



Committee for Gippsland



Buy Local Study Final Report

9 December 2013

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Executive Summary

In August 2013, the Committee for Gippsland (C4G) commissioned Gippsland based Business Insight Group (BI Group) to conduct a “Buy Local Study” to investigate what affect buying local versus buying non-locally had on Gippsland based businesses.

Through its own network and through C4G’s communications, BI Group spoke with 21 businesses in the Gippsland region (some of them locally owned and some with a parent company outside of Gippsland). Whilst not all of these businesses were able to contribute, enough information was collected to give a clear indication that buying locally supports local businesses and communities.

The results of this Study are as follows:

For every \$100 of revenue in local Gippsland businesses, \$96.93 is generated in local economic impact¹.

For every \$100 of revenue in non-local businesses, \$71.33 is generated in local economic impact.

Significantly more money recirculates locally when government departments, businesses and consumers choose to support our locally owned businesses. Unlike their national competition, locally owned businesses are more likely to purchase from other local retailers, manufacturers and service providers. Supporting our locally owned businesses is critical in growing a strong Gippsland economy.

BI Group has summarised the different local council Procurement Policies and made some recommendations on how these could be improved to help local councils better support Gippsland based businesses.

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Local Economic Impact is the sum of Direct Local Impact (wages and employee benefits, profits earned by local owners, local procurement and charitable contributions), Indirect Local Impact (the continuing circulation of Direct Local Impact by other businesses) and Induced Local Impact (the continuing circulation of Direct and Induced Local Impact by individuals in the local community).

Project Background

The Committee for Gippsland (C4G) has received many submissions from members and stakeholders about the issue of buying locally in Gippsland. The most frustrated area of feedback is directed at local government departments and their procurement policies, but also extends to business and organisations in Gippsland who procure goods and services beyond the region when similar products and services are available locally.

There are several buy local initiatives at present. Baw Baw Shire Council runs a buy local campaign², more centred on food produce and promoting the “Designed in Baw Baw”, “Grown in Baw Baw” and “Product of Baw Baw” brands. Much of the feedback from members to C4G has been focused on Baw Baw Shire Council’s procurement practices.

The Gippsland Local Government Network³ (GLGN) have done some similar work on this concept, but again other Local Government Areas (LGAs) such as Latrobe City have also been the point of feedback around practicing these buy local concepts in their procurement practices.

The Warragul Business Group⁴ is also working on a local barter card style of exchange, which they believe would promote buying locally.

² http://www.bawbawshire.vic.gov.au/Business/Initiatives/Buy_Local

³ <http://glgn.com.au/>

⁴ <http://warragulbusinessgroup.org.au/>

Scope of Work

Whilst the campaign and promotions area of the buy local concept have been well covered by LGAs and business groups, the economic cost of not buying locally hasn't been examined in details. It has been suggested by many businesses that most LGAs do not comply with the buy local concept in their own procurement practices.

This Study has focussed on the buy local theme and the impact of this issue. The aim of the Project was for C4G to feedback the information gathered in the Study to LGAs and large organisations in the region so that they are fully aware of the broader community and economic costs.

Elsewhere around the world, there have been a number of studies done on the economic impact of not purchasing goods locally. This Project undertook a similar sample in Gippsland.

The results have been evaluated to explore what impact not purchasing locally has on jobs growth, business development and community support (i.e. the ability of local business to contribute financial sponsorship to football clubs, community organisations, etc.).

Methodology

BI Group undertook the following methodology when developing C4G's Buy Local Study.

Phase 1 – Revenue Recirculation

The first step in comparing the local economic impact was to analyse the proportion of revenue each business, local and non-local, recirculates in the local economy. For privacy and security of commercially sensitive financial information, BI Group made guarantees (in the form of individually signed Confidentiality Agreements) that the participating companies will not be individually identified.

There are four main ways a company keeps money in the local area:

1. Wages and benefits paid to local residents;
2. Profits earned by local owners;
3. Purchases of local goods and services for resale and internal use; and
4. Contributions to local charities and not-for-profit organisations.

BI Group developed a formula that utilises each of the aforementioned ways that money stays local when spent in any organisation (wages and benefits, profits earned by local owners, local procurement and charitable contributions). Similar to the Andersonville Study, this formula works on the theory that Total Economic Impact is the sum of Direct, Indirect and Induced Effects.

