

# **Seminar Documentation**

for

## **How to form a buying group**



Government  
of Canada

Industry, Trade  
and Commerce

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et Commerce

**Canada**

## FOREWORD

This publication contains copies of papers and material presented at a seminar in Kitchener, Ontario on May 25, 1981. Hopefully these materials will be of benefit to small business for reevaluating the economic potential of buying groups, and for planning the development of buying groups.

A "buying group" is typically thought of as an organization set up by independent retail merchants to obtain lower prices from suppliers on goods which these merchants sell in their stores. However buying groups need not be restricted to the field of retail merchandising; wholesalers, manufacturers, professionals and others may benefit from the formation of such groups. Also, buying groups often provide additional services and benefits to their members such as negotiating lower rates for credit card transactions, obtaining insurance for members at better prices, providing a forum for members to exchange information with each other on such subjects as market trends, developing marketing aids such as advertising materials and catalogues, and developing standardized store formats, signs, trademarks, private brands and so on. The paper on the C.A.P. buying group describes the important but limited services provided by a newly formed buying group, while the copy of the Home Hardware brochure details the very extensive services provided by a very successful and mature buying group.

Comments on this publication and recommendations for the improvement of future editions would be most appreciated. Please contact:

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ESTABLISHING A BUYING GROUP: THE EXPERIENCE  
OF C A P APPLIANCE PURCHASERS INC.

AN ADDRESS BY: KENNETH G. COKER  
PRESIDENT, C A P APPLIANCE PURCHASERS INC.  
KITCHENER, ONTARIO

DELIVERED MAY 25, 1981 AT:

HOW TO FORM A BUYING GROUP

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NOTES ON A TALK BY K.G. COKER

PRESIDENT C A P APPLIANCE PURCHASERS INC., KITCHENER, ONTARIO.

MAY 25, 1981.

1. I REPRESENT A COMPANY C A P APPLIANCE PURCHASERS INC.
2. IT IS A COMPANY THAT WAS INCORPORATED UNDER THE LAWS OF ONTARIO, JANUARY 1, 1980.
3. ITS SHAREHOLDERS ARE APPLIANCE AND TELEVISION RETAIL BUSINESSES THAT ARE BASED MAINLY IN ONTARIO BUT NOW EXTEND INTO MANITOBA, SASKATCHEWAN AND THE MARITIMES.
4. WE INCORPORATED IN 1980 WITH 11 MEMBERS OR SHAREHOLDERS, WE ARE NOW UP TO SOME SEVENTY MEMBERS. BY THE END OF 1981 WE FEEL CERTAIN OUR MEMBERSHIP WILL BE CLOSE TO 100.
5. AS YOU NO DOUBT RECOGNIZE ONE OF OUR BIGGEST PROBLEMS IS HOW TO MANAGE GROWTH SUCCESSFULLY.

THE MARKET

THE APPLIANCE INDUSTRY IN 1960 HAD APPROXIMATELY 16 MANUFACTURERS. TODAY WE HAVE FOUR MAJOR MANUFACTURERS AND WILL

PROBABLY END UP WITH THREE. BY 1983, THE TARIFFS WILL BE REDUCED SIGNIFICANTLY ON MAJOR APPLIANCES TO COMPLY WITH THE GATT AGREEMENT, THUS EMPHASIS WITH THE MANUFACTURER IS ON VOLUME IN PREPARATION FOR INTERNATIONAL COMPETITION.

IN 1951, THE RETAIL PRICE MAINTENANCE LEGISLATION WAS RESCINDED, THUS THE MANUFACTURER COULD NO LONGER LEGALLY INFLUENCE OR CONTROL PRICE AT RETAIL, THUS HIS ABILITY TO CONTROL DISTRIBUTION THROUGH PRICE STRUCTURE WAS LOST.

IN ORDER TO AVOID COMPARISON SHOPPING AND THE EROSION OF GROSS MARGINS, PRIVATE BRANDING BECAME A MAJOR FACTOR WITH THE RETAIL GIANTS.

THE RETAIL GIANTS INVESTED HEAVILY IN FACILITIES AND PROMOTION, AND BY 1970 WERE DOMINATING THE APPLIANCE BUSINESS.

BY 1979 THE RETAIL GIANTS SUCH AS SEARS AND THE BAY WERE IN SUCH A DOMINANT POSITION, THAT THE INDEPENDENT APPLIANCE RETAILER WITH THE NATIONAL BRAND WAS FAST BECOMING AN ENDANGERED SPECIES IN A MATURE, SHRINKING MARKET. THE MANUFACTURERS WERE LITERALLY BEING INTIMIDATED BY THE RETAIL GIANTS, AND NO LONGER HAD A COMMANDING ROLE.

IN 1979, SOME LARGE, WHAT YOU MIGHT CALL INDEPENDENT RETAIL OPERATIONS SUCH AS THE BAD BOY WITH SOME 36 STORES WENT INTO BANKRUPTCY

BECAUSE MARKET VOLUME WAS DOWN, COSTS WERE CLIMBING, AND MARGINS WERE VERY SLIM.

IN 1979 SOME OF US INDEPENDENT APPLIANCE RETAILERS WHO CARRIED MAJOR NATIONAL BRANDS STARTED TALKING TOGETHER ABOUT OUR UNTENABLE MARKET SITUATION.

BUYING ORGANIZATIONS HAD BEEN POPULAR IN QUEBEC, AND TO SOME DEGREE IN WESTERN CANADA, BUT NOT IN COMPETITIVE AND FIERCELY INDEPENDENT ONTARIO.

DURING 1979 WE BEGAN TO MEET ONCE A MONTH FOR DISCUSSIONS. OUR MEETINGS WERE HELD IN DIFFERENT RETAILER'S STORES, SO THAT WE COULD GAIN A FEEL FOR HOW EACH BUSINESS OPERATED. RETAILERS BEGAN CALLING ASKING IF THEY COULD ATTEND OUR MEETINGS. IN GENERAL THEIR OPERATIONS WERE QUITE SIMILAR IN MERCHANDISING METHODS.

THE QUESTION WE DISCUSSED OVER AND OVER WAS: COULD WE PUT SOMETHING TOGETHER THAT WAS VIABLE?

COULD WE SAVE ENOUGH ON DISCOUNTS TO PAY ADMINISTRATION AND STILL MAKE IT WORTHWHILE TO THE MEMBERS?

IN SHORT, COULD WE BE EFFECTIVE? COULD WE DEVELOP CLOUT?

IF WE BOUGHT TOGETHER, HOW DO WE PROTECT OURSELVES FROM BANKRUPTCIES IN THE GROUP? AFTER ALL, IT IS ONE THING TO KNOW SOMEONE, IT IS ANOTHER THING TO BE IN BUSINESS WITH HIM. COULD YOU GET COMPETITIVE AND FIERCELY INDEPENDENT RETAILERS TO CO-OPERATE?

ONE NIGHT, ONE OF OUR MEMBERS GOT UP AND SAID, "WELL, WE HAVE TALKED FOR A YEAR, WHAT ARE WE GOING TO DO, TALK FOR ANOTHER YEAR, OR ARE WE GOING TO DO SOMETHING TO HELP OURSELVES."

IT WAS TIME FOR DECISION, A VOTE WAS TAKEN AND THE DECISION WAS UNANIMOUS, "LETS PUT AN ORGANIZATION TOGETHER."

WE IMMEDIATELY SOUGHT LEGAL ADVICE AS TO THE LEGALITY OF WHAT WE COULD DO WITHIN THE LAWS OF CANADA.

WE TALKED TO ONE OF OUR MAJOR SUPPLIERS WHO AGREED WE AS INDIVIDUAL RETAILERS WERE AN ENDANGERED SPECIES, AND SOMEWHAT OUT OF CONCERN OVER LOST DISTRIBUTION AGREED TO RECOGNIZE US AS AN ENTITY IF WE COULD GET IT ALL TOGETHER. IF WE FORMED A COMPANY, LIABILITY WOULD LIE WITH THE SHAREHOLDERS.

THE GREATEST SINGLE CONCERN WE HAD WAS HOW DO WE PROTECT OURSELVES FROM A MEMBER BANKRUPTCY, BEARING IN MIND THAT HISTORICALLY APPLIANCE RETAILERS TENDED TO BE UNDER CAPITALIZED.



OUR LEGAL COUNSEL SOLVED OUR PROBLEM BY SUGGESTING AN IRREVOCABLE LETTER OF CREDIT ISSUED BY EACH MEMBER PAYABLE TO OUR COMPANY ON DEMAND.

THE PRINCIPLE BEING, THAT A MEMBER COULD BUY UP TO HIS LIMIT ON THE LETTER OF CREDIT, AND AT THAT POINT HE IS NOT ALLOWED TO PURCHASE MORE UNTIL HIS LIABILITY IS RELIEVED.

