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Influence of Group Purchasing Organizations On Financial Situation Of SMEs

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Abstract

Research background: SMEs often operate in markets where they compete with large companies. A fight for the customer, payment backlogs, problems with debt collection and new branches make management seek solutions that will influence positively on the situation of financial companies. Maintaining liquidity and generating income are the primary steps to build a competitive position and a progressive development of enterprises. One of the most popular methods that allows companies to do profitable business and increase their chances for safety is operation within group purchasing organizations. Currently in the market there are many different types of GPOs (Group Purchasing Organizations). The choice of the right one is a chance to improve their financial situation.

Purpose of the article: This article presents functioning of enterprises within group purchasing organizations and their impact on financial situation of enterprises. In the article the classification of groups is done and there are shown the benefits that commercial enterprises operating in them gain. The article presents some obstacles to join specific group purchasing organizations and difficulties faced by companies operating in them.

Methodology/methods: The studies will be carried out on the basis of 60 SMEs. These companies operate in five Polish GPOs. The groups were divided into branch and multi-branch ones. The study period covered the years 2013-2015. In order to analyze the impact of purchasing groups on the financial situation of enterprises there were used selected groups of financial ratios and a preliminary analysis of financial balance sheets and profit and loss account was conducted

Findings: The analysis showed that the choice of an appropriate group purchasing organization has a large impact on financial situation of companies. Different opportunities can be offered by a sectoral purchasing group than the multi-sectoral one. Research has shown that better results relate to dynamics of revenues, costs, liquidity, profitability that gives the operation within the sectoral purchasing groups.

Introduction

Small and medium-sized enterprises are forced every day to fight for contracting parties with big corporations. Competition about a customer is difficult because very often companies, when choosing a supplier, take into account only a price. SMEs acting alone in the market are not able to compete with the big players. They do not have too many options in terms of price reductions, and when buyers choose their supplier they pay attention to three items: a price, a merchant credit and quality. Price is still a key element in choosing a supplier. Next there are negotiations that deal with the merchant credit. Quality is often overlooked for price but lately it has been noticed that buyers are increasingly starting to take this element into consideration when deciding to choose a supplier.
However, more and more attention is paid to the fact that many tasks are performed better when working in groups. This is why the popularity of small and medium-sized enterprises is being won by an organization called a group purchasing organization. This form of organization is already available in every industry. The joint operation gives a great opportunity for companies operating in the group purchasing organizations, which positively influences their finances, the prices of offered goods and the opportunities for the merchant credit.

Method of the research

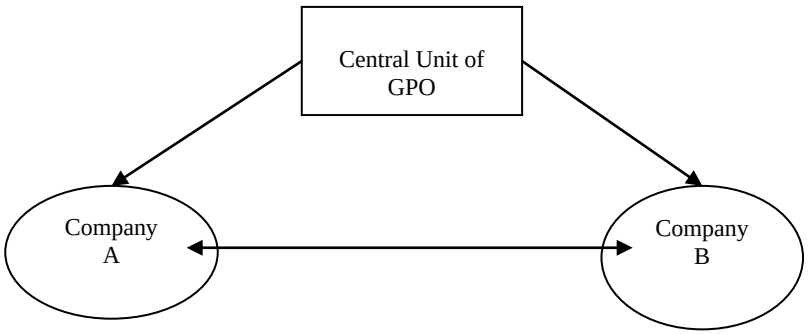
In order to determine the impact of group purchasing organizations on the financial situation of a company, companies were divided into two types of groups, i.e. branch and multi-branch. Then the appropriate analysis methods were chosen to answer how functioning within the group purchasing organizations influences the financial situation of enterprises. The analysis was carried out in two stages. The first one concerned the preliminary analysis and the second the indicator analysis. The study period were the years 2013-2015. The research covered 60 retail businesses operating in 5 GPOs. The financial data of individual entities were from the public financial statements of the audited companies.