Direct Effects reflect the first round of spending as per the four main ways a company keeps money in the local area (above). Indirect Effects reflect the continuing circulation of Direct Effects by other businesses in the local community and are calculated as a percentage of Direct Effects (35% for local businesses and 37% for non-local businesses).

Induced Effects reflect the continuing circulation of Direct and Induced Effects by individuals in the local community and are also calculated as a percentage of Direct Effects (34% for local businesses and 33% for non-local businesses). These percentages are based on the calculations used in the Andersonville Study.

Subsequently, BI Group requested that each of the participating businesses supply a summary of their:

- Total Revenue;
- Net Profit;
- Total wages and benefits;
- Purchases by Supplier (so we can ascertain whether they're Gippsland based or not); and
- Donations (through charities, sponsorship or donations) and the recipients' locations.

Through e-mails directly from C4G, and BI Group's own networks, BI Group communicated with 21 businesses for this Buy Local Study. Of the 21 business contacted:

- 13 supplied the required information;
- Two decided that, even with the signed Confidentiality Agreement, they were not comfortable handing over their financials;
- Four promised financials but, despite regular and persistent attempts, did not ultimately deliver them;
- One had not been trading long enough to supply any meaningful data; and
- One had problems separating Gippsland financial data from the rest of their national operations.

Local Businesses

BI Group analysed 10 local businesses by having them complete a confidential questionnaire designed to quantify the four items above. Seven of these local businesses were C4G members recruited by C4G. The remaining three were independently sourced by BI Group.

Non-Local Businesses

For non-local businesses, it was initially proposed that BI Group would analyse publicly available records, in the form of annual reports, of 10 non-local businesses with operations in Gippsland. This ultimately proved problematic in that the publicly available data was not the same format as that collected from the local businesses.

Even so, six of 21 the businesses initially contacted for this Buy Local Study had head offices outside of Gippsland and, for the purposes of the Study, were be considered to be effectively non-local (on the basis that most profits leave the region).

Ultimately, five non-local businesses with operations in Gippsland (all C4G members) agreed to supply data for this Buy Local Study. Of these five, one failed to deliver the requested information (even after many persistent attempts) and another could not break up Gippsland financial data from the rest of their national operations.

This left only three non-local businesses that supplied results for this Buy Local study. The information from these three non-local businesses, however, was very useful and gave the Study a good foundation for comparison of results.

Phase 2 – Desktop Research

There are numerous studies already completed around the world that assess the economic impact of not buying locally. For the purposes of this Study, BI Group has compared the actual results from Gippsland to a number of those done internationally to confirm the legitimacy of the numbers.

The overall summary of the international studies investigated show that for every \$100 spent in local organisations, \$68 is generated in local economic impact. For every \$100 spent in non-local organisations, only \$43 is generated in local economic impact.

Phase 3 – Documentation

The results of Phase 1 and Phase 2 have been documented this Report in a format that C4G can present to local LGAs and large organisations so they can see, first hand, the effect of not buying locally.

Results

High-Level Summary

The high-level summary of this Committee for Gippsland Buy Local Study are as follows:

- For every \$100 of revenue in local Gippsland businesses, \$96.93 is generated in local economic impact; and
- For every \$100 of revenue in non-local businesses, \$71.33 is generated in local economic impact.

This is a \$25.59 or 36% difference. This means that for every \$100 that government departments, businesses, not-for-profits and consumers spend with a non-Gippsland business, nearly \$30 ultimately finds its way out of Gippsland.

Detailed Results

The following table summarises the financial figures used for the purposes of this Study.

