

Buying Groups: A lifeline for independents?



Worldwide independent sport and outdoor retailers have clubbed together to form buying groups that give them muscle when negotiating with suppliers and provide a forum to discuss mutual concerns. How do buying groups work and what are the benefits? TRUDI DU TOIT explains. Photo's NICOL DU TOIT

Kloppers is part of the ISER Expert buying group.

Independent retailing is not for sissies. Apart from customers zipping their purses as the economic downturn divert their spending away from leisure towards essentials; the playing fields within the industry are becoming more uneven.

While chains that can negotiate excellent discounts from brands like Nike and adidas are spreading to all corners of the country, these brands are closing the accounts of independent retailers with orders below a certain minimum (R100 000 has been mentioned), forcing the independents to buy through wholesalers.

The agent calling on a retailer to present new ranges, talk about trends and swop news, is fast becoming a protected species. Instead of touching, feeling and hand-testing new product, smaller traders have to choose stock from internet websites.

With all these challenges, independent retailing is indeed a career choice for the brave... and the fact that the number of SA independent traders keep on growing (see charts p64), bears testimony to an indomitable spirit in the industry.

But, there has been some talk about independents getting together and forming a united front to improve their buying strength. An anonymous email, punting the possibility of forming a buying group for independent retailers, was sent to several traders just about the time when *Sports Trader* began working on an

article exploring the pros and cons of buying groups.

What is a buying group

A buying group consists of large numbers of like-minded retail store owners who join an organisation that represents them as one account when dealing with brands and manufacturers. The members retain their independence, but enjoy many of the same benefits as the larger chains when sourcing. The group's administrative staff pays the suppliers and then seek reimbursement from the members.

The brands get the benefit of operating one big account, instead of 50 or 100 smaller ones, and also have the assurance that they will be paid without too much hassle. "Operating one account is a major benefit for suppliers who credit insure," explains Jonny Aarons of the ISER (Independent Specialist Electronic Retailers) Expert buying group, based in Johannesburg (see p62).

The buying group members benefit because their combined buying power gives them access to brands and products at competitive prices that they might not have been able to stock as individuals. Some buying groups negotiate exclusive ranges and rebates for their members, and some of them have trade shows where buying group members get together to view new brand launches.

The individual traders also get one united voice to negotiate with brands – which can

act as a lobbying group.

According to Aarons one of the biggest benefits of a belonging to a buying group is the opportunity to share information. In the electronics industry they created several forums for members to get together to share information on topics like fraud prevention, how to deal with commissions, expenses, point of sale, etc. "You can learn lot by getting together to learn and share experiences, it creates camaraderie."

Apart from the enhanced buying power, there is the added *brand power* generated by joint advertising and marketing campaigns, adds Grant Ponting, joint owner of Trappers Franchising (see opposite).

Although the funding models might differ – some would work on membership fees, others on a share of the rebates, others would be non-profit organisations where the members pay staff fixed salaries – all buying groups are administered by a core group of staff members that liaise between the members and brands, do credit checks, invoice members and process payments, etc. They usually report to a board elected by buying group members.

Some buying groups would buy core ranges on behalf of members, while other groups will leave individual orders to members.

Buying groups also provide the opportunity to its members to import their own branded goods together, where on their own, the member would not have enough volume to interest



Mark Ponting (centre), here with Aisha Joseph and Vaughan Frankiwitz of Trappers Fourways, offers independents greater buying power through the franchise.

the overseas supplier, says Aarons.

The downside

Independent retailers usually value their independence and it might not always be easy to get everybody to “speak with one voice”. A group with 120 members might have 120 ideas about how the organisation should be run.

Members also need to be credit-vetted carefully to ensure that other members do not carry the can for an errant member who fails to pay his accounts. “Before allowing anyone to join, you have to look at their financial standing,” says Aarons. “A buying group has to be careful before opening an account for a member – even if they don’t pay us, we still have to pay the supplier.”

Buying group members will also want to ensure that members don’t poach customers from each other when all gain access to wider product ranges, which might formerly only have been available to specialist stores.

Brands might also be wary of supplying a diverse buying group with product models aimed at stores with a specific customer profile.

“It is not so easy to form a buying group, as there is a lot of trust required between the independent retailers and their suppliers,” cautions Aarons. “It is a long process, during which people need to learn to trust each other.”

Another difficulty in setting up a buying group is the funding required, Aarons adds.

Differ from franchises

While franchisees would require their members to adopt their name, signage and have a similar look when presenting merchandise, buying group members are usually allowed much more individual freedom. Some buying

Apart from the enhanced buying power, there is the added *brand power* generated by joint advertising and marketing campaigns

groups might require their members to adopt the group name and have uniform, easily recognisable, signage, that identify them as part of the group, others allow individual members much more freedom, with just a logo identifying them as group members.