Group purchasing organizations

A groups purchasing organization is a unit composed of companies and a group holder called an integrator. The integrator is the central unit that manages the entire organization, most often it is a specially appointed company that make up the GPO. The central unit may be an external company. A consolidation of members of a given group is the basis for negotiations

with producers (Blair, Durrance, 2014, pp.433-443). Its degree has a big impact on the success of the group. The purpose of GPOs is to defend individual companies against strong competition and to increase negotiating power. (Prakash, 2009, p.22). This is possible because joint operation and economies of scale give for businesses many opportunities to improve their financial situation. Purchasing group is an entity that uses collective purchasing power to obtain a discount (Yang, Cheng, Ding, Li, 2107, pp. 581-589). This is the effect of scale which is characteristic for GPOs. A group purchasing organization can be defined as a group of companies from the same or another sector that combine to make a joint purchase. They are managed by a specially created central unit, which aims to carry out the tasks assigned by the purchasing groups (Zimon, 2017, pp.675-682). The broader definition of a group purchasing organization is based on Martin Christopher's logistics and supply chain definitions and it is as follows: The group purchasing organization is a group of cooperating companies that jointly control and streamline the flow of goods, information and money from suppliers to final recipients. Participants in such a system form a separate central unit, whose main task is to meet the goals set by the companies operating in the system (Zimon, 2014, pp. 319-327). There is a flow of information, money and goods between the central unit and the individual companies. The same possibilities of co-operation and organization of flows have businesses among themselves. Such actions should strengthen the competitive power of enterprises, operational safety, and affect positively the financial position of a company. Faced with increasing pressure to meet short-term financing needs, companies are looking for ways to unlock potential funds from within the supply chain (Lekkakos, Serrano,2016, pp. 367-392). This way to do this is to create a purchasing group.

Figure 1 Organization scheme



Source: own research

The central unit of a purchasing group is often referred to as a purchasing group. This is the most important part of any group because it deals with the organization of the purchase of strategic goods or materials. It is an ideal situation when the central unit of a purchasing group is a company formed by all participants in a given group. This is a very good solution because it is strictly controlled by all participants, and most importantly it is not geared to profit. Its main task is to negotiate terms and conditions of the transaction with manufacturers. When analyzing the functioning of purchasing groups, it is worth dividing them into branch and multi-branch ones. This is an important division due to the effect of scale that these groups can achieve. In the branch GPOs, the number of suppliers is limited, so the scale of the negotiations is strong. In multi-branch ones this effect is "blurred." Many suppliers divide businesses into smaller groups, which makes purchasing power smaller. In the case of a purchase of certain services or materials these divisions may not occur, but such a division exists in the multi-sectoral groups in the situation when a purchase of strategic goods or materials for the unit is made.

Significant cost decisions are made in the area of logistics of group purchasing organizations. Companies operating in marketing and purchasing groups may organize deliveries in several ways, depending on the fact that they have the central warehouse that can serve as a distribution point. Choosing the right procurement method has an impact on costs. A rational strategy is to improve the profitability of a company.(Rushton, Croucher, Baker, 2010, p.27) In purchasing groups with the central warehouse, organization of delivery can be divided into four variants.

It is not easy to join a purchasing group. There are some entry barriers to be followed if companies operate in this type of organization. The most impor-

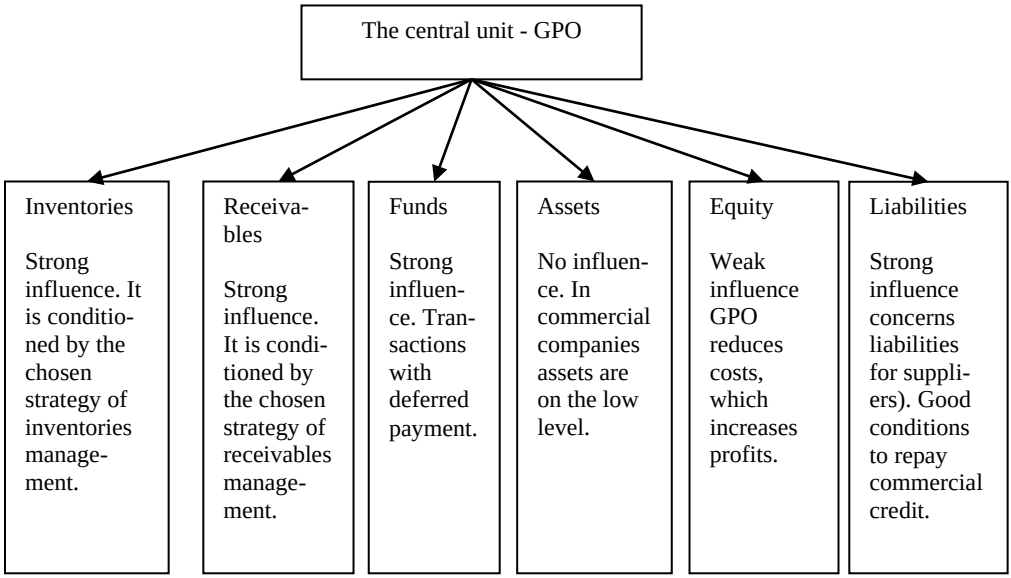
tant barriers for branch and multi-branch groups are (Zimon, 2016, pp.219-229):