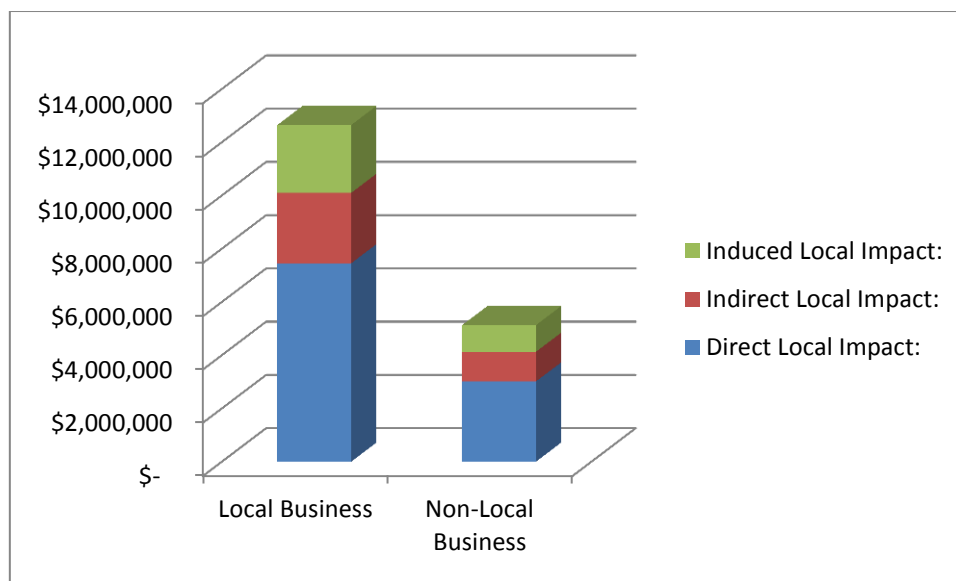
Table 1 – Summary of Financial Results

	Local		Non-Local	
	Total	Average	Total	Average
Total Revenue	\$104,458,779	\$14,922,683	\$23,731,000	\$7,910,333
Wages & Benefits	\$30,844,851	\$4,406,407	\$8,261,000	\$2,753,666
Local Profits	\$15,029,608	\$2,147,087	n/a	n/a
Local Procurement	\$6,212,781	\$887,540	\$726,795	\$242,265
Charitable Contributions	\$88,750	\$12,679	\$52,400	\$17,467
Direct Local Impact	\$52,175,989	\$7,453,713	\$9,040,195	\$3,013,398
Indirect Local Impact	\$18,501,180	\$2,643,026	\$3,344,350	\$1,114,783
Induced Local Impact	\$17,835,670	\$2,547,953	\$2,995,980	\$998,660
Total Local Impact	\$88,512,839	\$12,644,691	\$15,380,525	\$5,126,842

Commentary on Results

As can be seen in Figure 1, the Average Total Local Impact for local businesses is significantly higher than the Average Total Local Impact for non-local businesses. This has been broken down into Direct, Indirect and Induced Local Impact to show that the percentages are similar in both cases.

Figure 1 – Average Total Local Impact

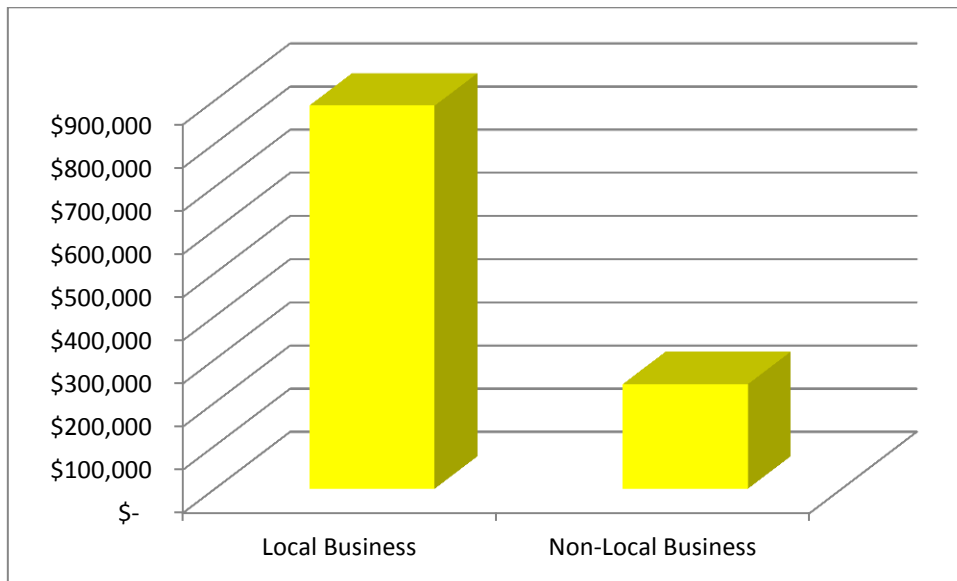


The most significant factor, percentage wise, of this result is the difference in the Local Procurement area (the goods and services that businesses procure locally as opposed to bringing them in from outside Gippsland).

