

A Closer Look at

Jan/San Buying Groups

BY DAWN SHOEMAKER



Recent surveys indicate that buying groups are quite popular among distributors. And faced with more demanding, sophisticated customers as well as increased competition from a variety of conventional and nontraditional sources, it is likely that many more will join the buying group bandwagon. It is often believed that the potential cost savings attract distributors to buying groups. However, surveys report that it is not necessarily the possible cost savings or rebates that are the major attraction for joining. It appears the lure of buying groups goes far beyond dollars and cents.

In a recent interview, Doug Leaman, vice-president of sales for Pro-Link, helps us better understand the history of buying groups, how they work and how they can help.

How do you define buying groups?

Buying groups organize independent distributors into a network. At the most fundamental level, buying groups help strengthen the buying power of the group's individual members. This can translate into lower prices, access to better products, professional sales and marketing support and many other benefits.

When did they first appear in this industry?

Buying groups first emerged in the early 1960s. However, some of their biggest growth has occurred in just the past 15 to 20 years. Mostly, this is because of the increased pressure and competition many distributors experienced in the 1990s. Mergers, acquisitions, business failures and the emergence of large competitors caused a dramatic reduction in the number of distributors in the U.S. Additionally, some distributors believe they are seeing less and less support from the national manufacturers and more competition from local distributors who have access to similar brands. This has forced many of these distributors to seek shelter, believing that joining a buying group could help them weather the dramatic changes.

Have buying groups succeeded in keeping some independent distributors in business?

Yes, I do believe this is true. This is because they helped level the playing field, allowing the small- to mid-sized distributor to enjoy some of the same buying power as a much larger distribu-

tion house. Buying groups have also helped members streamline operations by offering centralized billing systems, e-commerce and other state-of-the-art technologies. And some groups have very strong sales and marketing support, which is a big benefit to the small- and medium-sized distributors.

How does a distributor select a buying group?

This can vary greatly with the type of distributor. Most look for some degree of improved purchasing power by being part of a buying group. A strong national accounts program — where

the buying group itself sells direct to an end-user with multiple locations and then “feeds” the business to a local distributor — is important to many distributors. Some of the more astute distributors realize that buying groups can also help them run their businesses better. For example, one group has developed a program of financial and operational benchmarking that allows its distributors to compare their business operations and financial measures against others in the group and the rest of the

industry and offers support and guidance in making improvements to the business. Distributors can determine areas of their business that need to be streamlined or otherwise improved.

When selecting a distributor, what do buying groups look for?

It varies by group. Some look for market coverage as their main objective and others are much more selective because they



tend to provide more sales support and marketing programs and they only want distributors who are really going to support the programs that the buying group develops. Still, in general, many buying groups look for the same qualities that end-users look for when selecting a distributor.

If cost savings are not the only draw of buying groups, what are?

Our experience is the ability to share expertise and information and help fellow members tackle a variety of industry-related challenges. We have also had members that wanted to enter certain markets, such as education or medical, but were unsure of how to approach them. Other members, knowledgeable in these fields, will share their experiences.

How do buying groups select which products and manufacturers to work with?

In general, buying groups look for suppliers that provide high-quality products on a consistent basis and good service levels and that bring innovation to their particular product category. Beyond that, there are differences in what the different groups look for. Some try to get as many manufacturers into their program as possible to help drive rebates. Other buying groups try to develop complete programs versus just selecting specific products. Buying groups have found that distributors are more successful in reducing end-user costs and increasing labor savings when they sell a package of products, including training and service, instead of just focusing on the price of a particular item. Because of this, some buying groups try to put together a comprehensive program behind each product category.

Why wouldn't a distributor join a buying group?

For the most part, the independents that do not join buying

groups say they are large enough to already take advantage of bulk ordering from manufacturers, receiving many of the cost savings and rebates extended to buying groups. Also, because of their size, they may have the resources to provide greater field support to their customers, can service large clients in multiple locations and often have large product offerings. However, even large distributorships find there are benefits to belonging to a buying group, such as the ability to share experiences with other members and participate in national account programs.

What are the benefits to the end customer?

Distributors that are part of a group can bring the customer the benefits and economies of scale and better leverage, while still providing local, personal service. The more knowledgeable and service-oriented the distributor, the better able it is to help its customers handle their cleaning and maintenance issues. End customers place a high value on this knowledge, especially the larger facilities. In many situations, it helps form a bond between customer and distributor. The distributor is now doing much more than selling chemicals or vacuum cleaners and actually helping the facility managers operate their facilities in a healthier, more efficient manner. And this not only improves the customer-distributor relationship, but helps build the respect and professionalism for our industry as well. And if the customer is a national company with multiple locations across the country, the distributor and the buying group together can provide consistency, efficiency in the ordering process, compliance to cleaning standards and product selection and uniformity of training. All of which are important to large end-user accounts. **MS**

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