• Territorial barriers, this restriction is related to the fact that there cannot be several companies operating in the same purchasing group in the same area. This limitation allows a company operating in a given area to compete effectively with other entities. The absence of this limitation would allow the creation of successive units in a given region with a similar competitive force, which would limit the financial performance of the two entities.
• Economic barriers, there are restrictions on a turnover which companies should implement.
• Environmental barriers, the environment of the enterprise is important.
• Positive recommendation by members of the group, individual members of the integrated supply chain must accept the new unit.
• Only those companies that operate in the same branch are allowed to operate in branch purchasing groups. There are no limits to this.

The impact of group purchasing organizations on corporate finance

Companies should grow and expand their position in the market. Functioning of GPOs just in terms of help is the norm. There are a number of finance areas where purchasing groups' role is visible, especially in the financial management areas. See Figure 2 for details.

Figure.2 The impact of purchasing groups on particular areas of corporate finance management



Source: own research

When analyzing fig. 2, one can state that functioning within GPOs has a positive effect on profitability and liquidity. Collaboration within the groups influences significantly on working capital and the individual components that make it up, i.e. receivables, inventories or liabilities. An efficiency improvement in these areas significantly affects the profitability of SMEs. (Pais M.A, P.M., 2015, pp.341-358). In addition, the central unit has an opportunity to negotiate long payment terms. The level of commitment will depend on the individual management strategy. The liability management strategy has a big impact on corporate profitability. (Madhou, Mossa, Ramiah, 2015). The effect scale allows to get a low price for goods, which directly affects the costs. Low prices are a weapon in the fight for business partners, there is a chance to win new customers, which should increase sales revenue.Running together reduces the risk of liquidity loss. Loans, mutual transactions- all this helps improve liquidity. Businesses in GPOs have a number of opportunities to improve the company finances. Their use and level of benefits in particular areas are already dependent on the stra-

tegy that the business manager implements and on the type of a purchasing group.

An analysis of the impact of GPO on the financial situation was presented in a group of 60 companies operating in 5 groups:

- Branch group A - 26 companies
- Branch group B - 7 companies
- Multi-branch group C - 5 companies
- Multi-branch group D - 6 companies
- Multi-branch group E - 16 companies

The first element that was analyzed was the dynamics of sales revenue. Joint purchases and an opportunity to get a low price and a long merchant credit gives an opportunity to encourage new buyers. Table 1 provides information on the dynamics of sales revenue.

Table 1. Changes of sales dynamics in the years 2015-2013

GPO	Growth	Decrease
A branch	19	7
B branch	5	2
C multi-branch	4	1
D multi-branch	4	2
E multi-branch	13	3
Total	45	15

Source: own research

When evaluating the dynamics it is clearly visible that in most companies approximately 75% of revenue were recorded in the years 2015-2013. In other units, revenues declined.
Another measure compared the dynamics of revenues and costs in enterprises during the period considered. And as with revenue, there was a greater increase in revenue over costs or a higher decrease in costs over revenue.
In 75% of the surveyed companies, the dynamics of revenues and costs can be assessed positively. The details are shown in Table 2.

