



Belonging to a Buying Group

Abstract

The following document explores the case for independent businesses to join a Buying Group within their industry sector. It discusses the problems many Independents currently face “going it alone”, illustrates the specific benefits of being part of a Buying Group, and identifies the structure and characteristics of the most successful Buying Groups.



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This whitepaper has been created and developed by
Buying Group Services Inc.



The Challenges of Being an Independent Business

Grow market share and compete without having to give up your independence.



Independent businesses have a great advantage over their corporate competitors. They possess an entrepreneurial spirit that is difficult to match and they have the ability to react to market conditions very quickly. However, the nature of the supply chain within which Independents exist can often lead to a competitive disadvantage versus their much larger corporate rivals.

Multinational or even National competitors can often purchase some of the same products that Independents require for prices that are below their cost. New products or services are often available to these competitors months before the Supplier's representatives calls on the Independent. When a product is in short supply, often it is the corporate competitor that receives the goods, not the independent business. The result is reduced sales and lower margins at best and at worst, the closure of the Independent business. To top it all off many Independents are unable to find buyers for their businesses after a lifetime of successful operation.

The reason for this seemingly unfair situation can be traced to the fact that the National and Multinational Corporations have a much more efficient supply chain. The extra margins gained through the efficient supply chain has fueled their rapid growth and enabled them to amass even further market share power. In the past two decades there has been a rapid consolidation of supply sources and purchase options for Independents. This competitive onslaught from these business models has forced the "independently" owned business to accept lower gross profit margins, trim R&D monthly expenditures, focus on more narrow market niches or simply go out of business. The Independent has responded to these new realities through innovation, finding market

niches that they can compete in by providing “customer service” and through “immediate innovation when required.” However, this is not enough, since it does not address the supply chain inequalities. The only way to address these inequalities and yet remain independent is to join a Buying Group.

That is, join a collection of likeminded independent businesses that come together to achieve buying and service efficiencies. We believe an effective, well-managed Buying Group is the most effective tool the Independent owner can use to increase margins, grow market share and compete effectively without having to give up their “independence.” The remainder of this document will review the benefits of being part of a Buying Group and discuss the operational aspects of Buying Group membership.



Types of Buying Groups

- Co-operative vs For Profit
- Central Bill vs Direct Bill
- Marketing vs Buying vs Combined
- Affinity vs Core Products
- Co-operatives vs Cooperatives

How do Buying Groups work?

- Have Members involved
- Collaborate with Suppliers
- Share Best Practices
- Use Central Billing
- Manage Credit Risk
- Have Education Programs
- Support Next-Gen Leaders
- Keep Programs Confidential
- Are Professionally Managed

Benefits of Belonging to a Buying Group

There are numerous benefits that Independent businesses derive from being part of a Buying Group. In general terms these benefits can be categorized into financial benefits that go straight to the bottom line, and non-financial benefits that are harder to quantify but they provide real value to the Members.



Financial Benefits

Improved net pricing

The combined purchase volume of the Buying Group guarantees improved net prices paid. These savings will be passed on to the Member through a combination of lower invoice pricing, quarterly rebates, annual rebates and performance related rebates.

Improved / extended terms

The Buying Group often negotiates more favorable payment terms including higher prompt pay discounts and longer standard terms.

Unique product offering

The Buying Group through its combined purchasing volume is able to make available to its Members products that otherwise would not be available. Container Buys off-shore and unique sourcing organized by the Buying Group allows the Independent to offer something unique and protect their margins.

More efficient invoice and payment processing

Centralized billing through the Buying Group means that most of your purchases will be paid for by a single payment to the Buying Group who will look after paying all of your individual Suppliers. Electronic web presentation of all your invoices and statements streamlines your paperwork even further. These efficiencies will translate into a real cost saving in your accounting office or a redeployment of manpower to other areas of your business that can provide a higher return.

Central Billing

The centralized billing through the Buying Group also ensures you receive any credit entitlements immediately, and not applied against some future purchases. Less time spent, fewer mistakes and quicker refunds go directly to financial benefits.

Professional Marketing/Training Programs to Generate Sales

Buying Groups do not only focus on reducing costs of materials purchased and creating savings through efficient operating procedures; they also focus on increasing their Members' sales through Professional Marketing/Training Programs. Ultimately, the Members of the Buying Group will decide the appropriate amount of Marketing that they require.