ALL THE PIECES WERE FALLING INTO PLACE, WE HAD A MAJOR SUPPLIER WHO WOULD RECOGNIZE US. WE HAD A VEHICLE TO AFFORD REASONABLE FINANCIAL PROTECTION. WE HAD A LEGAL COUNSEL WHO RECOGNIZED OUR OBJECTIVES AND HAD THE KNOWLEDGE TO PUT THE RIGHT KIND OF COMPANY TOGETHER FOR US.

A COMPANY, BE IT A BUYING ORGANIZATION, A MANUFACTURING ORGANIZATION OR ANY OTHER TYPE IS ONLY AS GOOD AS IT'S PEOPLE, AND THE EFFORT THEY PUT FORTH.

WE WERE FORTUNATE THAT WE HAD PEOPLE WITH A MIX OF BUSINESS EXPERIENCE, AND EXPERTISE, SOME WITH MANY SOLID YEARS IN RETAIL, WHILE OTHERS HAD MANY YEARS EXPERIENCE IN THE CORPORATE WORLD.

WE STARTED WITH ONE PART TIME EMPLOYEE WHO HANDLES OUR DAY TO DAY ADMINISTRATION; HIS EXPERIENCE WAS BOTH CORPORATE AND RETAIL.

OUR BUYING PROCESS IS AS FOLLOWS: THE STORE ORDERS MERCHANDISE FROM THE SUPPLIER FOR SHIPMENT TO HIS STORE ON A C A P INC. PURCHASE ORDER. THE INVOICE CITES C A P INC. AS THE PURCHASER AND REFERS TO STORE #4.

AFTER CHECKING THE GOODS AND THE INVOICE, THE STORE FORWARDS A COPY OF THE INVOICE TO OUR HEAD OFFICE FOR PAYMENT.

C A P INC. PURCHASES FROM THE SUPPLIER, THE STORES ACT AS AGENTS FOR C A P INC.

C A P INC. APPROVED SUPPLIERS NOW TOTAL THREE WITH MORE ON THE HORIZON.

WE HAVE DEFINED OUR COMPETITION AS THE RETAIL GIANTS IN OUR MARKET; OUR GOAL IS TO MAKE C A P INC. STORES MORE COMPETITIVE IN THE MARKET.

WE SAID THAT IF WE ARE TO BE SUCCESSFUL WE MUST BE:

- (1) APPLIANCE SPECIALISTS AND PROVIDE BETTER SERVICE THAN THE GIANTS TO THE CONSUMER.
- (2) WE MUST LOWER OUR PRODUCT COSTS BY 10%.
- (3) WE MUST PROVIDE A VIABLE CREDIT SYSTEM.

(4) WE MUST HAVE A GOOD TRANSPORTATION SYSTEM.

(5) WE MUST SUPPORT OUR STORES WITH OUR TOTAL INVENTORY.

(6) WE MUST LOWER OPERATING COSTS THOROUGH BULK BUYING E.G.  
INSURANCE.

(7) WE MUST MERCHANDISE AS A TOTAL ORGANIZATION.

IF WE CAN DO ALL THESE THINGS WELL, ARE WE AN ENDANGERED  
SPECIES?

AFTER 1½ YEARS OPERATION, WE FIND MANY SUPPLIERS ARE KNOCKING ON  
OUR DOOR, THEY RECOGNIZE OUR STRENGTHS AND THEY WANT TO BE WITH US.

AFTER 1½ YEARS OPERATION WE FIND OUR MEMBERS, AS WELL AS BEING  
BUSINESS ASSOCIATES ARE ALSO FRIENDS. THEY RESPECT ONE ANOTHER, THEY  
CONTRIBUTE TIME AND ENERGY, THEY COMPROMISE, THEY FORMULATE POLICY AND  
THEY COMPLY WITH POLICY.

C A P INC. IS DEMOCRATIC, EVERYONE PARTICIPATES. WE JUST HELD  
OUR FIRST ANNUAL MEETING, IN WHICH WE RE-ELECTED OUR DIRECTORS.  
OUR DIRECTORS IN TURN RE-ELECTED THE EXECUTIVE.

WE OPERATE WITH AN EXECUTIVE COMMITTEE WHO PREPARE  
RECOMMENDATIONS FOR THE BOARD AND SHAREHOLDERS AND SEEK THEIR  
APPROVAL.

DOES IT WORK?

WE THINK SO, IN THE SHORT TIME WE HAVE BEEN INCORPORATED WE HAVE  
BUILT A MANAGEMENT TEAM, MEMBERSHIP LOYALTY, AND WE HAVE ESTABLISHED  
POLICIES THAT WORK FOR US.

IN TERMS OF CONCRETE DOLLAR AND CENTS RESULTS, WE HAVE SUCCEEDED  
IN NEGOTIATING SIGNIFICANTLY LOWER MERCHANDISE PRICES FOR OUR MEMBERS.  
WE HAVE INSTITUTED AN "INVENTORY SHARING SYSTEM" WHEREBY ONE DEALER CAN  
DRAW ON ANOTHER DEALER'S INVENTORY; THIS SYSTEM LOWERS THE INVENTORY  
COST OF EACH DEALER AND AVOIDS THE LOSS OF SALES. WE HAVE ALSO  
SUCCEEDED IN NEGOTIATING MUCH LOWER CREDIT CARD CHARGES FOR OUR  
MEMBERS. AND WE ARE CURRENTLY WORKING TOWARDS REDUCING THE INSURANCE  
COSTS OF OUR MEMBERS. WE ARE ALSO STUDYING OTHER WAYS AND MEANS TO CUT  
MEMBER'S COSTS AND INCREASE THEIR SALES, RANGING FROM MERCHANDISE  
SUPPORT PROGRAMS (E.G. FLYERS, SPECIAL PROMOTIONS ETC.) TO CUTS IN  
TRANSPORTATION COSTS, TO DEVELOPMENT OF INFORMATION INTERCHANGE  
PROGRAMS AMONGST MEMBERS TO AID THEM IN IDENTIFYING AND ADJUSTING TO  
TRENDS IN THE MARKET.

OUR STORES ARE BECOMING ENTHUSIASTIC. TO DATE IN 1981 WITH ONE MAJOR SUPPLIER OUR PURCHASES ARE UP SIGNIFICANTLY. THE FUTURE, WE BELIEVE FOR C A P INC. IS ENCOURAGING. THE CHALLENGE LIKE ANY CORPORATION IS TO ACHIEVE OUR GOALS.

THANK YOU !

SOME LEGAL CONSIDERATIONS INVOLVED  
IN THE FORMATION OF BUYING GROUPS  
FOR RETAIL MERCHANTS.

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PRESENTED: May 25, 1981 at:

"HOW TO FORM A BUYING GROUP"

Presented by the:

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Government of Canada

and

The Ministry of Industry and Tourism,  
Government of Ontario

ADDRESS TO BUYING GROUP SEMINAR  
Kitchener Public Library  
Monday, May 25, 1981

Good evening ladies and gentlemen:

By reference to the programme you will note that I have been asked to cover legal considerations applicable to the main topic under review "How to Form a Buying Group". Because of the necessary time constraints I will attempt to highlight what I think are the important legal considerations. I understand that there will be some time for questions at the end of this discourse, and I will attempt to deal with them at that time. Please note your questions and feel free to ask them at the conclusion of this talk.

For some years I have acted for Home Hardware Stores Ltd., a dealer owned hardware company which was originally formed essentially for the purpose of acting as a buying group for the individual home hardware dealers. I had a fair amount to do with the structuring of that company and have had some experience with the formation of buying groups. Home Hardware Stores Ltd. has been in existence since about 1964 and it is one of the older established buying groups in Ontario, although at the time that it was formed we had occasion to look at several other groups that had been put together at that time.

More recently, I also acted for Cap Appliance Purchasers Inc. which company was recently incorporated for the sole purpose of forming a buying group covering certain appliance dealers in Ontario, and at the time of formation were essentially dealing

with General Electric Appliances. The main purpose of the formation of that company was to take advantage of volume purchases from General Electric Company in order to be entitled to the rebates which would develop and the pricing that would arise from volume purchases. This group has been in existence for a little over a year and appears to be operating very successfully, and the participants therein are quite happy with what they are achieving as a result of joining in it, and I understand that the participation has expanded somewhat rapidly by new members coming in as shareholders of that company. Even though I have had some experiences of that nature I hasten to point out that I do not necessarily hold myself out as an expert.

Assuming the decision is made to form a buying group, there are basically two ways to proceed. If the group was a fairly small one, you could proceed by way of a partnership agreement, and this would mean simply the formation of a partnership among the participants in the group. The other alternative, of course, is to incorporate a company. In my view, while partnership is an alternative, I would not recommend it even though it would be the least inexpensive manner of proceeding. I do not recommend the entering into a partnership agreement for those interested in a buying group for various reasons and probably the most important of which is that each partner is liable for the debts and obligations of the other partners, and I think that there are several advantages to proceeding by way of incorporation, and I will highlight some of the advantages in proceeding with the incorporation of a company as opposed to setting up a



partnership. I, of course, do not have time to cover all of the aspects but I think I can make out a very strong case that the proper way to proceed is by proceeding to incorporate a company.

