

Buying Groups: Fact Or Fiction?

Despite what many people may say, buying groups of various types and sizes are effective.



By
Bill McCurry

Mention buying groups and otherwise reasonable people — especially those who do not belong to one — quickly jump into denial saying these groups provide no benefit. Actually, the reverse is true. Just ask members who tend to sing their praises without reservation.

If you are a sports fan, go ahead and argue endlessly about the Red Sox versus the Yankees, but if you are a garden center, it is time to wake up and smell the roses. There is no argument. Buying groups of various types and sizes are effective, in many cases despite their members.

The Extremes Of Grouping

There are different varieties of buying groups. The simplest form is local garden centers getting together informally and splitting a truckload of bulk product. For instance, six garden centers pool their pottery order to save freight costs. In this informal relationship, each retailer pays the vendor directly, and the freight savings are split pro-rata among the retailers. The transaction lowers the costs, and the savings are typically passed on to the buyers.

Home and Garden Showplace, a True Value division specializing in garden centers, represents the other end of the spectrum. Showplace members are actual shareholders and share the profits of the corporation. The group's goal is not to make a profit or have huge dividends but rather to provide their members the lowest possible consistent cost of product.

Showplace dues, \$500 a month, are high for most garden centers, but members receive a large payback for the expenditure. Smart Showplace members "outsource" much of their procurement to the group, thereby paying a generally lower rate and saving the buying costs. Showplace feels it can help members with 95 percent of their non-payroll and non-rent expenses. The group offers members inventory at low prices as well as virtually every other major expense service, like credit card processing, insurance and even capital goods (i.e., fork lifts or tractors).

We hear non-members say they can buy just as well without the group. They claim suppliers

need to make a given margin on every sale, so prices level out over time. This opinion doesn't just fail the smell test — it stinks. We have very high respect for organizations like Bachman's and Gerten's in Minneapolis, Minn. Why would these huge organizations pay monthly dues to a buying group if membership were not beneficial? Those who believe joint buying is not beneficial appear to be either naïve or in denial.

Benefits Of Joining

Most suppliers will tell you candidly that buying groups do get a real advantage for members. In some cases, it may only be 2-3 percent, while in other situations it is a much larger number. There are many reasons for these savings. One is that properly run buying groups will actually lower the supplier's cost. For example, Showplace buys in very large quantities and handles the shipping to their members. This reduces the supplier's costs. So long as Showplace can handle the redistribution in a cost-effective manner, the member gets a lower landed cost.

Some buying groups accept the responsibility for the supplier's payments. Thus, the supplier has to invoice only one entity, and its credit risk is reduced. In some cases, the groups are in a position to pay promptly — ♦

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or early — so they receive an additional advantage. The reverse can also be true. One supplier told us of a group that promises prompt pay but drags it out. He admitted he takes that into consideration when he sets their price.

Another way groups reduce supplier costs can be through communication with members. Marketing and sales costs can be reduced or handled more effectively when the supplier and group work together.

Some buying groups offer superb marketing support to retailers, with quality that is impractical for a small retailer to attempt independently. By pooling the needs of hundreds of garden centers, the buying group can provide members with marketing vehicles at substantially lower costs for both supplier and retailer members.

Drawbacks Of Joining

Some suppliers see a downside to buying groups: They consist of independent garden centers, which is both a blessing and a curse. Since few groups have mandatory buys, in reality, all a vendor receives from a buying group is a hunting license to solicit business from its members. Some vendors report that giving a deal to a buying group only reduces the prices for its existing customers without generating any new volume for the vendor. Obviously, vendors find this unacceptable and cannot let it happen continually. Groups are being more proactive in communicating with members the importance of working as a group to pool their volume. Some progress is being made, but each member remains independent.

Some groups tell us they have informally discussed the feasibility of requiring support of various group efforts. It is difficult to force the issue, as groups continue to stress that members are independent to make decisions. The groups are not running the business for individual members. Clearly, if this is a major problem, groups will see some vendors withdraw. Members have to realize there is no free lunch, and they must support the group for their own long-term best interest.

Many suppliers do report great support from group members. One told me that once he established his vendor relationship with a group, he got access to formerly unreachable key decision makers. He still has to earn the business, but now he has a receptive audience.

How To Succeed

In one major U.S. market, there is an informal group of four members who each belong to the same larger national buying group. I visited each of them and had lunch with the most successful of the four. His biggest problem? He does not know where he should invest his excess cash. He was looking at a multi-story

office building nearby. His problem was too much cash. The other three retailers had the reverse problem. My obvious question was, “How are you successful while the others are frustrated?”

After humble statements like, “I have a good team...I’m lucky...God smiles on me...” I finally got the real answer: “Let me tell you my rules for dealing with my three friends,” he said. “Within our group, we have a fund we each pay into on a voluntary basis to do local marketing. Sometimes it’s a newspaper ad, sometimes a flier. We do 4-6 of these a year. We each pay a quarter of the cost. We meet for dinner to discuss what should go in the ad, and I tell them I will leave immediately after desert.”

“I walk out between 8:00 and 8:30 p.m. They usually are there until 1:00 a.m. or later. They argue about things that aren’t worth my time, like ad color, type font, etc. I tell them I don’t



Members of buying groups can see savings of 2-3 percent, while in other situations the savings can be much larger.

care if my name is first in the location listings, just so it’s done fairly.

“I have a lot to do, and I have to delegate. The people in our group’s national office are bright. They generally make good decisions. I will try every single thing the national group offers. We average about 80-percent success. We think that’s pretty good. My friends are still arguing over whether the local ad should use a blue or red accent color, while we’re using our time and efforts to launch new products that we never would have tried without the national buying group. I’m making money by not nit-picking what the group does. They can’t see that they will never grow or get rich if they fight every little decision. They can’t let go to grow.”

This makes huge sense. As delicately as possible, I raised the issue with one of the less successful members. He was quick to point out all the products that had failed for the successful member and told me why all the ones that worked would not work in his “unique circum-

stances.” I shook my head. Some folks are so busy defending their bad decisions they can no longer see opportunities.

A Different Kind Of Group

Most garden centers think a buying group provides access to cheaper products for resale. There is a major exception to this with The Garden Center Group. It is a unique concept that serves its members well. Most garden centers cannot afford full-time experts in every competency area they need, like marketing, finance or human resources. The Garden Center Group is not really a consulting organization. I would call them a buying group that buys industry intelligence and garden center knowledge for their members at a very attractive price.

Their team of experts learns about every member and provides valuable input that otherwise would be unaffordable to a single garden center. Tom Young (Young’s Garden Center, Ft Mill, S.C.) has had minimum annual gains of 20 percent every year since joining and gives total credit to the guidance and proprietary benchmarks he has gotten from the group. That is an impressive testimonial.

Time To Join

Both The Garden Center Group and Home & Garden Showplace are very open when talking to prospective members. Like other organizations, they have annual meetings with impactful speakers to keep members current on business and industry changes. If a retailer is considering joining either group, he or she can complete the paperwork but not make the final decision until after being a guest at the annual meeting. Both groups are proud of the fact that they let garden centers see what they are getting, as that greatly increases the likelihood of prospective members actually joining.

A large, successful Ohio operator has one person doing all of the buying. A nearby store, approximately one-third the size, has three buyers. How does the big operator do it? “I look at my buying group as if it were my employee. They hunt down the best deal, and I take their word for it. What it would cost me to add staff wouldn’t be recouped by better pricing. Sure, with my volume, I know there is a deal or two I could beat, but we’re talking dimes and quarters against large payroll costs. I swallow my ego, follow the group’s lead and put a lot of money into my bank.”

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