Group or Pool Buys

Pool buying reduces investment and increases frequency of replenishment. Many Buying Groups find it financially beneficial to all participants in the supply chain to have regularly scheduled "Pool" buys, where Members' orders are aggregated before sending the order to the Suppliers to be filled. This process reduces costs for all parties, yet delivers a dependable consistent replenishment for many product lines.

Non-Financial Benefits

Forum of like-minded business owners to share ideas and discuss solutions to common problems

Buying Groups regularly bring their Members together for various special events, meetings and trade shows. These functions provide industry specific information that assists the Independent in running their business. However, this industry specific information's value is often dwarfed by the value of the exchange of ideas and the discussions surrounding common problems faced by the Members that occurs informally at these functions. The Independent without a Buying Group must often make major decisions about his / her business alone because few of his / her personal acquaintances understand what he or she is facing. It is hard to put a monetary value on being able to pick up the phone and talk to someone who understands your business issues, and has a vested interest in helping you succeed as a Member of the Buying Group.

Generation of a pool of potential purchasers if you decide to sell your business. For many Independents, the prospect of selling their business for what it is worth is very slim. Buying Groups not only can provide the required assistance to help in this process, they have a vested interest to ensure that the new business owner continues to be an active supporter of the Buying Group. Many times, it is another Member from the Buying Group that ends up purchasing the business and the Buying Group can help facilitate this.

Annual meetings with the Supplier's senior executives

Suppliers want the companies that use their products to be successful at doing so. Most want to know what they can do so those same companies can use even more of their products. Buying Group events held specifically to foster dialogue between Preferred Suppliers and the Members can accomplish this. Both Members and Suppliers benefit from the sharing of knowledge that can help improve both of their top and bottom lines. Senior Executives from the Preferred Suppliers can afford to take the time to meet with Members at a Buying Group function, but rarely could they afford the time to call on each one separately.

Centralized negotiations for major product categories improves results and frees the Independents' time to focus on the areas that will increase performance in their business

The task for an Independent of determining which Suppliers of key product lines are the best from an overall value proposition is daunting. With limited information and hundreds of potential Suppliers to evaluate, the decision-making process can consume weeks of valuable time and often results in less than ideal outcomes. A Buying Group is able to survey all of their Members with regards to the experiences of dealing with a Supplier, have presentations from all key Suppliers vying for the Buying Group's business, have a committee of "category expert" Members assist in the evaluation process, all led by a Professional Manager who is an expert in negotiating to insure the process results in the best decision being made. Members can focus more time on growing their business, knowing that the products they use are coming from the Suppliers that provide them with the best overall value.

Affinity programs that generate real benefits

Many businesses belong to Associations like the Chamber of Commerce or an Industry Association that offers Affinity programs to help with the cost of some expense items like telephone and group insurance. The nature of these programs is that most of the financial benefit accrues to the Association not the Independent business. A Buying Group sponsored Affinity program has all the financial benefits accruing to the Members through the Buying Group. In addition, the Buying Group is a specialist in negotiating the best deal possible for their Members.

Life-Time Friends

The life of an Independent business owner or manager can be a lonely one. Few neighbours and acquaintances understand or appreciate the time, commitment and resources required to make your business successful. In a Buying Group, all do. In many Buying Groups, the Members become like a fraternity or even a family; caring and supporting in times of need, fun loving and great to spend time with at other times. Often annual events are structured to encourage family participation.



“The more relationships we have with like-minded businesses, the better we are able to solve problems and move our business strategies forward that much faster.”

- Garrett Wall, Centra Construction Group
Fenestra Purchasing Co-op Member

The Components of a Successful Buying Group

Many aspects go into making a successful Buying Group. “How the Buying Group is Governed” meaning “How are the strategic and fundamental decisions made by the organization?” is one of the most important success factors. Although the services offered by Buying Groups differ, the most effective Buying Groups are governed by the following two principles:

1. Democratically controlled – most Buying Groups are governed by the principle of one vote per Member when electing the Board of Directors or approving changes to the By-Laws of the Buying Group. This principle insures the Buying Group operates for the benefit of all of its Members, regardless of their size.

2. Income (rebates earned, less expenses) is distributed based on participation – Members share in the value generated under various programs, proportionally based on their participation in the program. This principle ensures that the Members that support the Buying Group initiatives to a greater extent, receive their proportionally larger benefit.

Many Buying Groups are structured around the Buying Group business model which embodies these two tenets. The Buying Group governance model fits as an effective and fair management approach required by Independent businesses coming together. Specifically, the Buying Group model ensures the Buying Group is for all the Members, by all the Members – one Member one vote. Larger Members are rewarded financially proportionally to their participation yet the Buying Group model creates a level playing field for smaller Members who support the Buying Groups’ initiatives.

