

CSR Snapshot #5 – Local procurement

Local procurement refers to the purchase of goods and services from suppliers within the region(s) close to a company's operations. This responsible business practice is appropriate in any country and industry, as it is fundamentally about building stronger links between companies and the communities that surround them and supporting local economic growth. Prioritizing local purchasing can help multinational companies strengthen their ongoing relationship with the communities, by enhancing the socio-economic impacts of their activities in the communities in which they do business.

As such, local procurement not only creates value for international companies, it also creates value for local communities. Of course, for local procurement to create shared value for both, it must be strategic. It must align with a company's business plan for that particular geographic area and result in operational improvement, and it must align with local communities' development strategies. With long-term planning and proactive effort, there are many business and community benefits that can flow from increased local procurement.



What does “Local” Mean?

When it comes to local procurement strategies, there is no universal definition of “local”. It implies a sense of proximity. A company's definition of “local procurement” will depend on where it operates and who its stakeholders of interest are.

For example, in the case of a mining company operating in a remote area, “local” may be defined as the communities nearest to the mine, as well as those downstream of the mine. Buying from suppliers in the downstream communities is an effective way for a company to maintain a positive relationship with communities which are concerned about the impact mining activities may have on them.

Locally Procured vs. Locally Produced

Purchasing imported goods from a local importer, or services from a national branch of an international company, has positive effects on the local economy. This creates both revenue and employment.

However, purchasing goods and services that are *produced* in a host country will have a far greater positive impact on local stakeholders. Companies can magnify the benefits they create from local spending by purchasing locally produced goods and services, and always asking suppliers for local versions of products if they are available.

Companies should engage with a wide range of stakeholders to determine what definition will work best for meeting the needs of their stakeholders and the company.

Key Steps to Develop a Local Procurement Strategy

1. Understand the Socio-Economic Operational Context

Understanding the economic capabilities of the local suppliers where they operate is a foundational step companies must take to increase local procurement. Canadian companies must research what potential suppliers are already available, and identify any local businesses that could become competitive suppliers in the future.

Companies can then work with this specific group of suppliers to develop their organizational capacity and professional expertise. Thorough research will help Canadian companies avoid unsustainable ad-hoc efforts that may be problematic in the long term, such as helping to create a supplier for a product that already is competitively available in-country.

The Business Case

Lowers procurement costs: By tapping into local labour markets that have lower wages, and reducing shipping distances, a company's costs for many goods and services will fall in the long run as they use more local suppliers.

Improves supply chain efficiency: Shorter lead times for deliveries and an increased number of reliable suppliers can help companies improve their supply chain efficiency.

Strengthens relationships with the communities: The positive socio-economic impacts from local procurement give Canadian companies an opportunity to meet the rising expectations of host country populations for international companies to create jobs and other benefits

2. Seek out Partners

Canadian companies do not have the ultimate responsibility for creating economic development in the countries in which

they operate, nor do they have the necessary resources to do so. However, Canadian multinational companies have the ability to convene different stakeholder groups, helping to collectively collaborate on local procurement approaches and strategies. Growing local businesses is the mandate of many institutions, such as local chambers of commerce and educational institutions, in any country. Companies can use these skills and resources to help increase their local spending. The most effective local procurement strategies will be multi-stakeholder initiatives coordinated by companies and local partners.

3. Set up Measurement Systems

A company cannot effectively manage what it does not measure. Canadian companies seeking to increase local sourcing need to design and implement internal processes to measure their progress. This entails coding procurement systems to identify items as local, national and international, so that companies can quickly calculate percentages and amounts going to each category. Better data will help identify opportunities and flag potential problems in local sourcing.

Key Local Procurement Toolkits

A Guide for Getting Started in Local Procurement: For Companies Seeking the Benefits of Linkages with Local SMEs - International Finance Corporation (2011)

Procuring from Small and Medium sized Enterprises in Local Communities: A Good Practice Guide for the Australian Mining, Oil and Gas Sectors - Ana Marie Esteves et al. (2010)

Strategies to Increase Local Procurement

Canadian companies may believe that buying more locally cannot be achieved because of the limited quantity and/or poor quality of local suppliers. However, here are some general strategies that companies can use to overcome challenges and increase local spending:

1. Identify New Suppliers

Canadian companies can identify potential local suppliers by advertising contracts on local media outlets, such as television, radio and newspapers. To reach more local suppliers, Canadian companies can also contact local chambers of commerce and other local supplier support institutions, to inform their members about new business opportunities.

2. Strengthen the Capacity of Local Suppliers

Canadian companies can host workshops with local suppliers on contracting procedures, bid requirements and measures that will be used to evaluate bids. It also improves communication in the process of answering questions.

Canadian companies can help local businesses become competitive suppliers by distributing instructional materials on business management and technical skills, and by

providing workshops and training courses specifically aimed at producing widgets that the company needs.

Canadian companies are encouraged to partner with local supplier support institutions, such as industry organizations or chambers of commerce or technical colleges, to coordinate, develop and deliver these training seminars.

Canadian companies can also use the skills of advanced Canadian-based suppliers by including them in joint ventures with low-capacity local businesses.

Myth Busting

A concern from Canadian producers about local procurement is that it may decrease demand for their goods and services overseas.

However, in most low-income countries it is not Canadian exports that are likely to be displaced by local production. Canada's exports are dominated by energy, raw metals and high tech goods, most of which are not the types of goods that companies will be seeking to shift to local suppliers.

In addition, strengthened suppliers in developing countries in the long-term can become new customers for Canadian goods and services.

3. Adapt Internal Procurement Processes

Canadian companies can support local suppliers, particularly in low-income countries, by making their procurement process more flexible.

Typical advanced country procurement procedures, such as paying suppliers at the end of the month rather than immediately after the good or service has been provided, can sometimes unintentionally disadvantage local suppliers. Companies can address this challenge by paying such suppliers in advance or as soon as possible. This would allow smaller, lower-capacity suppliers to more effectively plan budgets and manage their cash flow.

Companies can also meet the needs of local suppliers by surveying them, along with local business experts, on what barriers they may be creating with their current procurement processes, and adapting them as necessary.

Other tools for sourcing responsibly

Local procurement is one way to source responsibly. However, there are other methods and considerations to take into account for sourcing responsibly. For example, Canada's CSR Strategy identifies the OECD guidance for:

- Conflict Minerals
- Due Diligence in the Retail and Footwear Sector
- Responsible Agriculture

See mneguidelines.oecd.org/guidelines for more info.

The Trade Commissioner Service can help!

Canada's global network of trade commissioners is available to help you prepare for and assess the market, provide key contacts, and assist in problem solving.

To reach a trade commissioner in your market, go to:
www.tradecommissioner.gc.ca.

February 2017