
An Introduction to Buying Groups: Formal & Informal



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Introduction

Purchasing agricultural inputs and equipment is a significant outlay for most crofters and farmers. Every purchasing decision needs careful consideration on the basis of not only quantity, quality and price but also availability, service and supplier relationships.

Much has changed in recent years with the advent of E commerce, improved transport links and the availability of competitively priced imports. Whilst the price of inputs and equipment continues to rise, there is now, however, much greater choice in the market but buying as a group can still help secure a better deal.

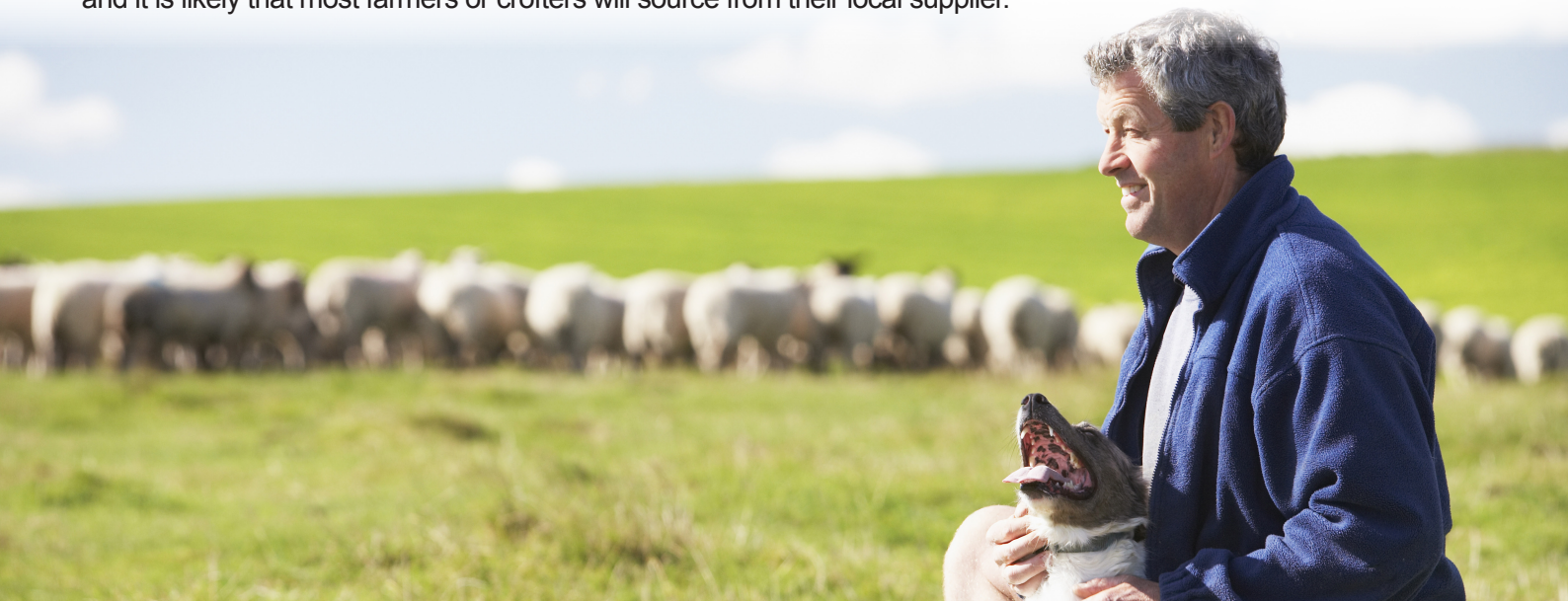
A brief History of & Introduction to Buying Groups

Historically agricultural buying groups have been the way in which crofters and farmers negotiated better terms. The principle is fairly simple – the greater the amount you buy, the better the terms you can negotiate. This principle still stands true.

Buying groups can be set up in many different ways but for the sake of clarity we shall broadly categorise them as formal and informal. Formal being established farmer and crofter owned trading businesses and informal being generally smaller groups of farmers or crofters choosing to source materials collectively as a group.

Present Situation

A number of well established Scottish farmer and crofter owned buying groups have grown to become large supply co-operatives or companies. Examples from across Scotland include Lewis Crofters, Birsay Farmers, Co-Chomunn an lochdair, Harbro, and Tarff Valley. Most of these local supply businesses sell a wide range of agricultural inputs and many now also carry a wide range of retail for the wider rural community. Most businesses deliver in their local area and it is likely that most farmers or crofters will source from their local supplier.