Traits that successful Buying Groups share and why they add value to their Members.

- **They leverage and then focus the purchasing power of many Members across the country to gain product net cost parity with larger corporate competitors.**
- They leverage the ability to hire professionals to perform specialized tasks to benefit the entire Membership.
- The Buying Group and its Members adopt a technology strategy that provides detailed purchase information of each Member from each Supplier and has the tools that can exploit this information to truly create tremendous value.
- The Members actively participate on the Buying Group's various Product Category committees.
- The Buying Group has a culture where Members share ideas in an open but confidential manner. Most Members face similar problems, and the sharing of Best Practices provides for a stronger Buying Group.
- The Buying Group listens to its Members and then provides services that Members need and desire.
- The Buying Group is financially secure with a strong balance sheet providing the confidence required to its Members and the Preferred Suppliers.
- The Buying Group works to ensure that all its Members are financially strong, and limits the Buying Group's exposure to those Members who might become a financial risk.
- Preferred Suppliers are treated as partners rather than as adversaries. Preferred Suppliers must be consulted and asked *“What can we do better to help you, so you can help us?”*
- The Buying Group must have a strong management team that can manage and operate the Buying Group to achieve the desired results.



Of course, the benefits of membership require the Members to support the Buying Group.

In order to participate in a Buying Group, the Members must purchase a membership share. They must also support the Buying Group by purchasing from Preferred Suppliers. They are also required to participate on Product Category committees and attend Buying Group functions when practical to do so.

It is also their responsibility to ensure their own business remains financially healthy, pay invoices on time, and submit financial statements regularly for review.

Finally, Members are required to keep rebate and other Buying Group information confidential. By doing these kinds of things, Members ensure the Buying Group is viable and that it is able to achieve the benefits required by the membership.

“Being a Preferred Supplier to Fenestra is like having a second sales force, with the Members positively influencing each other to purchase from us. Our penetration rate definitely increases when dealing with Fenestra Co-op Members.”

Bob Latour, Novatech Group
Fenestra Purchasing Co-op Preferred Supplier

Suppliers support successful Buying Groups

When an independent business joins a Buying Group it means change for their Suppliers. For some Suppliers, change, any change is perceived to be bad. But for most Suppliers, working with a successful Buying Group is a great business opportunity to increase sales while reducing credit risk, and to reduce selling and administration costs.

The key to a successful Buying Group is that it brings efficiencies to the business relationship between the Supplier and the Independent. Then shares the benefits generated with all parties. This truly creates a winning situation for both Suppliers and the Members of the Buying Group.

... and experience supportive benefits.

- Suppliers are able to negotiate “the deal” with the Buying Group on behalf of all the Members in the Buying Group instead of trying to strike a deal with each Independent separately.
- Centralized billing through the Buying Group means much lower administration costs and greatly reduced credit risk.
- Suppliers are able to structure a portion of “the deal” as confidential rebates which protects the street price of their products while still rewarding the Buying Group Members for their support.
- Suppliers are able to structure a portion of “the deal” as performance-based rebates, insuring that they incur only the rebate expense if sales or unit volume targets are met or exceeded.
- Senior executives are able to meet with all the Members at Buying Group functions or trade functions to gain valuable insight on how their company is performing.

FAQ

Frequently Asked Questions

1. *Am I required to change my purchases from my current suppliers to the buying group suppliers?*

One of the major benefits of any Buying Group is the selection of the Preferred Supplier that provides the best overall value proposition for each product category. In many cases, the Preferred Supplier will be the Supplier you currently deal with for that product category. You will simply enjoy better net costs and off-invoice advantages than you previously did before joining the Buying Group.

In other cases, the Preferred Supplier will not be the Supplier that you currently purchase that product category from, and you will be expected to switch Suppliers. In most cases, the Preferred Supplier's program will assist you in that transition by providing training, specials on new equipment and buy-back programs of your old inventory. Experience has shown that the Buying Group whose Members loyally support their Preferred Suppliers will be rewarded handsomely. Suppliers soon learn that they can quickly gain or lose sales volume depending on whether they are selected as a Preferred Supplier. The short-term pain of switching suppliers will be offset by significantly better overall value.

There may be a few exceptions to the "Buy only from Preferred Suppliers" rule, but these should be minimized. For example, if your brother-in-law is the Sales Representative for a Non-Preferred Supplier, you may still feel the requirement to purchase from him. There may also be some regional distribution issues that require you to purchase from a local supplier rather than from a Preferred Supplier.