Figure 2, below, shows this in detail. Anecdotally, this is mainly because of non-local businesses having decentralised procurement policies. They generally purchase goods (and sometimes services) in bulk from a national supplier to achieve economies of scale.

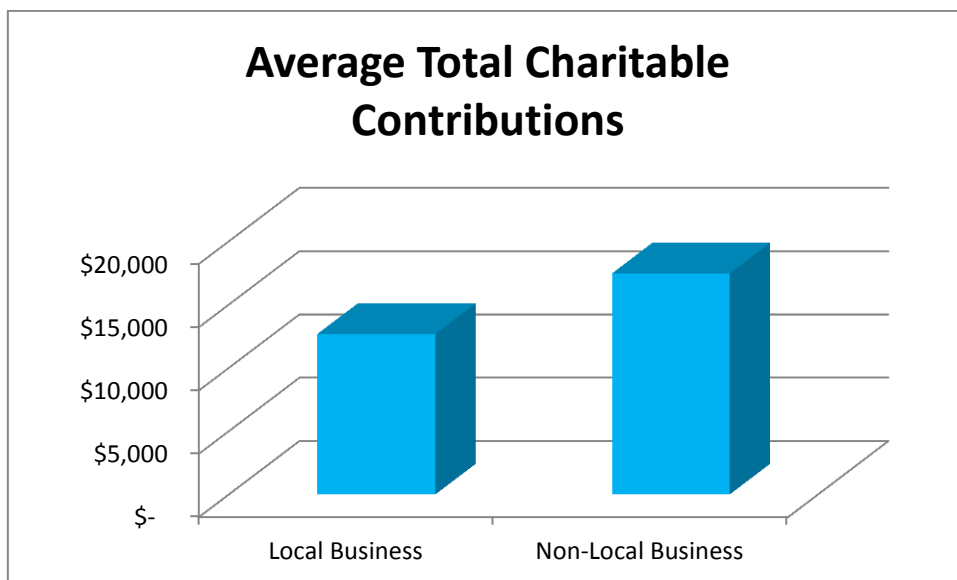
It is interesting to note that the average total revenue and wages for the non-local businesses are significantly less than that of the local businesses. The mindset of most businesses interviewed was the non-local businesses would be significantly larger with respect to financials. This is clearly not the case.

Figure 2 – Average Total Local Procurement



Also of interest is the average charitable contribution of non-local businesses being around 30% higher than that of local businesses (see Figure 4, below). This again goes against the general mindset that local businesses are generally more benevolent than non-local businesses when it comes to local philanthropic activities.

Figure 4 – Average Total Charitable Contributions



It needs to be noted that the figures for local businesses in Table 1, above, are the results of only seven of the 10 respondents. The other three respondents were not comfortable revealing their financial information (despite the signed Confidentiality Agreements).

As these three organisations were still keen to contribute to the Study, BI Group designed a spreadsheet that incorporated the formulae used to calculate Total Local Impact. This spreadsheet was forwarded to the three companies and they entered their financial data and simply sent back the final Local Impact per \$100 Revenue figures to BI Group.

This means that the final Local Impact results per \$100 of Revenue of \$96.93 for Local Businesses and \$71.33 for Non-Local Businesses cannot be calculated directly from the financial summary figures in Table 1.

Range of Results

The range of results varied significantly for the local and non-local businesses. For the non-local businesses, the range of Local Impact per \$100 of Revenue varied from \$45.35 to \$95.11 with the average being the \$71.33 as mentioned above.

For the local businesses, the range of Local Impact per \$100 of Revenue varied from \$8.19 to \$166.10 with the average being the \$96.93 as mentioned above. It should be noted that the \$8.19 result seemed to be an anomaly when compared to the rest.

