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Supply Chain News: Will Industry now see "Collaborative Purchasing?"

Pepsi and Anheuser-Busch Sign Deal to Purchasing Many MRO Items – and Even Technology and Logistics Services; Can it Work?

SCDigest Editorial Staff

Is an innovative procurement deal between Anheuser-Busch and PepsiCo likely to be repeated elsewhere?

The two beverage giants announced this week that they have signed an agreement by which they will jointly combine their purchasing efforts and volumes over many "indirect" categories of goods, meaning those not directly associated with manufacturing processes.

According to a press release, the list of potentially jointly procured items is broad, and includes many categories that might be expected, such as office supplier and maintenance, repair and operations (MRO) materials. Perhaps surprisingly, the deal may extend to other areas as well, such as computer hardware and logistics services.

Key to the deal, of course, is the perceived opportunity to increase leverage – that even these two giants have room to drive down supplier prices by combining their purchasing power.

"The agreement allows both companies to purchase goods and services more efficiently at competitive prices – effectively managing costs that can be reinvested back into areas that will grow their businesses," a joint press release said. "A team consisting of procurement experts for each company will focus on common areas of spending and negotiate purchases on behalf of both companies."

There have been "purchasing cooperatives" for decades, such as the Independent Grocers Association (IGA) and many others, which have generally served to generate some buying power for smaller businesses by grouping their spend and negotiating prices for the association.

The opportunity to do this is enhanced by the fact that both are beverage companies, meaning there may be commonality across MRO items, for example, that would not be true for companies in different industries.

Agreements like this new one between AB and PepsiCo that involve large companies are rare. As the companies note, the opportunity to do this is enhanced by the fact that both are beverage companies, meaning there may be commonality across MRO items, for example, that would not be true for companies in different industries.

Such a move would likely not be permissible between actual competitors, however, as it would violate existing anti-trust laws.

Says SCDigest editor Dan Gilmore: "This is a very unusual and potentially ground breaking agreement – if the two companies can really work to execute it successfully. The challenge will be in reconciling the specific suppliers and specifications each side has now – and there will be egos and other issues involved there."

Supply Chain News: Will Industry now see "Collaborative Purchasing?" (Con't)

Gilmore added: "Some areas will be more challenging than others, and transportation services will be among them. Companies have a hard enough time consolidating their own transportation spend, let along theirs plus some other company's volumes."

Adds **Herb Shields**, a consultant and educator who in part specializes in procurement: "Both these companies are big enough that I would assume they are already getting very competitive pricing for all non-inventory purchases. However, since in most of the categories they mention, there are likely to be some suppliers which currently do not have any Anheuser-Busch or PepsiCo business, those suppliers will really be aggressive," he told SCDigest. "The joint press release makes the objective very clear – lower costs. I am sure they will get results in some categories."

Shields thinks there will be some challenges to success, however.

"Current suppliers will resist this, while sellers with no current business will welcome the opportunity," he says.

The bigger challenge may be internally, he adds.

"The basic challenge will be dealing with the internal customers in both companies. There are existing relationships with incumbent suppliers. Some of these are specification based, such as bottling process equipment, computers, etc.," he noted. "The users will need to see significant cost opportunities and be convinced that they will not lose anything in terms of service. That is a tough sell and typically it's the internal customers who are the biggest obstacle even when one company tries to do this within their own operating units."