2. *Will I have any input as to how the Preferred Suppliers are chosen?*

For each major product category, a small number of your fellow Members will be chosen to participate on the negotiating team, along with a specialist from BGS. The Preferred Suppliers are then chosen based on a wide set of criteria which includes factors from pricing, rebates, terms, return policies, service levels and the product brand acceptance.

3. *Will I know the negotiated deal details?*

All "non-confidential" details of the deal negotiated with the Preferred Supplier will be available on the "Members Only" website. These details will include standard payment terms, freight allowance policy, claims procedure, and all of the Supplier's Contact Information. You will not have documented access to details of the "confidentially" negotiated rebates, allowances or special deals for Buying Group Members. Only the negotiating committee and BGS Management know the full terms of the negotiated deal. Strict enforcement of Preferred Supplier confidentiality enables Suppliers to offer better overall pricing only to the Buying Group Members without the risk of competitors or other of the supplier's non-Buying Group customers knowing and saying "me too!"

4. *Am I required to change my purchases from my current suppliers to the buying group suppliers?*

Rebates are a powerful tool for both the Preferred Supplier and the Member. Suppliers like rebates for two main reasons;

1. First, they protect the “street price” of their products
2. Second, they can structure the rebates such that they only pay for performance

The Independent wins because they are able to protect the margins made on the sale of the products from their sales force that often wants to discount to the maximum allowed based on the invoice price. At the end of the year, the rebate cheque comes in and goes right to the bottom line!

5. *How are the financial benefits (rebates, etc.) passed on to me?*

There are many benefits to belonging to a Buying Group, some that can be directly measured financially and others which are more difficult to quantify. On a day to day basis, the Buying Group will save you money through lower invoice pricing, better terms, and more efficient processes for invoicing, payment and claims. You will save time that can be focused on increasing sales, customer service and making other improvements to your business. You will have access to resources that help your business be more successful. The return on investment of joining a Buying Group is substantial for the above reasons alone.

In addition you will receive rebates on your purchases. Rebate cheques are delivered with a statement of where and how it was earned. As the Buying Group grows in size and the Members truly focus their purchases towards the Preferred Suppliers, the rebate cheques grow year after year.

6. *Who is my contact at the Buying Group office?*

Your Buying Group operations are managed day by day by a General Manager supported by a team of people employed by Buying Group Service Inc. In most situations, your contact will be this General Manager. He / she is an industry expert and has overall responsibility for your Buying Group’s operation, including being responsible for gaining and sharing industry knowledge, attending industry trade shows, annual negotiations, Member and Supplier Relations.

7. *How much will it cost me to join?*

If the buying group is setup as a co-operative model, you may be required to purchase a Membership Share when you join the Group. If at some point in the future, you decide to leave the Buying Group, the monies paid to purchase the Membership Share will be returned to you. The amount of the Membership will be determined by your Buying Group’s Board of Directors.

If the buying group is not setup as a co-operative, but rather under a for-profit or privately-held buying group, you may be required to pay a one-time setup fee.

In each buying group model, the Member may be expected to pay an Annual Participation Fee that is used to fund the Members’ travel costs to attend annual Group events. The exact amount will be determined by your Buying Group’s Board of Directors



Buying Group Services Inc.

is a leading firm specializing in the formation, development, and operation of Buying Groups. We manage Buying Groups into achieving competitive buying power with primary focus on providing services across North America. BGS has collectively been working for, members of, or suppliers to buying groups and purchasing co-operatives for a combined total of over 100 years.



Through an array of our Managed Services, BGS offers solutions and best practices to all of the key aspects of running a successful Buying Group. We offer solutions on Rebate Program Design, Rebate Negotiation Process, Rebate Program Optimization, Increasing Member Support of Programs, and Member Recruitment.

We also have extensive experience implementing the transition and minimizing the credit risk to Central Billing, helping Boards make the transition to an effective governance model, and operational best practices to manage your unique group.

Since we offer our services as individual products or as a whole, you are able to select which services are the best fit for your group's success.

This is Your Opportunity to Participate

As an Independent business owner or manager, you have the opportunity to participate in a Buying Group and share in the benefits discussed in this document. If you would like to participate or would just like more information, please contact Buying Group Services today. We are able to answer any questions and identify how you might become involved.

208 - 140 Fullarton Street, London, Ontario N6A 5P2 Canada
1700 - 111 West Jackson Blvd., Chicago Illinois 60604 U.S.A.
(888) 809-9754
buyinggroupservices.com



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