Firstly, in the case of a company incorporated either federally or provincially there is a limited liability of the shareholders as opposed to a joint and several liability of the partners. Likewise, a corporation never dies; it goes on forever. Some of its shareholders may die, some of its officers or directors may die but others can be appointed to replace them. Whereas a partnership usually terminates on the death of any of the specific partners. In addition, shares of a corporation or company can be transferred without difficulty whereas if changes are made in a partnership structure, it involves usually the drawing of a new partnership agreement. Likewise, an individual partner may bind the partnership firm contractually, but a shareholder alone cannot necessarily bind or obligate the corporation or company. A shareholder of a company can contract with or sue a corporation where a partner cannot sue or contract with his own firm. Methods of financing which are available to a corporation or a company to secure additional capital, if necessary, are not necessarily the same which would be possessed by a firm of partners. In addition to these points, there is usually much more ability to structure the profitability in the company in order to avoid payment of taxes in the year that profits are earned. In this respect, a company is a separate entity separate and apart from its shareholders. Whereas in a partnership the

partners must report all of the income for the specific period in question, and the corporation has the ability to defer some of its income and pay a corporate rate of tax on the income but does not have to disperse its total profits in any one year, and accordingly, the participants are not liable to pay tax on all of its income in any one year. There is much more flexibility in dealing with the financial affairs of a company.

Assuming that you are proceeding to incorporate a company, the next important decision to make is to whether a specific group would be advised to incorporate under The Canada Business Corporations Act or provincially under The Business Corporations Act of the Province of Ontario. If it is anticipated that the business of the buying group will only be in the Province of Ontario, I would strongly recommend that the corporation be under the provincial statute. Even if it is proposed to carry on business in several different provinces of Canada, and if the buying group is likely to be holding some real estate, I think it is somewhat less expensive to proceed under the provincial statute rather than proceeding federally. The reason for this is that an Ontario corporation or company does not require a license in mortmain to hold real estate. One of the incidents of its powers granted by the province is to hold real estate in Ontario. Whereas a company which is federally incorporated and proposing to do business in Ontario and will own property in Ontario would have to apply for a license in mortmain in order to be able to have the legal capacity to hold real estate. There is a substantial fee payable for the

mortmain license, and therefore, I think in most instances it would probably be advisable to proceed under The Business Corporations Act of Ontario. Likewise, if you incorporate federally, there is a provision that all companies with gross revenues of ten million dollars in a fiscal year or assets having a value of five million dollars at the end of a fiscal year must file annual financial statements with the Department of Consumer and Corporate Affairs, while there is no similar requirement under The Business Corporations Act of the Province of Ontario. The annual meeting at which directors of a federal company are elected must be held within Canada, while provision may be included in the articles of Ontario companies authorizing the holding of meetings at one or more places outside Ontario. Other than the real estate or land consideration, the cost of incorporating a federal company is roughly equal to that of an Ontario company. In some instances people wish to have a cross Canada presence and wish to incorporate federally, and then it is necessary to have the corporation registered in each province of Canada. Likewise, an Ontario company doing business in other provinces of Canada must register in these provinces as well. So then in summary, most of the same things must be done for a federal company just as they would be for an Ontario company, but probably it is simpler to proceed by way of an Ontario company, but the company can be structured in the most desirable way having regard to what the actual objectives of the buying group are.

By-Laws

Having made the decision to proceed to incorporate, whether it be provincially or federally, it is necessary to give considerable thought to the form of the by-laws of the company. The by-laws, of course, is the legal structure under which the company will function. The by-laws provide for number of directors and the meetings thereof, shareholder's meetings and all of the things necessary in order that the company can carry on business. As you can appreciate, a company in effect is a legal fiction, and it is a creature of the law and operates separately from its shareholders. While its shareholders and directors direct its activities the company contracts and acts in its own right, and therefore must do so under a fairly comprehensive set of rules--the by-laws. I personally have a strong conviction and opinion that a company carrying on business as a buying group must be kept strong, and accordingly, the by-laws play a most important part in the structuring of that company. In the buying group companies which I have dealt with there is a fundamental question of trying to keep all the participants in the buying group, that is the shareholders in the company, on an equal footing. By this I mean participants all should subscribe for the same number of shares so that no one person can be in control of the company, and each participant has an equal voice with respect to the election of directors and accordingly, has an equal say in the affairs of the corporation. The by-laws, of course, must be tailored to provide that the benefits flowing

to the individual shareholders may be in relation to the actual purchases which the individual shareholder has made through the buying group. The by-laws can also specifically provide that the surplus or the net profits of the company, after meeting the company's expenses, be allocated, credited or paid to the shareholders in proportion to the business actually done by each shareholder through the company. They can also provide the surplus can be computed at a rate in relation to the quantity, quality or value of the goods or products acquired by each participant during the fiscal year in question. This sometimes is referred to as a patronage dividend. Likewise, different rates can be applied for different classes or quality of merchandise acquired by each individual participant from the company. In my view, I emphasize the by-laws very much as I think that they are the main part and are most important in the setting up of the company to act for the buying group and that very much care should be taken in the drawing of the same. The general philosophy and rules of the buying group should be set out in the by-laws so that no questions will arise later, and each participant will know where they stand. Having drawn the necessary by-laws, and the company having been incorporated and following its preliminary organization it is in a position to carry on business, and I think it at that point generally advisable to structure a form of dealer agreement so that each participant will enter into a contractual arrangement with the corporation. In it you can set out the terms and conditions

upon which shares are to be transferrable, the terms of purchase and the obligation of the shareholder as a member of the buying group in relation to the company itself insofar as paying its accounts, etc., is concerned. In this respect I think it is very important to keep the buying group company in a very strong financial position especially when you are first getting started. For example, if one of the participants buys a great deal of merchandise from the company and presumably is getting a much better price because of the volume purchase which it is making as a member of the buying group, and that individual participant does not pay the company, the company could be put into bad financial straits and not really have the resources to live through many such experiences. Accordingly, it is very advisable when choosing participants in your buying group to be shareholders of your company it behooves you to be very careful that they are on a sound basis financially. In some instances, in order to ensure the financial capability of the participants, the company could require the filing of letters of credit from a Canadian chartered bank with the company so that the company will know at all times that the participant making purchases through the buying group is financially sound and able to meet his obligations at least to the extent of the letter of credit filed.

Combines Investigation Act

Another important consideration when forming a buying group is to make sure that the company is not so structured that its activities contravene The Combines Investigation Act. As you

probably know, a new competition act has been brought before Parliament on several occasions, but it has died on the order paper. I understand that it will be reintroduced in modified form in the near future. Since it has been the subject of a fair amount of comment and amendment, I can only speak to you on the basis of the existing Combines Investigation Act which is presently in force. Generally speaking, I do not think the formation of a buying group in itself contravenes any of the provisions of the Combines Investigation Act, but it is, of course, an offence under Section 34 of the Act for a person or corporation to assist in any sale that discriminates directly or indirectly against competitors of a purchaser of articles from that person by granting any discount, rebate, allowance, price concession or other advantages not similarly granted to the competitors. Accordingly, it is most essential in the buying group to keep all participants on an equal basis, and therefore, avoid contravening that section of the Act. There are also provisions in the Act dealing with promotional allowances and price maintenance, and you must be careful to avoid these pitfalls as well. Insofar as the promotional allowances concerned, and provided you treat all members of your buying group on an equal basis, it would appear to me that you would not be in contravention of Section 35 of the Act. Under Section 38 dealing with price maintenance it is an offence to directly or indirectly attempt to influence upward or to discourage the reduction of the price at which any person supplies or

offers to supply or advertises the product within Canada. In this respect the Act provides that a suggestion by a supplier of a product of a resale price or minimum resale price is an offence unless the person making the suggestion also makes it clear to the person to whom the suggestion was made that such person was under no obligation to accept the suggestion and would in no way suffer in his business relations with the person making the suggestion if he failed to accept it. Accordingly, it is necessary, if there is a suggested price provision on the ultimate sale of the products purchased through the buying group, that you make sure it is only suggested and no penalties follow from the failure to follow the suggestion. However, in my view the buying group is quite within its rights and is acting within the provisions of the Act if it stipulates or suggests a maximum price at which the products may be ultimately sold, however, you must also be very careful in adopting this type of practice as it could lead to a charge of price fixing.

#### Trade Marks

I would like to say something to you about trade marks. Very often buying groups in themselves can develop, of course, various trade marks which are duly registered and granted unto the Trade Marks Act. The buying group company can be an applicant and can own and use a trade mark. If it is intended that the participant in the buying group, that is the individual shareholders of the company, to have the right to use those trade marks it would be advisable to enter into what is



normally called a Registered User Agreement which stipulates the terms upon which the trade mark may be used.