In order to gain additional bulk buying advantage these larger farmer and crofter owned businesses formed a Scotland-wide federal purchasing co-operative called United Farmers. Full details of United Farmers and your nearest member supplier can be found on www.unitedfarmers.co.uk

There are now also over seven thousand crofters and farmers in membership of co-operatively owned machinery rings in Scotland which supply inputs and equipment. Full details of your nearest machinery ring can be found on www.scottishmachineryrings.co.uk

Members of the ring pay an annual subscription and in return gain access to competitively priced inputs, fuel and agricultural materials. Inter-ring trading also allows farmers in remote parts of Scotland to purchase fodder and bedding directly from bigger arable farms for a small commission. Many rings have also negotiated significant member discounts with machinery suppliers. Machinery rings now offer a valuable alternative to the traditional supply co-operative.

What is Principle Trading?

Historically, there were a large number of small formal local buying groups in Scotland. Many of these have since been amalgamated into the aforementioned bigger groups. Generally formal buying groups were formed by a group of neighbours coming together to take a combined quantity to suppliers for a quote. In the formal buying arrangement, the buying group generally takes title of the goods. This is called principal trading. The challenge is that group is then exposed to financial risk, quality, storage and shelf life issues. In this respect formal trading carries a degree of exposure as the group, as opposed to the individual, is essentially contractually bound to the terms and conditions of the purchase. Some of the financial risk of principal trading can be offset by requiring members of the buying group to pay for their purchases in advance of receipt of goods but this can have adverse cash flow implications for members.

If the local buying group decides to undertake principal trading, it may well be advisable to consider bringing in professional help at an early stage to ensure that the business is well founded and meets all legislative requirements.

What does being a Buying Agent mean?

Smaller informal groups might be cautious of taking on the responsibilities of becoming a principal for major purchases and may choose to act purely as a buying agent. This means that they do not take title of the goods but simply co-ordinate a group purchase between the farmers and suppliers. Essentially the group aggregates to the requirements of each member and goes out to suppliers for quotes. Once the successful supplier is chosen and the goods delivered, each member is invoiced separately at the group terms agreed. It is important to note that most informal buying groups do not take title to goods - the sale is between the supplier and the individual farmer.

The group might however decide to trade as an agent to reduce financial risk, but buy and hold a stock of smaller items for re-sale to members. The two ways of trading need not be completely mutually exclusive. One such example might be where the group trades as an agent in feed but buys fencing materials for sale to group members as and when they need them. Birsay Farmers in Orkney started this way as a local buying group and is now a well established multi-million pounds turnover supply co-operative.



Thinking of starting a buying group?

If you want to set up a local buying group, the starting point is to hold a meeting of the interested farmers and crofters in your area to decide on the range of inputs and materials that you will need as a group. Once you have established these and the amounts you require, the next stage is to decide how you want to operate either on a “buy sell” arrangement as a principal or on an agency basis.

Many local buying groups start by agency trading. Agency trading is much easier and lower risk to access the benefits of collective buying. Whether the group decide to set up as an agent or principal it is important to remember that there is work involved in setting up a buying group and its success is totally dependent on member commitment. Other aspects to be considered are payment terms and cash flow. Extended or flexible payment terms may well be an important factor in the ultimate choice of supplier.



Another bulk buying option is that one larger farmer or crofter in the area buys more than he/she needs and sells on to neighbours on an ad hoc basis. This is often described as “neighbouring” and can be a very welcome solution to some unforeseen shortages.

Another benefit of group buying might be to optimise haulage particularly in remote locations. There are considerable savings to be made with full loads, particularly in remote locations. Hauliers and indeed shipping companies can offer competitive prices simply by more efficient use of their respective fleets. It is well worth approaching agricultural haulage companies that regularly supply your area for a quote.

Further general advice on setting up co-operatively owned and community owned buying groups can be found on <https://saos.coop/> and <https://www.gov.uk/government/publications/guide-for-community-buying-groups>

Summary

In conclusion, there is not one single ideal group purchasing method but the basic principle of group buying remains strong regardless of the supply options chosen. Sometimes this will not be based purely on price but will generally include a range of other factors which ultimately deliver best value. Customer loyalty can go a long way with suppliers and there can be many benefits from establishing longer term supplier relationships. The rewards of group buying can result in significantly reduced input costs and more leverage for farmers and crofters in their purchasing decisions. Regardless of the group buying options chosen, it is important to explore all supply routes and select those that return best value to the farmers and crofters and particularly those that are carbon efficient and sustainable. The important thing is for the individual farmer and crofter to decide what works best for them in their particular circumstances.

If you would like to set up a buying group in your area or would like to explore group buying options, please contact your local SAC adviser who will signpost you to the relevant support.