“Franchising is a business relationship where the franchisor licenses the franchisees and gives them the right to market the franchisor’s products and services, use its intellectual property and use proven methods of doing business, for a fixed period of time,” explains Grant Ponting of Trappers, a franchise group that has been operating in the SA outdoor industry for the past twenty years.

While you know exactly what will be on the menu when you walk into a franchise like the Spur, the members of a sport buying group will

be diverse. One may, for example, specialise in sport footwear and clothing, another in soccer, while yet another could be a general sport or outdoor retailer.

Buying group stores are not required to offer the same merchandise and have a lot of freedom when sourcing products, for example from suppliers that did not sign agreements with the group.

Franchise holders and successful independent members of a buying group will, however, share similar characteristics. Ponting characterizes a franchisee as “an independent, entrepreneurial-minded individual who wishes to own and run his or her own business.” But, while a franchisee must be prepared to uphold the values of the brand and only need to put up 80% of development costs of a store, a member of a buying group will take sole responsibility for funding his store, which will remain his own “brand”.

Trappers

Trappers Franchising is owned by Mark and Grant Ponting who, along with a small management team based at their head office in Johannesburg, run the franchise system. The first Trappers store was opened in the early 1980’s in Pietermaritzburg, and after it grew into several stores, the Pontings bought the group in 2002. Their current group of 25 franchise stores has grown conservatively “ensuring that each potential franchise

To p62

Buying groups from p61

owner is well equipped to take on the demands of owning and running an outlet in the outdoor industry.

“Trappers acts as a buying group for its franchise members, but does not yet provide any services to non-franchised stores in our industry,” says Ponting. “We provide a buying group/franchise system whereby independent retailers can benefit from bulk discount and buying structures, along with the other services already mentioned.”

They are also looking at opportunities on expanding the buying group power primarily through a wider franchise network but also with partners who already have existing buying group presence in the market.

“Trappers’ ability to leverage buying power has resulted in competitive prices and superior service from suppliers. The advantages of bulk purchasing ensure the availability and delivery of product to our franchisees, whilst enhancing the cost-effectiveness of the product. Because our franchisees utilize the central buying department at our head office, each franchisee benefits from group discount structures, negotiated with various suppliers.”

In addition, Trappers stores also benefit from private label products designed in-house and distributed via a partner company, John

What do you think?

Let us know:

- Would you be interested in joining a sport or outdoor buying group in SA? Yes/No
- Would you attend a conference where this, and other issues of importance to independent traders, will be discussed? Yes/No

Email Trudi du Toit at trudi@sportstrader.co.za or Fax: 021 461 2549 and let us know what you think.

Black’s Outland Distributors. “These products are sourced locally and internationally and provide Trappers franchisees with exclusive merchandise at competitive or superior price points to manufacturer brands and own brands of competitors,” says Ponting.

Their franchisees all contribute towards a national marketing fund that is used for national advertising campaigns, in-store promotions, maximizing public relations, sponsorships and other ways of drawing feet to the stores.

The owners and management team also assist the franchisees in various other ways – from preparing business plans, starting, planning and operating their stores, to product and staff training.

Contact Mark or Grant Ponting of Trappers Franchising on Tel: 011 462-2919, Fax: 011

462-2835, Email: mark@trappers.co.za or visit www.trappers.co.za.

Iser Expert stores

The Expert buying group for Independent Specialist Electronics Retailers (ISER) was formed about ten years ago when 5-6 of the biggest electronics independents in SA pooled their resources. They now represent about 250 stores countrywide.

They would be interested in helping the sport independent stores to get a buying group together, says Aarons. “We have all the experience and systems to run a buying group in place and would be interested in branching out into the sports industry.” They are already involved in sport through sponsorship of the Diamond Eagles and the Vodacom Free State Cheetahs and some of their dealers, like Klopers, already carry sporting goods.

The group has access to a broad range of product groups from different brands and suppliers, from which their members would then order what they need. Some of the members would, for example, only buy white appliances, some only photographic, others only furniture. “This is a model that would be easy to roll out in sport,” says Aarons.

Members, who co-brand their stores Expert, benefit from national print and TV adverts, exposure through a website and brand recognition when consumers recognize the Expert store co-branding. Although only **To p64**

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Buying groups from p62

selected stores, which meet certain criteria, use the Expert store co-branding, while the others that don't co-brand only make use of the sourcing benefits.

User doesn't charge a membership fee, the salaries of the staff and managers are funded through a percentage of the rebates obtained from suppliers.

Contact ISER Expert on Tel: 086 039 7378 or Fax: 011 853 2804 or Email: jonny@iser.co.za or visit www.expertstores.co.za.