### Securities Legislation

In Ontario we have the Securities Act of 1978, and we must also be careful that we live within its provisions and do not violate the Act. There is legislation of similar effect in force in most other provinces of Canada, and when originally forming your buying group you must be careful how you solicit your membership. Under Section 52 of the Securities Act no company shall trade in a security or offer it for sale unless a preliminary prospectus and a prospectus have been filed and receipts have been issued therefore from the Securities Commission. Now in some buying groups where the participation is not at all that large it can be quite expensive to comply with these prospectus requirements of the Securities Act, and accordingly, if you come within the definition of distribution to the public, you must of necessity be concerned with the applicable provisions of the Securities Act. Distribution to the public is defined in the Act and means a distribution that is made for the purpose of distributing to the public securities issued by the company so that technically speaking as the company is formed to be the buying group sells its shares to the various participants it would be a distribution to the public, and therefore, fall within the provision of Section 52 of the Securities Act to which I have referred. However, in the Securities Act there is also a provision whereby a company can apply for an Exemption Order so that it can be exempted from

the prospectus requirements and consequently save the expense thereof. For most small buying group companies this would be the advisable course of action to follow. To obtain the exemption it is necessary to file a formal application with the Ontario Securities Commission, and in the event that you have participants from other provinces of Canada you would more than likely have to apply for a similar Exemption Order in the other provinces as well in order to avoid the expense of the prospectus requirements. If you are unable to obtain an Exemption Order and it was necessary to file a prospectus, the buying group company would be incurring substantial expenses as it is necessary for a prospectus to be printed and a great deal of information has to be put together and you would incur substantial legal fees in complying with these prospectus requirements.

#### Other Laws

Other than the specific instances which I have given you I should point out to you that a buying group company is the same as any other incorporated company and must, of course, comply with all other laws that are applicable. It must, course, file its tax returns, and do everything that any other company would have to do.

#### Expenses

I suppose you are interested in having some idea of the expenses involved in putting together a buying group and incorporating a company. In this respect I think that a company could be formed, by-laws could be drawn, an Exemption Order could be obtained under the Securities Act and the company could be generally organized at an expense which I would

estimate not in excess of \$2,500.00. There, of course, would be ongoing expenses incurred with respect to the structuring of a dealer agreement and some other ancillary matters. But generally speaking I feel that the company would basically become operative on incurring expenses not in excess of \$2,500.00. I see that I have just about run out of time, and I appreciate that I have not gone into too much detail, but I have tried to put before you some of the basic legal considerations involved in the formation of a buying group and of necessity they are quite basic and I have attempted to give you an overview and certainly I would be most pleased to attempt to answer any questions which you may wish to raise. I wish to thank you most sincerely for the attention that you have given to me and trust that you know something more about the legal considerations than when I started to address you. Thank you very much.

PLANNING A BUYING GROUP  
A SYSTEMS APPROACH

AN ADDRESS BY: JAMES A. KELLY  
HEAD, FRANCHISE & CONTRACTUAL MARKETING SYSTEMS  
DISTRIBUTION SERVICES BRANCH  
DEPARTMENT OF INDUSTRY, TRADE & COMMERCE  
GOVERNMENT OF CANADA

PRESENTED: MAY 25, 1981,

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We have just heard a discussion of the merits and advantages of belonging to a buying group. This presentation proceeds from the assumption that yes, you have decided to go ahead and form a buying group.

Before proceeding with an overview of the tasks involved in the formation of a viable buying group, I would like to make a few points about the large bar charts you have received which will be used during this presentation.

#### How to use the planning charts.

These charts were developed in order to assist firms in planning the development of a buying group. The charts identify, step by step, various tasks that should be completed or at least considered in the formation of a buying group. They have been reviewed by a number of persons involved in buying groups and incorporate modifications they have suggested. Suggestions from the audience concerned with improving the charts, are most welcome.

1. These charts list approximately 70 steps or tasks involved in the creation of a buying group. However, the charts must be adapted or "customized" for each buying group; some of the steps or tasks will not pertain while some additional steps or tasks not presently on the charts will be required.
2. For ease of use, the steps on this chart have been grouped together under functional headings such as Organizational Structure, Legal, Financial and so on.
3. You will note that a column has been included for the assignment of personal responsibility for the completion of each step.
4. The shaded bars shown on the charts indicate the time required to perform the work involved in completing each step or task, as well as the approximate dates on which such work will be started and finished. These time periods are estimates only and are unlikely to be suitable for all groups, without some modification. It should be noted that a number of the steps outlined can be done concurrently, while some others will be dependent on the completion of preceding steps.

5. The numbers along the top of the chart going from 1 to 26 indicate either one or two week blocks of time. If chosen to represent one week time blocks, the chart will cover a six month period. If chosen to represent two week time blocks the chart will cover a one year period.
6. There are more detailed planning systems which can be used to plan a buying group, such as PERT (program evaluation review technique) or CPM (critical path method). These more complex systems can be developed using the bar charts as an input; that is, the bar charts can serve to initially structure and organize the workload and timing for the preparation of these other more complex systems.

We will not cover every step on the charts in detail since some are relatively simple and self-explanatory. Are there any questions?

I also wish to draw your attention to the consulting paper on buying groups prepared by Cogem Inc. for the Government of Quebec, a copy of which is contained in the seminar documentation booklet. That paper is a valuable aid for those engaged in forming a buying group.

We will now discuss the first section of the charts entitled "Objectives and Scope of the Buying Group".

#### A. Objectives and Scope of the Buying Group

As with any new organization, it is very important at the outset to clearly define the objectives and scope, and to make certain that all members understand and agree with such. Thus time should be taken to obtain a clear understanding and agreement on the part of all buying group members, concerning both what the buying group will do and also what it will not do. Members should also be well aware of the time element involved in developing the various services that will eventually be offered by the buying group; a new buying group will require time for negotiations, the development of systems and so on. A concerted attempt at gaining such agreement and understanding hopefully will aid in establishing harmony amongst members.

The steps in this first section of the planning charts have been designed to aid

you in the process of setting and defining the objectives and scope of the new buying group, of determining what the buying group will and will not do for its members. It is also concerned with the development of a timetable for the provision of the various services.

The various steps are self-explanatory in nature. However I wish to make the following comments.

First, as indicated by the steps in this section, buying groups may provide quite a wide range of sophisticated services to members. However in your particular case it may be appropriate to restrict your new buying group solely to the purchase of a limited range of items. Do not automatically assume that your new buying group should attempt to provide a wide range of sophisticated services. Also be well aware of the time element in developing your new buying group to the point where it can provide a wide range of services to members, if such is desired.

The last step in this section raises the question of whether there is an intention to develop a franchise system based upon the buying group. There are examples of buying groups which turned into franchise systems, such as "Sportexpert". The publication "Seminar Documentation for Expanding your Business Through Franchising", which was developed by the Department of Industry, Trade and Commerce, will help you to evaluate this option.

#### B. Financial Justification

Obviously a buying group should not be formed unless the expected financial benefits to members are greater than the financial costs involved in forming and operating the buying group. The steps in this section are concerned with determining whether there is sufficient financial justification for forming your proposed new buying group. The assistance of a professional accountant would likely be helpful in resolving the question of financial justification.

It should be noted that accurate estimates of the volumes and dollar values of goods and services that will be purchased for each member by the buying group (e.g. per month, per quarter, etc.) will be required to determine the financial justification of

the proposed buying group. The volume discounts and other savings generated by buying groups will usually be directly related to such volumes and dollar values.

#### C. Organizational Structure

The first step in developing a proper organizational structure is to elect a Board of Directors and a Chairman. The Board of Directors should subsequently define staff requirements and choose a managing director to run the buying group on a day-to-day basis. The managing director may only be a part-time position, at least initially. Similarly, full-time support staff may not be necessary.

The managing director should be able to accept and implement decisions made by the board of directors, have a sound knowledge of purchasing and finance, be a capable negotiator, and possess very good interpersonal skills.

Reference should also be made to Chapter 5 of the consulting paper prepared by Cogem Inc.

#### D. Legal

Since we have a lawyer on the program to discuss the legal aspects, I will not dwell on this section other than to emphasize the importance of involving a lawyer in the initial planning stages.

#### E. Financial

The services and advice of a professional accountant are suggested for guiding the planning and decision making involved in this section. Financial advice may also be obtained at financial institutions such as the Federal Business Development Bank.

The capital required to establish and operate the buying group (e.g. working capital) may be raised in a variety of ways such as:

1. an initial membership fee, plus a continuing (monthly, annual) membership fee, may be levied.
2. issuing shares (discuss the legalities of such with your lawyer)
3. the accumulation of volume purchase rebates from suppliers.

4. adding a surcharge to member s' Invoices.

We will hear more on this topic from other speakers.

It should be noted that the amount of capital required by the new buying group will obviously be greatly affected by whether the buying group intends to establish and operate its own warehouse and distribution centre. If the decision is made to do so, the buying group should contact appropriate federal, provincial and municipal officials to determine if financial assistance (e.g. loan guarantees, low interest loans, assistance in training staff) programs are available.

#### F. Membership Recruitment and Relations

It is generally agreed that the number of individuals involved in "founding" a buying group should not exceed 8 to 12. It is desirable that there be sufficient "founding members" to do the work involved in setting up the buying group, but not so many that co-ordination problems develop.

