-divide or regionalize the bid to maximize competition.
- 8) Develop a draft of the cooperative bid instructions and product list. Submit the instructions to legal counsel for review. Mail the draft product list to potential bidders a minimum of three weeks before the next step.
- 9) Conduct a pre-bid conference to determine what brands the potential bidders would like the cooperative to consider. This will be more successful if separate conferences with each potential bidder are conducted. Distributors may not want to alert competition to what brands they are considering this early in the process, and brands stocked by distributors is proprietary information.
- 10) Evaluate labels for compliance with specifications. Notify distributors of rejected brands, and give them an opportunity to submit another brand. Manufacturers are a valuable resource during this process.
- 11) Purchase samples and conduct testing. The testing should include a narrative description of the sample, a student taste test, and occasionally a laboratory analysis. Always retain a portion of all products tested to compare to the delivered product.
- 12) Notify distributors and possibly manufacturers of the results of testing, and allow them to submit a new product or brand if a sample was rejected.

## CHOICE

- 13) Issue a final draft of the bid. Allow three weeks for distributor review.
- 14) Conduct a final pre-bid conference to answer any remaining questions. This should be a group meeting with all potential bidders and should last no longer than one or two hours.
- 15) Make any necessary correction to bid documents, and issue a request for bids. Allow a minimum of three weeks for the vendor to complete the bid. If you don't allow enough time, the price will be higher.
- 16) Open and award bids; schedule delivery.

The minimum amount of time between steps 1 and 16 is 18 months. In the early stages, develop a critical path with deadlines for completing each step. Problems are most likely at step 5 and 11.

Delay step 15 until all issues are resolved. As a new purchasing entity, you will establish your reputation in the marketplace during the first bid period, and reputations are difficult to change

**The basic philosophy of cooperatives should be placing the food manufacturer, the food distributor, and the school district serving children into a winning position.**

later. It is better to delay and avoid costly mistakes.

The basic philosophy of cooperatives should be placing the food manufacturer, the food distributor, and the school district serving children into a winning position. Identifying volume customers is important to the manufacturer. Reducing the styles of products that must be stocked and having fewer bids to complete reduce distributors' costs. Improved quality, service, and the potential for reduced costs are the benefits school districts seek. There are many benefits to working cooperatively to improve purchasing.

**The bid methods, administrative units, order placement and other aspects of purchasing are as varied as the cooperatives. In Appendix 17, you will find a list of cooperatives and some of the characteristics of each.**

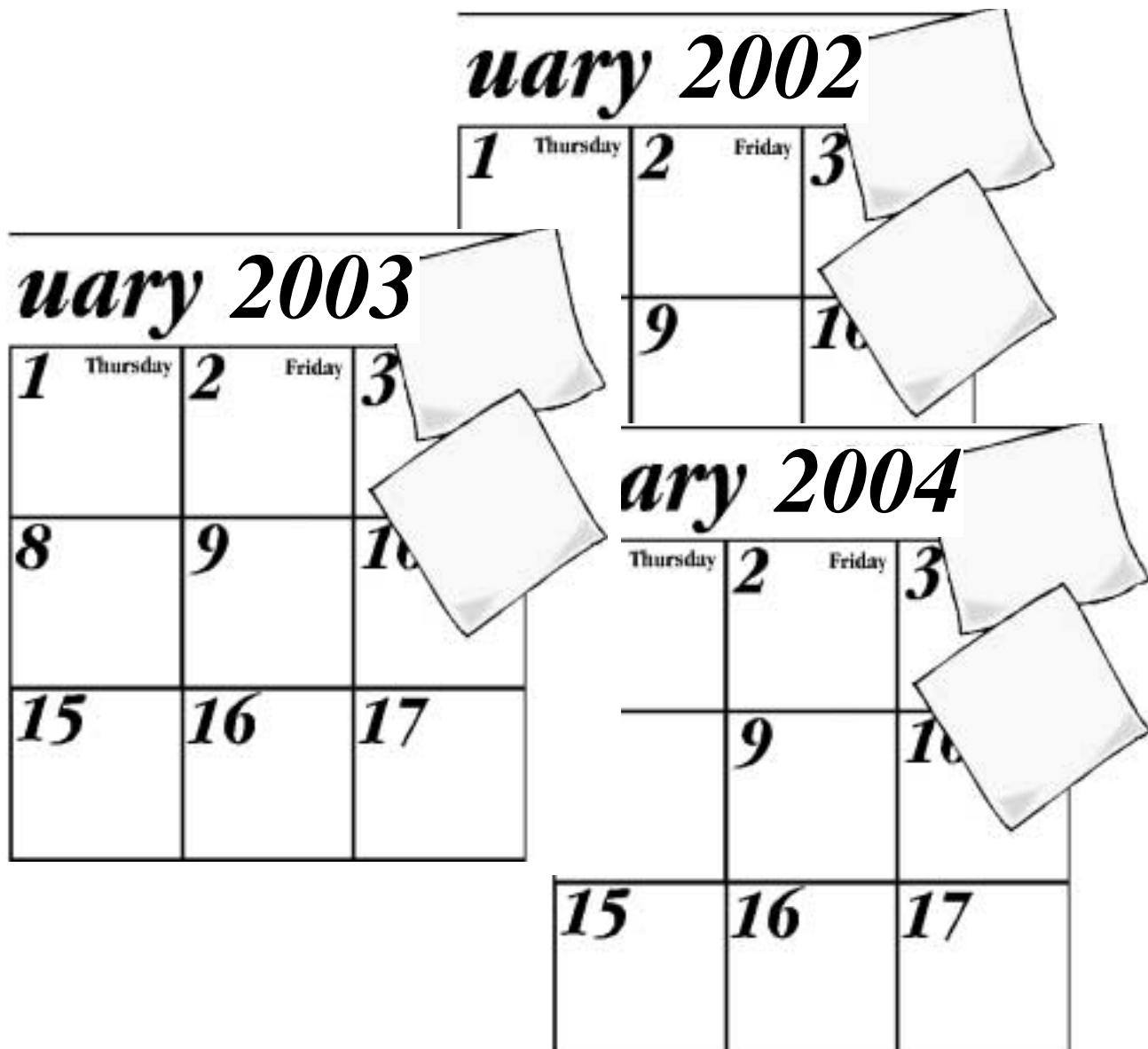
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## Summary

The complexity of products purchased, the dynamics of the market place, and the many demands placed on school food authorities make purchasing cooperatives an attractive alternative. A purchasing cooperative allows small and medium sized school districts to have more impact on the products available in the market place.

The formation of a purchasing cooperative is a time consuming process. Critical to success is allowing adequate time to prepare and issue the first bid. As much as two or three years will be necessary from the acceptance of the idea to actually receiving the first delivery.

The most critical decision will be choosing an administrative unit. An administrative unit should be chosen that will result in long term success of the cooperative.



# Notes

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