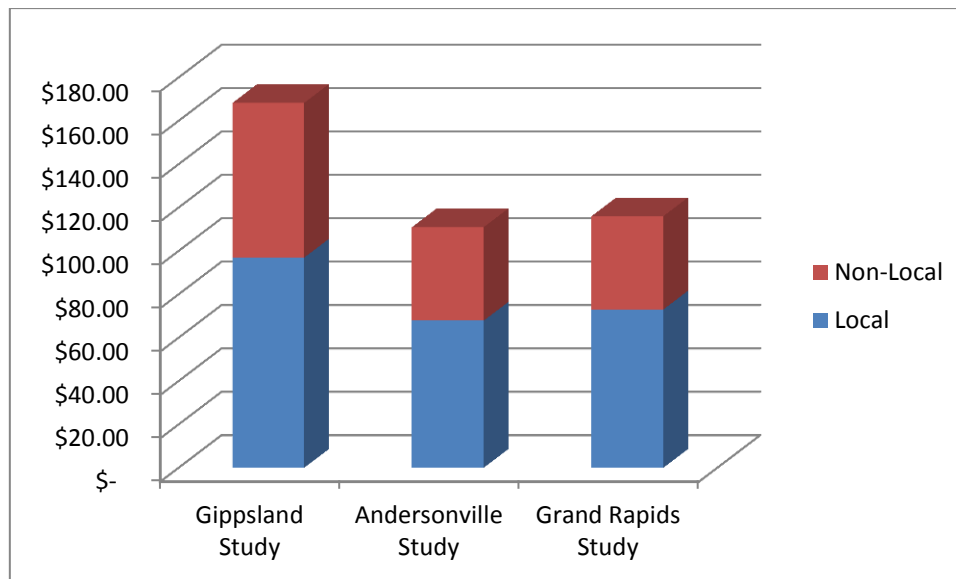
The local business that supplied the \$8.19 result was one of the ones that was forwarded the spreadsheet for them to enter their financial data and send back the final Local Impact per \$100 Revenue figure. As we're dealing with professional, intelligent and financially astute individuals, we have to assume that data was entered in the appropriate manner.

The next lowest Local Impact per \$100 Revenue figures for the local businesses was \$50.48. If we chose to ignore the \$8.19 result as a statistical outlier and averaged the rest of the results, the Local Impact per \$100 Revenue figure for local businesses would be \$106.79.

Comparison with Other Studies

When comparing the results of the Committee for Gippsland’s Buy Local Study results and international studies it is noted that the Gippsland results (in Local Impact per \$100 Revenue) are significantly higher (see Figure 5, below).

Figure 5 – Gippsland Study vs International Studies



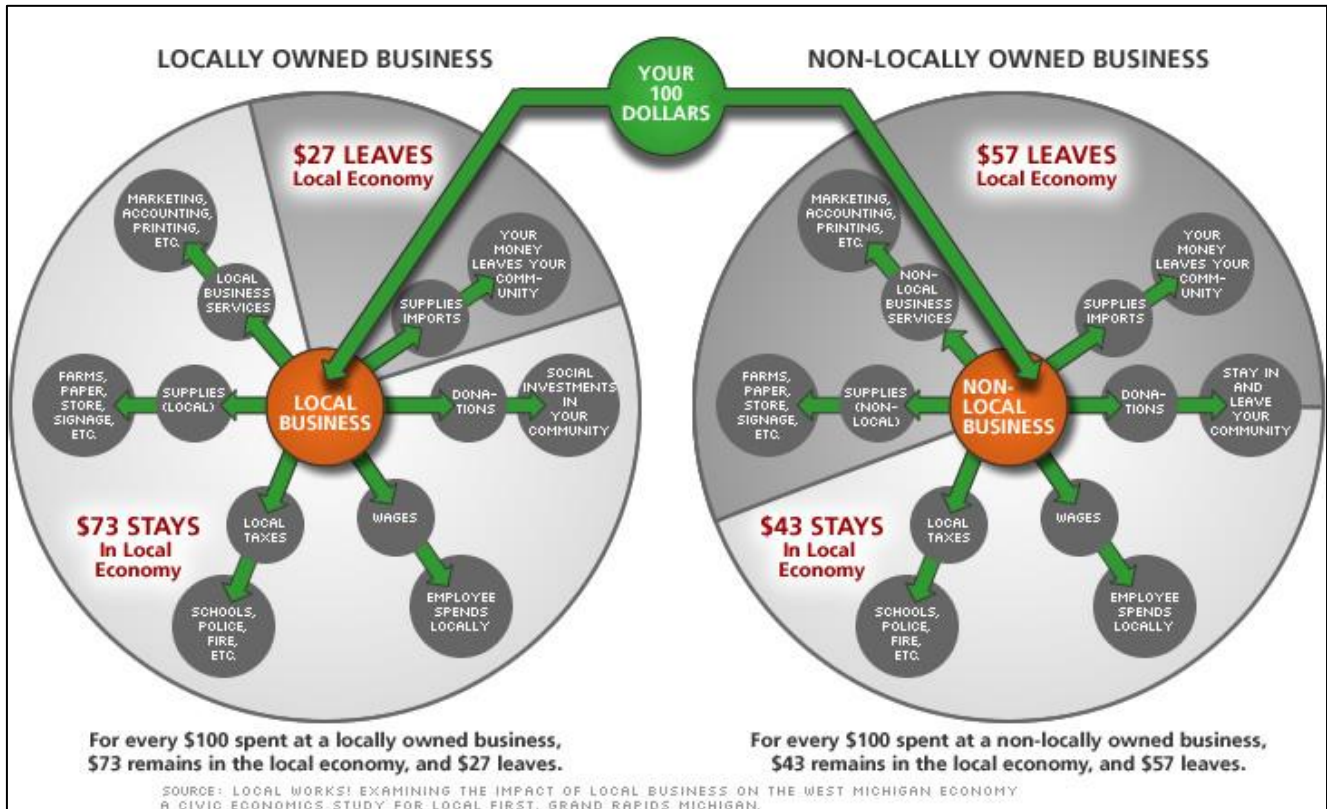
The most likely scenario for the differences between the Gippsland Study and the Andersonville and Grand Rapids Studies, is that the latter two studies place a large emphasis on retailers and restaurants. Whereas the majority of the businesses in the Gippsland Study were service oriented.