It is also important that the "founding members" are all able to work effectively in a group situation; individuals who have difficulty in accepting group decisions, compromises etc. and are generally "difficult", can impede the formation of the group. Geographical distance must also be taken into account, as distance increases the difficulty of getting the "founding members" together to get the new buying group "off the ground". Consideration must also be given to the financial strength of members, to ensure they can contribute to the initial costs involved in establishing the buying group.

The individuals intending to become "founding members" of the new buying group should indicate their commitment by signing a letter of intent and making an initial contribution (typically less than \$500) to cover expenses involved in launching the new buying group.

After the buying group is established, consideration should be given to establishing a procedure for recruiting additional members. For example a letter could be sent by one of the "founding members" to a business person that the board of directors of the buying group has selected as a desirable new member. The letter should

describe the nature of the buying group together with the advantages of membership in the group, and advise that the "founding member" will telephone for an appointment to discuss the buying group. During the subsequent appointment the prospective new member might be invited to submit a letter to the chairman of the board of directors, together with a cheque for the initial fees.

As is indicated in this section of the planning charts, criteria should be established for selecting additional members. A number of factors must obviously be considered when establishing criteria, such as financial strength, sales volumes and geographic location. Consideration should also be given to the closeness of new members to the market areas of existing members, to avoid potential conflict if they are "too close for comfort".

Communications are extremely important in order to maintain a high level of interest and involvement, particularly in the early, formative stages. A frequent newsletter or bulletin keeping members abreast of progress is an excellent and inexpensive communication vehicle.

Initial meetings of the founding members will be frequent and ad hoc, however the group should establish a long-term policy regarding members meetings and quorums required to make important decisions, and to maintain a healthy "esprit du corps".

#### G. Purchasing

Economies of scale in purchasing is the main catalyst in the formation of a buying group and no doubt the greatest benefit to be derived from membership in such a group. In order to maximize this benefit it is imperative that effective purchasing policies and strategies be established.

When determining the services to be offered by the group, consideration should be given to such items as heating oil contracts, insurance, professional services, and banking services. For example, some buying groups have managed to negotiate significantly lower service charges with the Visa and Master Card organizations, and others have negotiated significantly lower insurance premiums. For example there are reports of some members saving upwards of a thousand dollars per year in insurance

premiums as a result of membership in a buying group. Also it may be possible to provide members with coverage which previously had not been affordable on an individual basis.

However it will be necessary to schedule when these various purchasing and other services will become available; it is unlikely that a new buying group will be able at the outset to offer a number of services to its members....time will be required for negotiations, development of systems and the like.

With regard to the purchase of products by the buying group the following factors should be given consideration:

### 1. Variety

The variety and scope of products purchased by the buying group should perhaps be carried/used by the majority, if not all the group's members. Procurement of small quantities of specialty items for a few members may not generate sufficient savings to cover the administrative costs incurred.

### 2. Price

The price ranges of products/services selected should also be appropriate for the majority of the group's members, (e.g. low, medium or high price range). There may be little point in negotiating lower prices for high-priced luxury lines if most group members deal in the low and/or medium price ranges.

### 3. Brands

Brands to be carried should have the support of the entire group. Some suppliers, assured of a significant volume, may be able/willing to produce a private label exclusively for the group. Private label lines may possibly be obtained and promoted at prices advantageous to both buying group members and their customers.

### 4. Types of Suppliers

A choice can be made from amongst manufacturers, agents, importers, wholesalers, etc. Which type or types offer the best blend of price, service and ability to supply? Will imported or domestic goods be purchased, or a

combination? Will import quotas affect the group if imports are used?

When these points have been resolved, a list of potential suppliers and the benefits offered by each should be drawn up to enable comparison. In evaluating supplier's prices, the group should request the discounts applicable at various volume levels, e.g. \$100,000, \$500,000, \$1 million, etc. This will assist in financial forecasting as well as inter-firm comparison.

### 5. Rebates and Discounts

A policy decision will obviously be required concerning the allocation of rebates, discounts and allowances from suppliers. Will all of these be passed on to group members or will some be retained as working capital? This is a most important step and should be treated accordingly.

After establishing the list of suppliers and a standard stock list, a system for centralized ordering should be designed which will take into account the frequency and timing of orders, an order guide and recommended inventory levels for various product categories. In consultation with suppliers, the group should also develop time-frames for order processing including deadlines for order placement.

A firm policy regarding exchanges, returns and damaged goods should also be developed in concert with various suppliers. Naturally it is important that this policy be well understood by all members to prevent unnecessary friction, not to mention unnecessary shipping charges.

### H. Distribution

As we mentioned earlier, the buying group will have to decide whether it will operate its own distribution center or have suppliers ship directly to members' establishments.

Either way a policy should be developed regarding distribution methods, i.e. truck, rail, etc. In the case of truck transport, it must also be determined if the buying group will use its own fleet of trucks, either owned or leased, or an intermediary shipper.



### I. Accounting Services

The development of accounting and control systems for the buying group will be similar to the systems already in place in most progressive small businesses. The main difference will be in the volume of accounts payable and receivable as well as in the coordination and control of incoming orders and invoices. Timing and accuracy of payments by members and rebates from suppliers are extremely important in keeping the buying group in a positive cash flow position.

As membership in the buying group increases and working capital accumulates, it may be worthwhile to consider computerized accounting services on a contract basis.

Care should be taken to ensure the membership agreement contains appropriate provisions with respect to member compliance with the requirements of the accounting/control systems, including modifications which may be made from time to time.

### J. Tradenames/Trademarks/Graphics

This section and the next one entitled "Advertising/Merchandising" go beyond the normal bounds of a strict "buying" group, however, we will discuss them briefly since many buying groups tend to evolve into groups with a marketing orientation.

Appropriate legal protection should be sought for the buying group's name(s) and trademarks. Tradenames and trademarks are central to the recognition of any organization by its clientele. To the consumer they indicate standardization of the quality of the goods and services involved. Therefore, it is essential that trademark approval be applied for in all markets in which the buying group may consider operating.

If standardization is to extend to exterior store signs and logos, a graphics specialist will be required. In the interests of uniformity and a common image, quality control rules should be established to cover such areas as graphic designs, colours and the manner in which the corporate logo is used.

### K. Advertising/Publicity/ Promotion/Merchandising

One of the major financial benefits resulting from the formation of a buying

group, may be a significant improvement in the nature of the advertising/publicity/promotion/merchandising activities available to buying group members, due to cost-sharing by the members. A television commercial or full page newspaper advertisement which individual members could not afford, may be possible with all sharing the cost.

Buying groups may also be more able than individual members to attract (and afford their share of) "co-operative advertising" available from suppliers. This type of advertising is a shared-cost type between the supplier and seller, with both being identified in professional quality ads in such media as radio, television, newspapers and magazines.

Buying groups can also aid members by developing flyers and catalogues which were previously beyond the financial reach of individual members.

The buying group might possibly further assist its members by developing point-of-sale merchandising aids and display formats as well as methods of evaluating the effectiveness of advertising and merchandising efforts. Promotional programs for launching new member stores is another valuable service which can be offered by the buying group.

In closing, it should be noted that considerable friction may be experienced between the group and its members over the level of advertising levies collected and the use of such funds by the group's management. Allocation and expenditure of funds for advertising should therefore, be openly discussed and well-documented.

Collection:  
Expansion of your  
business

Expansion of your  
business by  
grouping

Industry, Commerce  
and Tourism  
Quebec

Expansion of your  
business by  
grouping

WHY?

HOW?

Prepared by Cogem Inc.  
and associates

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### INTRODUCTION

During the 20's and again during the post-war years the creation in Quebec of groups of businesses grew out of the vital need that businessmen felt to counter chain development, a new kind of competition. The rapid growth of this kind of store and the high efficiency of this marketing mode seriously threatened the existence of small independent retailers in most sectors. Those in the food and hardware sectors were the first to react.

Wholesalers experienced an immediate reduction in their turnover. To correct this tendency, they created groups like RO-NA and IGA, in order to turn multiple chain store marketing techniques to their own advantage; examples are Steinberg and Dominion and Pascal Hardware.

With the passage of time these first steps snowballed. New kinds of associations between suppliers and clients allowed wholesalers and retailers to form 'chains' using a common business style.

Subsequently, groups adopted different formats: Provigo gave birth to Provigain, Provibec and Provipop; Hudon and Dandelin kept the IGA-Boniprix format; Pharmacies Universelles gathered around the Uniprix style; Pro Hardware Canada Ltd gave birth to Quincailleries Pro, etc.

The main characteristics of these groupings were that they gathered all the clients of a wholesaler in a single structure, links between



the suppliers and the wholesalers were strengthened and the requirement of both parties were safeguarded. Thus the first steps were taken towards the implementation of a format which, as it developed, became an almost essential element in the development of independant merchants.

These forerunners quickly saw the beneficial results of this format, both for themselves and for their clients. So successful was it that they progressed as far as possible using this format to establish retail outlets under the same style, in competition with their own clients. The latter occasionally viewed this activity as a conflict of interest.