Table 2. Change of costs and revenues dynamics in the years 2015-2013

GPO	Revenues increase	Costs increase
A branch	19	7
B branch	7	0
C multi-branch	4	1
D multi-branch	4	2
E multi-branch	8	5
Total	45	15

Source: own research

Then the financial liquidity was assessed. The ratio for coverage of current liabilities (table 3)

Table 3. Average ratio of financial liquidity in the years 2015-2013

GPO	2015	2014	2013
A branch	3,6	3,8	2,2
B branch	3,2	2,7	2,6
C multi-branch	1,6	1,5	1,4
D multi-branch	1,6	1,4	1,4
E multi-branch	2,4	2,9	2,5

Source: own research

When assessing financial liquidity, it can be stated that all the purchasing groups have liquidity at a safe level. The analysis showed that the largest groups A, B, E generating the highest revenue achieved very high liquidity, it can be said over liquidity. The smallest units scored at 1,4-1,6. A detailed analysis has shown that only in the multidisciplinary groups the companies that have difficulty in maintaining liquidity emerged. However, they represent a small share - three companies.

Another concerned the profitability of sales. The profitability of sales in all groups was reported to have risen in comparison to 2013. The best result was recorded by the sectoral group A. In addition, each company operating in a professional group earned profit in the periods under consideration. In the case of 8 companies operating within multiple-sectoral groups, losses occurred.

Table 4. Average profitability sale ratio in the years 2015-2013

GPO	2015	2014	2013
A branch	0,043	0,041	0,039
B branch	0,024	0,022	0,020
C multi-branch	0,032	0,024	0,032
D multi-branch	0,032	0,024	0,026
E multi-branch	0,034	0,003	0,029

Source: own research

Then the inventory management, current receivables and current liabilities were assessed. The details are shown in table 5.

Table 5. Inventory turnover of receivables and liabilities, inventory in days. Average for the period 2015-2026

GPO	Receivables	Inventories	Liabilities
A branch	66	59	63
B branch	61	69	53
C multi-branch	74	49	80
D multi-branch	49	70	83
E multi-branch	56	67	76

Source: own research

The high level of receivables should be assessed positively, it is not due to difficulty in debt collection but it results from the favorable merchant loans that are offered to customers. Such opportunities give companies an ability to operate in purchasing groups, as they receive an attractive merchant credit as a result of negotiations conducted by the central unit. They do not have to rush to pay, and therefore they can also offer their customers a favorable time to pay their debts. They can apply no aggressive debt collection policy. In the case of commitments very often in the sectoral purchasing groups additional discounts for early repayment of liabilities appear. Companies have high liquidity, have the opportunity to use such opportunities that have a positive impact on liquidity. Therefore, in these purchasing groups, the turnover ratio of liabilities in days is clearly lower than that of the multi-sector groups. The choice of the right commitment management strategy has a big impact on the company finances (Banos-Caballer, Garcia-Telurel, Martinez-Solano, pp. 1189-1204).
Inventory management needs to be positive, results are average and group purchases are higher than actual needs. Therefore, the stock is often beyond the actual demand. This is the cost a company bears because of the desire to get a low price for a product. However, after comparing the cost of maintaining of inventory excess and the price we achieved the company policy of buying over the demand is favorable. Additionally, this action increases the level of liquidity or security of the enterprise.

Conclusions

The analysis conducted has shown that joint action brings financial benefits to companies. This is evident primarily in the fields of liquidity, profitability and management efficiency. Functioning in multi-branch and branch GPOs increases the financial liquidity of businesses. This is due to the purchase of goods often over demand, extended payment deadlines, increased sales, the use of discounts for early payment. The profitability of sales is most affected by the decrease in cost items in the value of goods sold at the purchase price. Certain costs groups such as inventory management, maintenance costs of the central unit increase. However, the reduced price of purchased goods and materials compensates for these costs. An attractive price allows to attract new customers and keep the existing ones which positively influences an increase of sales revenue. An analysis of cost and revenue dynamics is beneficial for 75% of companies. When analyzing the results of all groups, it is important to note that the companies that are ac-

tive in the branch purchasing groups are more successful. In this type of group there are no additional divisions, which positively influences the effect of scale and the negotiating power of the central purchasing organization.

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