International buying groups

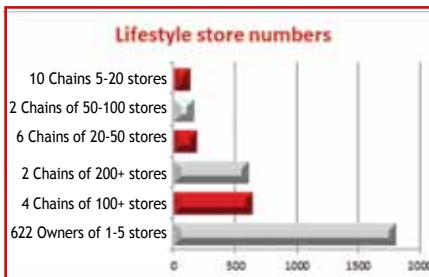
Worldwide, there are several buying groups for the sport, outdoor and lifestyle industries. The largest international groups are SPORT 2000 International (3 800 stores in 25 countries) and Intersport International (representing 5 200 retailers in 38 countries), which operate across country borders in Europe. Some Asian countries have started to join Intersport. Only existing buying groups can join these international groups. These groups are so strong that their turnover outperforms even the biggest retail chains per country or region. For example, SPORT 2000 International's annual turnover is more than €5.1bn.

Most countries nowadays have sport buying groups – in the UK the STAG buying group for sport and the Freedom Group for outdoor traders are part of one larger organisation, while in Australia there is the Independent Sports/Team Sports Buying Group and Euretco in the Netherlands – to name a few.

SPORT 2000 International has the objective of creating a truly global franchise system with groups from many countries working together to try and get a wide assortment of stores to trade, sell, etc. more homogeneously, explains MD Wolfgang Schnellbügel, who was recently elected Chairman of the CISO committee (the committee communicating with the international sport federations – IOC, FIFA, etc. – of the World Federation of Sporting Goods Industry (WFSGI).

They are not actively recruiting members from other countries, but would consider any requests from buying groups that meet their requirements (e.g. with no less than €50-100m turnover) – except he foresees adjustments to be made concerning seasonal sourcing should countries from the Southern hemisphere want to join. But, if an established buying group that meet their criteria from SA, for example, want to join SPORT 2000, they will provide assistance.

One of the main strengths of SPORT 2000 is that brands develop exclusive international ranges for them at very good price points due to the high SKU numbers. "Every store can order what they want – they know their own markets and customers best – but the international range offers them higher margins," says Schnellbügel. "This financial incentive ensures



The charts above give a breakdown of the number of stores and chains in the Southern African sport, outdoor, lifestyle/leisure retail industry. The numbers of stores were obtained via questionnaires sent to buyers/owners, financial reports and the numbers of stores on chain websites. The numbers of owners of 1-5 stores are correct, but the numbers of stores they represent is an estimate based on feedback we received from owners.

that the collections in all our stores across countries are more homogenous."

They do, however, believe that retailing decision should be made with local market needs in mind and therefore leave it up to the individual members to select products. Although they do believe that the strongest products are available in their international range.

A committee of experienced buyers is elected to select this core international range – this product selection process starts about a year before delivery to the stores, as they are involved right from the development of the range to the screening of the product assortment.

SPORT 2000 is a non-profit organisation that maximises all benefits (like rebates from suppliers) for licensees. Their administrative costs are covered by a small membership fee and commissions from brands who do the international ranges for the group. Although they work with buying groups from 25 countries, they employ less than two dozen people.

SPORT 2000 member stores must carry their branding and visibly portray the corporate identity with signage, logos, and colours in the exterior and interior – in some instances a store will be allowed to retain its own name, but the signage must be in the corporate font and colours.

The STAG and Freedom groups in the UK: About 600 independent sport retailers are members of the STAG group, while about 450 outdoor retailers have joined their outdoor "arm", the Freedom buying group.

"Each member runs their business in exactly the same way as they have always done," explains Sara Coyle, marketing manager of the STAG Buying Group. "They have total control. They buy and sell in exactly the same way, by placing orders with sales reps and agents. The goods are delivered to the members and the invoices are processed via STAG."

While STAG handles all invoicing, each sup-

plier will operate on their own terms when it comes to minimum orders and deliveries per store. "Some brands have minimum delivery terms, but they deal directly with individual members."

Buying group members receive the same rebate from brands, irrespective of how much an individual member ordered.

Members are also free to buy goods from brands that the group does not have supplier agreements with.

They have an annual show where all major suppliers exhibit. "We usually have a waiting list of brands wanting to attend," says Coyle.

STAG does not have an own label product range – and never will do. "We believe that in producing an own label offering we would be in direct competition with our suppliers," says Coyle.

The Independent Sports/Team Sports Buying Group in Australia is a network of 64 predominantly sports specialty stores owned by 41 independent retailers across Australia.

The buying group is owned and operated by its members, while the trading and product requirements are managed by a business manager. The daily activities – like the prompt payment of suppliers – are attended to by an administrator/group coordinator. The administrative team all have extensive experience in retailing.

Various sub-committees coordinate product development and selection, as well as marketing and promotions.

Board members are elected annually, from which an Executive Committee – consisting of a chairperson, a secretary and a treasurer – is appointed to manage the group's business affairs.

Read more at: www.intersport.com; www.sport2000international.com; www.stagbuyinggroup.com; and www.independentsports.com.au