Concurrent with steps taken by wholesalers, some independant retailers in the 20's (Epiciers de Montreal Inc.) then later in the 40's (Richelieu) saw the opportunity to provide their own businesses with a wholesale division, based on a cooperative format. Thus their efforts were combined to counteract the competition of chain food stores.

These groups of retailers, who were at the same time wholesalers, were created for the purposes of centralising buying. Meanwhile, groups directed by wholesalers were seeing encouraging results from their advertising campaigns. This success quickly convinced the new groups to imitate them and to orient their efforts towards sales. Between 1958-59 the Lasalle-Maisonneuve group took the lead and became Métro, followed by Richelieu, Régis, Société Provinciale des Epiciers, Epiciers-Unis Ltée, etc. in succession.

When agreements with wholesalers expired, merchants rallied around groups of this kind. Their operating format is based on knowledge and experience acquired in their dealings with wholesalers, but the merchants themselves control the organisation and draw profits both as retailers and as co-owners of a collective enterprise which for them fills the role of wholesaler.

This format is at present enjoying general popularity in all sectors. Results of its implementation show that it is the key point in a progression which now cannot be turned back.

Grouping under the wholesalers' banner is now in a period of apparent regression, since it is not possible to attract the most dynamic elements of business to the cause. It will no doubt remain in existence, just as the wholesaler/supplier system will for some merchants who, for personal reasons do not wish to have dealings with competitors.

The future of independent businesses is to be found in a group format in which members can exercise democratic control over the collective services which they provide to each other.

The aim of this paper is to bring the advantages of grouping to the attention of merchants and to suggest efficient procedures leading to the creation and development of grouping formats. Emphasis will be placed on finding grouping formats which are both the most practical and the most profitable.

## Chapter 1 WHY FORM A GROUP

The business grouping format has undeniable advantages. The aim is to increase the sales volume and the profits of the participants. Many merchants owe the survival of their business to the use of this format.

The first steps in grouping are too often taken to correct an already seriously deteriorated situation, whereas in reality these steps should be regarded as preventive measures and steps towards growth.

The reasons which lead merchants to become members of a group vary according to individual situations and the goals of each business. According to the model chosen, one or several of the following benefits can be obtained:

- scale economies;
- common style or logo;
- knowledge and use of specialised instruments and techniques;
- better resistance to competition.

### 1.1 Scale economies

Scale economies is one of the principal advantages of large commercial enterprises with multiple outlets.

Likewise, centralisation of buying for a group provides purchasing power which can give considerable discounts to the members, as well as other economic advantages not available to an independent merchant.

The following are some examples:

- agreed discounts on the purchase of products in fixed amounts (from 3 to 10%);
- reductions given when a new product is launched (allowances given for advertising costs and for special promotions, cost-sharing for special displays, etc.). These reductions can be as high as 30% of cost for a first contract;
- rental of high cost space in the store, in order to promote certain products (strategic locations in displays, exhibitions signs, etc.);
- participation in publicity campaigns drawn up to promote a certain product (discounts proportional to amounts purchased);
- negotiation for the manufacturing of house brands.

High turnover and rapid stock rotation can attract discounts sometimes up to 10% of purchasing value. The more skill that the group shows in the execution of its plans, the greater are the discounts it obtains.

The volume of purchases and the number of members in the group are also factors which will allow the group to reduce certain expenses;

such as:

- purchase of equipment;
- insurance;
- purchase of heating oil;
- advertising expenses;
- professional services, etc.

The grouping of expenses puts goods and services within the reach of merchants at prices as advantageous as those obtained by chain operations.

1.2 Knowledge and use of specialised instruments and techniques

Large chain operations can retain the services of better specialists in finance, marketing, warehousing, transportation, etc. In the same way, it is possible for the members of a group of dynamic businesses to benefit from the services of experts at reasonable cost.

For example:

- market surveys;
- procedures for business expansion (including the selection of new sites);
- the services of experts in selling techniques (store decoration, interior planning, display placements, etc.);
- personnel management services;

- job planning and analysis;
- promotion and publicity campaigns;
- information systems;
- anti-theft procedures.

### 1.3 Better resistance to competition

Facing the competition from retail chains and franchise-holders is one of the biggest challenges associated with managing a business. With much greater ease than independent merchants, members of a group can improve the profitability of their business by increasing sales and marketing efficiency.

Due to the shared knowledge of a team of specialists they have the possibility of identifying and correcting the problem areas of their management. Non-affiliated merchants have doubtless the advantage of being able to deal with their clients in a more personal way, but those in a group format may better benefit the consumer by using proven selling techniques and more professional services.

When, in a particular area, competition among merchants is particularly keen, the group establishes special prices for the area experiencing difficulty. They draw up marketing plans especially designed to face the particular threat. With this support, merchants can resist competition, even if the plan has to be implemented for a considerable time.

It can be seen that merchants prosper by the strength resulting from the association of several merchants, by improved purchasing power, by the use of up to date techniques and by the sharing of services.

## Chapter 2 HOW TO FORM A GROUP

The establishment of a group requires six steps:

- the choice of grouping format;
- the starting point;
- assessment of the relevance of the project;
- preliminary implementation procedures;
- recruiting members;
- establishment of operational procedures.

### 2.1 The choice of grouping format

The orientation of a group will be decided according to its aims and the function intended. Each merchant has his own problems and his own ambitions. It is essential then that the group to which he belongs respond to his needs and that the members have the same objectives.

#### 2.1.1 Two formats for two kinds of merchants

Some merchants have carried on successful businesses for years. Their businesses have achieved stability and they have achieved a degree of affluence. They reject affiliations which restrict their independence. However, they look favourably upon joining a group which would give them savings by collective buying, even if they have to operate under a common style. For this kind of member, maximum recruitment must be sought to reach a satisfactory turnover.



Membership fees are low and individual responsibilities are minimal. Even if market domination is not the principal objective of groups of this kind, this format does not prevent several services from being offered to members. However, it is generally seen that in this kind of association marketing is weak.

Experience shows, however, that several groups, whose prime objective is the centralisation of purchasing, have great success even if they do not overly concern themselves with marketing. For example, the buying group Epiceries de Montréal Inc. (super group) in which Métro-Richelieu, Coop Stores Federation and a number of other grocery wholesalers in Québec participate. This is also the case with the United Hardware Group (which includes RO-NA and other Canadian hardware and construction material wholesalers) with Matreco (which supplies BMR and other Canadian groups) and BID (supplier to Dismat and many distributors).

The decision to form a group whose principal objective is the centralisation of purchasing is not a bad one. Nevertheless, one cannot ignore marketing which is a determining factor in increasing turnover. In many cases, when members of a group determine that the marketing aspect has been neglected, the most astute among them look for outside assistance. In the long term there is a risk that this element will become the weak link of the organisation faced with competition from other groups.

Other merchants are more dynamic and seek out innovation. They, of course, wish to benefit from the advantages of group purchasing, but they are also in search of assistance on the technological level with a view to expansion. They wish to be associated with a progressive group capable of supporting their own progressive efforts, in much the same way as if they belonged to a chain. They are content to be in a group which aims to penetrate the market through the most competitive means, by being in the forefront of technological progress. Recruitment is very selective. Membership is made up of merchants desirous of winning success as a result of the quality of the organisation rather than through strength of numbers.

In such a case, the selection criteria are very strict. The first criterion for membership is the determination to apply very precise marketing strategies. Contributions to the group and occasional advertising, promotion, research costs, etc., can be high and are designed to obtain considerable financial and technological support in return.

The regulations are strict. Organisationally the group resembles chain store enterprises and franchise networks and has similar characteristics. In order to increase turnover the aim is to have each member increase sales rather than to increase the number of members.

These two types of merchants will have difficulty in meeting their goals as members of the same organisation. Groups have, however, overcome this problem by creating multiple styles: Metro and Richelieu,

Provigain and Provipop, etc. Some even accept in their membership members who can buy through the group but who do not use the same style.

## 2.2 The starting point

One or more of the following circumstances occasion the formation of a group:

- meetings of members of associations of specialty merchants' associations which have played a role similar to that of merchants' associations;
- encouragement from government agencies, such as the Quebec Ministry of Industry, Trade and Tourism, and initiatives of public servants to strengthen links between merchants;
- creation of groups by wholesalers, aiming to promote sales and to be more competitive.

A progressive merchant can himself become the promoter of a group creation project. His first task is to identify and gather the merchants together, convince them of the viability of such a project and persuade them to put out the effort necessary to start operations.

In any case, the first step is to get between 8 and 12 dynamic merchants together, geographically representative and capable of investigating the viability and implementation possibilities in depth.

These merchants have 3 precise objectives:

- to define the role and the objectives of the prospective group;

- to describe the services which the group will provide to accomplish the objectives;
- to study operating costs, relevance of services to be offered and expenses to be incurred as well as financial benefits which will accrue.

Up to this point, the project budget will be very modest.

The promoters' investment consists mainly of time and effort.

Following preliminary studies, if it is decided to follow through, an organisational structure is drawn up. This temporary structure can be a businessmen's association, and need not be precisely constituted since it is a transitional phase.

