

Buying Groups: How Big A Threat?

I taught a seminar in San Mateo, CA this week, and one of the attendees raised an interesting question. “Some of my customers are talking about joining buying groups,” she said. “What can I do about that?”

Here’s my answer: I’m not sure you can do anything about customers joining buying groups. You can, however, position yourself so that in the worst case scenario, you might lose a battle, but you won’t lose the war—and in the best case scenario, you might gain a few new customers!

It’s All About Buying Power

The basic idea behind buying groups is that multiple companies or organizations band together as a single purchasing entity to maximize their buying power. On one hand, there is a threat to an established supplier—the chance (likelihood?) that some member of the group has a cheaper or better supplier. It’s also an opportunity, though, for you to sell *yourself* as the better supplier.

Please note that I didn’t say sell yourself as the *cheaper* supplier. I think there’s always a tendency to look at any threat as a price or cost issue. Remember, though, that most of your customers already buy from you with the knowledge that they could probably buy what you sell for less. They don’t do that because they experience/perceive some value in doing business with you. Why wouldn’t other members of a buying group perceive the same value? (Especially when you might gain referrals and testimonials from your current customer!)

If you think about it, most of your customers are probably already members of buying groups. I’m a AAA member, for example, and I can get all kinds of discounts on all kinds of products and services from AAA-approved vendors and suppliers. Many of the printers I work with are franchisees, and they can get “national account” pricing on all kinds of products and services. Still, we all buy at least some of what we buy from “outsiders” to those group purchasing arrangements, so the bottom line is still that perception of value. Provide it and you win. Don’t provide it and you lose — if not to a buying group, you lose to another supplier.

More Serious Threat

So yes, there’s some threat from buying groups, but I think the opportunity balances the threat. There’s a more serious threat, I think, from another trend in the marketplace: *strategic buying contractors*. Now I’m talking about companies outsourcing their purchasing function to organizations which promise them significant cost savings with no upfront cost attached. The contractor’s proposition is pretty straightforward. *Let us do your purchasing and we’ll save you a lot of money, and all you have to pay us is a percentage of what we actually save for you.* Think about that. Wouldn’t you be intrigued by a situation whereby you might (1) reduce your payroll and administrative cost by outsourcing a significant business function, (2) save money on all of the *stuff* you buy, and (3) do all of that with no out-of-pocket expense? If a contractor came to you and promised all of that in return for 25% — or 33%, or even 50% — of what they actually save you, wouldn’t you listen?

OK, a key question is *how do they do that?* Again, the contractor’s proposition is pretty straightforward. *First, we’ll evaluate all of your product and service requirements and identify the natural savings opportunities.* That could include consolidation of purchases for quantity discounts and/or consolidation of vendors to reduce administrative costs. It could also include the identification and elimination of waste. *Second, we’ll negotiate aggressively to ensure that you pay the lowest possible prices.* In other words, we’ll beat up your suppliers and offer their competitors the opportunity to underbid them.

Legitimate Proposition

From my perspective, the first part of this proposition is completely legitimate, but you could head this threat off at the pass by being the first one to talk about a comprehensive evaluation of a customer’s printing needs. Most companies do spend more than they need to on their printing, and this capability could take you a long way from being an “order-taker” in a customer’s eyes.

The ability to provide cost-savings without risk can be a very compelling selling point, and that’s what the strategic buying contractors are saying. Let’s think about the second part of their proposition, though—beating up on suppliers to get the lowest price. Personally, I think there’s a fair amount of risk there, because the more price pressure a buyer exerts, the more likely it is that a supplier will have to cut corners in order to win or keep the work and produce it profitably.

History Lesson

My first experience with strategic buying contractors was in Europe, where I consulted with printing companies in England and Ireland a few years ago. The short-term effects on my clients were difficult — one of them lost 3 of his Top 10 clients within a 3-month period — but the longer-term effects were not as severe. That's because I coached my clients on a "passive-aggressive" strategy. It was passive because it recognized that the customers were going to do what they were going to do — the offer the contractor made them was just too attractive not to give it a try. It was aggressive, though, in that we positioned ourselves for the *likelihood* that anyone who was willing to sell at the prices the contractor demanded would eventually cut corners and fail to perform.

"We understand the attractiveness of this proposition," we said, "and we understand that if it gives you great quality and service in addition to great pricing, we'll have lost your business forever. We just want you to know that if it doesn't turn out that way—if the pricing comes at the expense of quality and service—we will welcome you back with open arms.

In other words, we didn't burn any bridges, and we also stayed in close touch with the customers to commiserate with their dissatisfaction with the new regime. Eventually most of the business came back. Interestingly, the contractors still maintained a role in the customers' businesses, because much of what they worked on worked out just fine, but printing and several other categories were either removed from the contractor's control, or else they were simply instructed to buy from the "old" supplier and to dial back the pricing pressure.

Bottom line: Nobody wants to pay more than they have to for anything. As I've written before, though, part of the definition of *selling* in our industry is to explain how much it *will* cost to get what is wanted or needed. Sometimes that means that you have to allow a customer to experience "the other side of the coin"—in other words, losing the battle but still winning the war.