Service oriented organisations usually have lower Cost of Goods (COGS) because they do not purchase products from a wholesaler or manufacturer and then on-sell them at retail prices. Lower COGS means higher Gross Profit and, generally, higher Net Profit.

Due to the lack of local supply for most retail items and food goods for restaurants, it is logical that a service focused Study will have higher Local Impact per \$100 Revenue figures as wages make up the biggest expense.

The Grand Rapids Study (see Figure 6, below) shows a good graphical representation of how money is distributed by spending with local versus non-local businesses.

Figure 6 – Grand Rapids, Michigan Study⁵



⁵ <http://www.localfirstaz.com/studies/local-works/local-works-complete-study.pdf>

LGA Procurement Policies

Each of the six Gippsland LGAs (Bass Coast Shire Council⁶, Baw Baw Shire Council⁷, East Gippsland Shire Council⁸, Latrobe City Council⁹, South Gippsland Shire Council¹⁰ and Wellington Shire Council¹¹) have developed their own Procurement Policies.

Whilst some of the contents of these Gippsland LGA Procurement Policies read in a similar manner (indicating some document sharing between LGAs), the size of the documents vary from a simple five page Policy for Bass Coast to South Gippsland's 28 page version.

Each of the LGA Procurement Policies have some sort of spiel on how they should focus on supporting local businesses. Some of them include a clear and well documented weighting for local businesses when evaluating Tenders.

Others include a statement along the lines that all businesses (regardless of geography) will be treated equally to avoid any potential criticism of Council. Some examples of the commentary on local businesses within the LGA's Procurement Policies have been included below.

Baw Baw Shire Council

Support of the Local Economy and Local Business: Council is committed to improving the resilience and diversity of the local economy, Strategic Objective 1.4.2. To assist in achieving this objective, consideration will be provided to local suppliers within the mandatory evaluation criteria of Sustainable Resources, which has a weighting of 20% (Labour 10%, Plant and equipment 5% and Materials and facilities 5%)

⁶ [http://www.basscoast.vic.gov.au/getmedia/b526ce39-3263-4fc7-bac8-20adfb00073/Procurement_Policy_web_version_\(ED12_61510\).PDF](http://www.basscoast.vic.gov.au/getmedia/b526ce39-3263-4fc7-bac8-20adfb00073/Procurement_Policy_web_version_(ED12_61510).PDF)

⁷ http://www.bawbawshire.vic.gov.au/files/cc3d82a2-6977-42df-adc0-a12600c05587/Procurement_Policy_Dec_2012.pdf

⁸ http://www.eastgippsland.vic.gov.au/About_Us/Your_Council/Policy_Documents_and_Publications/Council_Policies

⁹ http://www.latrobe.vic.gov.au/About_Council/Media_and_Publications/Documents_A_to_Z

¹⁰ http://www.southgippsland.vic.gov.au/Files/Corporate_Services/C32-Procurement_Policy-26_June_2013.pdf

¹¹ <http://www.wellington.vic.gov.au/Your-Council/Publications/Documents-Available-for-Public-Inspection>

Bass Coast Shire Council

Local Sourcing: The Council recognises that it is a major purchaser of goods and services within the municipality, and is keenly aware that its procurement policies and practices have the potential to influence the local economy.