It is advantageous to engage the services of a consultant specialising in this area. When the group begins operations, honoraria will be paid to cover the expenses of the promoters.

### 2.3 Assessment of the viability of the project

The viability of the project will already have been studied to some degree before the interim organisation was created. These studies are further developed if necessary, to make them more efficient if they are to be used as recruiting instruments. What must be emphasised here is the economic impact expected to result from the grouping; the objectives are clearly enunciated and the services the group will provide to members are defined (centralised buying, marketing studies, accounting methods, etc.).

#### 2.4 Preliminary implementation procedures

In a meticulously-prepared plan, the following will have equal value: finance, recruiting, registration procedures. The principal stages of the plan are:

- the preparation of financial statement models, drawing up a budget for the first year, identification of means of financing, determination of membership fees and members' dues;
- the preparation of a membership contract for new members;
- the choice of name and the registering of the name to be used;
- the preparation of a list of merchants to be approached.

It is tempting to submit the request for final registration of the company immediately. However, the problems and the expense involved can be delayed until a sufficient number of members have been recruited.

In this way the promoters can be sure that the group will function. At this stage, the organisers will have sufficient financial resources to be able to utilise the services of experts such as management consultants, lawyers, marketing specialists, advertising agency, etc. These services incur considerable expense (some tens of thousands of dollars).

#### 2.5 Recruiting members

This is a decisive stage, for it involves the actual creation

of the group. The situation should be approached in a very professional manner. Further, continued promotional efforts are required. This is done in the following way:

#### 2.5.1 Preparation of recruiting material

- Letter of introduction;
- newsletters to merchants approached to give details of circumstances surrounding the project;
- explanatory brochure;
- liaison newsletter/bulletin distributed to interested merchants.

The newsletter is used throughout the preliminary stages.

It is a valuable tool for those who have the responsibility of meeting future members and of convincing them to join.

#### 2.5.2 The recruiting campaign

Recruiting must be effected following a series of plans of action which aim at the definitive joining of members to the group. As activities take place, efforts increase and the membership increases.

These are the principal elements of this programme:

- sending of a personal letter to each merchant chosen.

This letter, the first approach, details the advantages and the benefits of the future group. Too much emphasis should not be placed on the financial obligations of members.

- This letter gives advance notice of a representative's visit;
- visit of one of the initiators of the project (one of the eight to twelve merchants forming the interim organisation).
- As new members join the group, the number of representatives increases. In this way new members participate in recruiting. When he makes a call, the representative lays emphasis on the benefits which are aimed at. He emphasises the advantages of being a member from the beginning and thus able to take advantage of reduced membership fees. It is desirable that the merchant who has been approached indicate his firm intention to become a member by signing a letter of intent. He then makes a first contribution (less than \$500.00). A copy of the projected contract is delivered to him;
- calling of a meeting of future members to outline advantages which all members will enjoy. All details of the organisation are explained at this time. This is the opportune time to have members ratify their undertaking and the balance of the membership fee is levied. The initial recruitment phase of a group ends with the legal and financial contracting of the first members. These contracts are very important for the establishment of the group. They should be completed without delay. An agreement in principle is not sufficient.

Normally the monies gathered from membership fees are used to pay in whole or in part the expenses incurred by launching the project.

New members should be welcomed by the founding merchants. These are the most appropriate persons to fill this role. The interim organisation formed by these merchants at the start of the project serves as a corner-stone and expands as the group increases in size.

## 2.6 The establishment of operational procedures

This stage has several aspects. On the one hand the members who have contributed funds will wish to see operations begin as soon as possible and will wish to be reassured that they made a correct decision. On the other hand, it is important to avoid undue haste since operational procedures must be planned and adapted to the needs of the group. These should be subject to adaptation to suit different conditions.

Operating procedures are:

### 2.6.1 The constitution of the permanent organisation

The procedure to be followed to constitute the permanent organisation is established:

- the establishment of a properly constituted company;
- the liquidation of the interim association;
- the buying back of licenses by the new company.

It must be ensured that the clauses of the constitution and the disposition of capital reflect the objectives and the aspirations of the members. This is a complex procedure containing among others the following elements:



- the instrument constituting the new company (charter);
- the election of a board of directors;
- nomination of an auditor;
- issuing of shares (members' stocks) to each member;
- selection of a bank;
- the manufacture of an official seal;
- registration with ministries and government agencies;
- the obtaining of required permits (sales tax, liquor licensing board, Health Board, Workmen's safety association, employment standards, unemployment insurance, etc.);
- transfer of accounts of interim association and liquidation.

Each state in the legal process for the establishment of the corporate entity is performed by a legal specialist.

#### 2.6.2 Communication with members

An information bulletin maintains contact between members and keeps them informed of the development of the project. An expert in communications will adapt this to suit circumstances and ensure that motivation is maintained.

#### 2.6.3 Identification of members

From the beginning, groups decide upon a means of identification. This involves the design of the official logo, and the design of graphic standards for letterheads, posters, signs, advertisements, uniforms,

vehicles, cars, etc.

These steps are most important. It is by their use that the group becomes publicly visible. To obtain maximum return, members adapt to use these effects by modifying their business methods.

Certain groups skilled in marketing ensure that each member observe the standard required to have the desired impact. If necessary, they will even delay introduction of their new style.

#### 2.6.4 Preliminary activities

##### a) Planning:

- establishment of objectives and the orientation of the management team;
- determination of the priority operational activities;
- definition of administrative and business policies;
- analysis of financial resources available and preparation of a first operating budget;
- drawing up of a plan and a timetable for implementation;
- approval by board of directors of objectives policies, a plan of action and budgets;

##### b) Organisation:

- design of the administrative organisation necessary to meet objectives, both long and short term;
- definition of the functions and duties of the person responsible for each sector of activity (finance, marketing, distribution,

human resources, sales, etc.) This operation clearly establishes the level of authority and the powers related to each position on the board of directors;

- job description for the incumbent of each position. (For example, purchasing manager, buyers, accountants, representatives, secretariat, etc.);
- approval by the board of directors of the powers and responsibilities of the members of the management team.

#### 2.6.5 Launching the group

In most cases, the organisers of new groups call on the services of external consultants or they hire temporary personnel. This ensures that the organisation starts off on the right foot.

Depending on the activities determined at the beginning and the size of the group, human resources requirements are established. In the beginning it is possible that the organisation starts with only centralised buying which needs no warehousing services.

In this case, personnel required include a chief buyer, some sales staff and a small number of accounts staff. Human resources requirements are closely related to the characteristics of the group. It even happens that members will carry out some of these functions, under conditions agreed to by the other members.

This stage includes the following:

- physical placement and initial installation;
- employment of the members of the management team and clerks responsible for start-up operations;
- the implementation of administrative procedures and operational procedures referred to above;
- the beginning of operations.

The beginning of operations can be effected gradually, beginning with simple services. Costs incurred by operating these services are easy to justify and to recover. Normally the first service established is buying. The discounts thus earned produce surpluses, which can be used to finance other activities.

#### SUMMARY OF PROCEDURES

The following is a brief summary of the operational timetable described in the preceding chapter:

##### a) Starting point of the project:

- |   |                   |
|---|-------------------|
| - first grouping of merchants and planning meetings                 | 3 to 4 weeks      |
| - preliminary study of viability and profitability of project       | 3 to 4 weeks      |
| - decision to form a group  | 1 to 2 weeks      |
| - creation of interim society and description of terms of reference | 4 to 5 weeks      |
| - total period  | 2 1/2 to 4 months |

b) Preliminary operational activities

- detailed study of relevance and profitability of project 4 to 5 weeks
- preliminary plan & orientation 3 to 4 weeks
- preliminary financial analysis 3 to 4 weeks
- preliminary list of members, contract outline, selection and registration of name 4 to 5 weeks
- total period (several activities can proceed contemporaneously) 3 to 6 weeks

c) Recruitment of members

- preparation of recruitment material 4 to 5 weeks
- recruitment 4 to 6 weeks
- total period 2 to 3 1/2 months

d) Establishment of operational procedures

- creation of board of directors 2 to 3 weeks
- establishment of a communications system 2 to 3 weeks
- creation of group and placing of structures:
  - . planning 6 - 10 weeks
  - . organisation 3 - 4 weeks
  - . start-up 4 - 6 weeks

- identification of members 3 - 4 weeks
- Total period (certain activities  
can be carried out contemporaneously) 4 - 5 months

The creation of a group can therefore extend over a period from one year to a year and a half. This outline of the creation of a group is based on the performance of group of dynamic organisers who possess well-founded working procedures. In the case of a less efficient team, this period can be longer.

Chapter 3 EVOLUTIONARY PHASES LEADING TO THE FULL  
DEVELOPMENT OF THE GROUP

3.1 The first functions to be developed

According to the objectives of the group, budgets, and the number of members, services will differ. The first services to be established will be self-financing and will allow other services to be implemented. Similarly, priority will be given to services most in demand from the members and for which costs are paid directly.