The Council recognises the benefits of purchasing from within the region and is committed to increasing and promoting a sustainable economic community. To achieve this, where practical the Council will endeavour to support business and industry within the region and maximise opportunities by means that are consistent with achieving best value for money objectives.

Council will include the tender evaluation criteria of "local employment" where that service or project is long-term and likely to have an impact on local jobs.

Latrobe City

Council's Vision for Latrobe City aims to develop a regionally significant economy and as such encourages the procurement of goods, services and works within Latrobe City. Local providers are given an equal opportunity to quote and tender. Where a local provider can match or better other providers on price, quality and availability, preference is given to the local provider as per weightings.

Tender Weightings: Benefit to the Regional Economy 13%.

South Gippsland Shire Council

Corporate social responsibility (CSR) is about taking positive action to demonstrate the Council's commitment to the local community and environment on which it impacts.

Social Procurement: by taking positive action to demonstrate Council's commitment to the local community and the environment on which it impacts. By also using procurement to contribute towards building stronger communities and meeting the wider social objectives of Council...

Where practicable, purchasing from local businesses where purchases are justified on best value grounds for South Gippsland Shire, which include local economic, environmental and social benefits.

Building and maintaining a strong community by exploring ways to generate local employment ... and further strengthening the local economy.

Where practicable, purchasing from local businesses where purchases are justified on best value grounds for South Gippsland Shire, which include economic, environmental and social benefits.

Wellington Shire Council

Council requires that contracting and purchasing activities ... generate and support business in the local community.

Support of Local Business: Council is committed to buying from local business where such purchases may be justified on Value for Money grounds.

LGA Procurement Policy Implications

It is recognised that all the Gippsland LGAs are very careful to be seen to be doing the right thing to:

- Adhere to the legal requirements of the Local Government Act 1989; and
- Avoid criticism by the general public and commercial entities.

With all the above commentary on how most Gippsland Councils attempt (on paper) to support businesses within their LGA, it may seem surprising that a number of respondents to this Committee for Gippsland Buy Local Study gave examples of where they thought local councils could be doing more to support local businesses.

There is a strong feeling that council workers are employed by local ratepayers and that councils should do more to support local businesses. This being said, there is also a strong feeling that local businesses need to be competitive and should not just expect

local councils to purchase goods and services from them just because they share a postcode.

The example of council fleet purchases was raised a number of times. It is understood that a Melbourne based buying group of sorts sources fleet vehicles for a number of government organisations. Some of these vehicles that have found their way to Gippsland have been sourced from as far away as Mildura.

The logistics of this example clearly do not make sense when there are car dealers in every regional centre in Gippsland. One respondent commented on this instance saying that local car dealers need to be more competitive in the service side of their businesses so the “total cost of ownership over the anticipated lifetime of the vehicle” is more economical.

LGA Procurement Recommendations

It is clear that the Gippsland LGAs agree on their stated intent to support local businesses but they disagree on how to achieve this. This is highlighted by Latrobe City Council’s 13% tender evaluation weighting for local businesses versus Baw Baw Shire Council’s 20%. It would be advantageous to Gippsland based businesses if all the Gippsland LGAs had a consistent procurement philosophy with respect to buying locally.

When considering “best value” or “value for money” grounds, it is recommended that each of the Gippsland LGAs consider the Total Local Impact as described in this Report. This does not mean that Gippsland based businesses should have an unfair advantage over non-local businesses, but councils should consider the true effect of spending their money locally.

This might mean that greater percentage weightings are given to local businesses. This is because the money spent in those local businesses is more likely to recirculate around the local area strengthening the local community, creating more local jobs which leads to more local residents and thus more ratepayers.