These services are:

3.1.1 Collective purchasing of merchandise

This first operation does not include warehousing but only purchasing negotiations.

For supply, the services of wholesalers can be used and prices checked to see if they remain advantageous. Generally better terms can be obtained if direct negotiations with the supplier are combined with the services of the wholesaler. Based on costs and discounts the most economical formula is chosen.

3.1.2 Advertising and promotional campaigns

Campaigns such as these are interesting for the considerable savings and for the possibility of their being financed in whole or in part by advertising discounts (shared costs) negotiated with suppliers (collective advertising).

### 3.1.3 Purchase of services and equipment

Substantial discounts can be obtained which will sometimes reduce normal costs by between 20 and 25%.

### 3.1.4 Members' visits and marketing committees

This service can be developed as required to correspond to the objectives of the organisation and the professional expertise of those responsible for visits. This point is dealt with in a later section under structural analysis.

Many groups, however, limit their activities to those few services which are self-financing and neglect others just as important but which accrue long term benefits; such as: market surveys, daily control technology, employee training and motivation, financial and accounting systems.

## 3.2 Normal evolutionary phases

### 3.2.1 The first year:

- the establishment of principles stimulate discussions;
- the original staff have little experience;
- the services have difficulty in operating and cause frustration;
- conflicts between the authority of the Board of Directors and the management team are frequent;
- lack of experience is evident at all levels;



- suppliers resist implementation and progress of the group.

Thus the first year is a difficult one. Benefits are not commensurate with expenses. Many members are dissatisfied and criticisms are frequent. Many points are questioned.

### 3.2.2 The second year:

- services operate more satisfactorily;
- budgets are adjusted and benefits are more encouraging;
- more sophisticated services are implemented;
- methods of the management team are improved.

During the second year, the operation of the main services improves. Employees and members understand each other better. Criticisms are less harsh and the benefits become more and more interesting.

### 3.2.3 The third year:

- the services reach a higher level of efficiency;
- the benefits to members are substantial;
- the group aims at consolidating the organisation and can hire more qualified staff;
- the members of the management team assess their actions and decide to expand and improve their services;
- real problems of the group and of the market are perceived more clearly and the scope of action can be adjusted.

The third year is one of consolidation and greater awareness of internal weaknesses and external influences. First directions are corrected.

#### 3.2.4 The fourth year:

- the group attains a satisfactory rhythm of viability;
- several services are added to those already in operation;
- marketing orientation is greatly improved and new plans are drawn up;
- the group is truly on the way to becoming the cornerstone of success for members;
- general performance is satisfactory;
- consumers are aware that they are receiving better service.

The principal characteristics of the fourth year are a high level of efficiency and better integration of the Board of Directors and members of the management team, all better equipped to recognise problems and solve them.

#### 3.2.5 The fifth year:

- the group stabilises and achieves full performance;
- the management team acts with more assurance;
- the level of efficiency is high.

The fifth year is when members can truly appreciate the advantages of the group and congratulate themselves for having joined.

In the most propitious circumstances, it is unlikely that a well-structured group can achieve full performance before four or five years of operation. In fact, many groups which have been in existence for more than ten years still experience major management problems. Some of the common causes of difficulty are analysed in the following chapter.

Chapter 4 PRINCIPAL PROBLEMS OCCURRING AS THE  
GROUP EVOLVES AND THEIR SOLUTIONS

4.1 Organisational shortcomings

Many groups are characterised by a weak internal management structure. The dynamic members have the impression that the organisation is marking time and is looking for direction. Possible reasons for this situation are the following:

4.1.1 Vague orientation

In any enterprise, orientation is a fundamental factor contributing to success. It must be conceived in such a way as to meet both long and short-term needs. It must also take into account the necessity of ensuring a high level of performance. It is only when measured against very precise sales objectives and budgets which are strictly enforced that orientation may reveal its efficiency.

4.1.2 Lack of continuity and inequality  
of influential groups

Groups sometimes have to face periods of uncertainty caused by too frequent changes in the membership of the Board of Directors. The stability of the organisation depends on the dynamism of the Board and on the leadership of the Chairman.

In any group, there are two distinct sources of power. The first derives from the member merchants through the Chairman and the Board of Directors. The other originates in the management team constituted by central services and this is managed by persons not normally members of the group.

Each influential group possesses its own strengths, pursues its goals which are sometimes different and sometimes correspond to those of others.

Problems of relationships develop in many ways:

- the chairman who is both merchant and member is often pressured by his colleagues to take certain actions or to remedy instances where dissatisfaction is evident. Too often this person abuses his power: he takes the place of the managing director or demands that he take corrective action with too little warning;
- being merchants with the same privileges as other members, the administrators have relationships with the others, deal with their complaints seriously and bring pressure to bear to implement corrective measures. Their attitude towards the management team is sometimes biased and lacking in perspicuity. Their inexperience in senior management is sometimes the cause of frustration experienced by the managing director and by employees.

The result of such attitudes is that the morale of the permanent staff is lowered. This makes staff recruiting difficult.

Some groups are caught up in a veritable vicious circle. The pitiful quality of the management team justifies interference by the members and the relationship between the two organisational levels is soured. Motivation declines, with a subsequent reduction in productivity.

The success of the group depends largely on the quality of the permanent staff. The membership cannot count on the efficiency of a team slowed down by the weight of the Board of Directors. The Chairman must be the stabilising element between the two groups of influence which must complement each other.

The management team forms an entity which reports to the managing director. In order to function, this group must be motivated and must completely understand the objectives of the organisation.

Difficulties resulting from conflicts between the two sources of power can be resolved. They require an effort to get to the heart of the problems on the part of the members and of the administrators and sufficient determination to take actions which are required to correct them.

Solutions are generally found in the following areas:

- decentralise authority and replace appropriate powers in the hands of the management team;
- clearly define the authority and the powers of the Board of Directors and the management team respectively. This action will permit the establishment of channels of communication and the elimination

- of any direct interference;
- provide the means necessary for each person responsible for a certain function to carry out the assigned task efficiently;
  - use the system of management by objectives (MBO) to ensure that goals set are pursued by the management team and that the efficiency of each is assessed;
  - provide a salary scale for the permanent staff commensurate with the duties performed.

#### 4.2 Errors made in the setting-up phase

##### 4.2.1 Selection of members

From the beginning, a poor selection of members can cause immobility in the organisation at the marketing level. The success of the group and the future of the membership depends on this.

##### 4.2.2 Individualism of members

Individualism of group members is proverbial. Many members have joined a group without realising that their interests are bound to the interests of others. They automatically reject any decisions liable to involve expense which do not bring direct concrete results.

Thus a merchant whose financial situation is stable and who does not aim at expansion will oppose any marketing or service policy which he feels he does not require.

This individualism is probably one of the most serious obstacles to the evolution and the dynamism of groups. The Chairman must be able to correct this tendency by organising frequent familiarisation campaigns.

#### 4.3 Imprecise marketing programmes

The principal role of the management team is the establishment of realistic marketing programmes. Weakness in this area is frequently noted.

The success of any commercial enterprise rests principally on the turnover and profits which can be realised in a certain market. Two elements indispensable to a management team are the exact knowledge of market characteristics and the holding of sufficient information concerning competitive procedures.

Only when this knowledge is secured can a plan of action be drawn up. Many groups do not have any real strategies which allow them to win new markets and have neglected to provide themselves with the means whereby they can attain and maintain these new outlets. On the other hand, some groups are content to offer a minimum of required services. Consequently, it is of capital importance to raise the level of awareness of members by organising marketing seminars and by the publication of information on market development and competition.

#### 4.4 Points to watch in general programmes and in services offered to members



#### 4.4.1 Nature and quality of services

Few groups aim at being in the forefront of progress in the areas of marketing and technology.

The large chain store companies which they have to compete with are generally abreast of progress in these two areas and no group can hope to really progress if it does not adopt a similar orientation.

#### 4.4.2 Saving adapted to the situation

In their early stages, groups show too much tendency to economise on everything. They do not understand that certain services, to be really viable, must have efficient means available.

The control of expenses and the elimination of waste are necessary, but too much of a parsimonious approach can cause problems.

At the heart of any modern organisation, efficient equipment stimulates the morale of the employees and increases output. Also, the relevance of all requests for corrective action formulated by the management team must be rigorously assessed.

#### 4.5 Insufficient financial resources

Unlike what occurs in the management of chain stores, lack of sufficient financing is one of the principal problems which has to be faced by independent merchants.

A group must encourage its members to upgrade their places of business. It should be capable of providing financial assistance when members have valid expansion and development plans.

The group can provide financial assistance in several ways:

- by being the second signatory to a long-term lease signed by members;
- by guaranteeing loans taken out by members to do renovations;
- by creating a fund for financing or communal aid through contributions made by members (for example: 1% of purchases);
- by assisting members in the drawing-up of financing schemes;
- by lending money in the form of second mortgages at a lower than current rate of interest to merchants who own property.

This aspect is dealt with in detail in the annex.

Chapter 5 CENTRAL ORGANISATION OF A GROUP

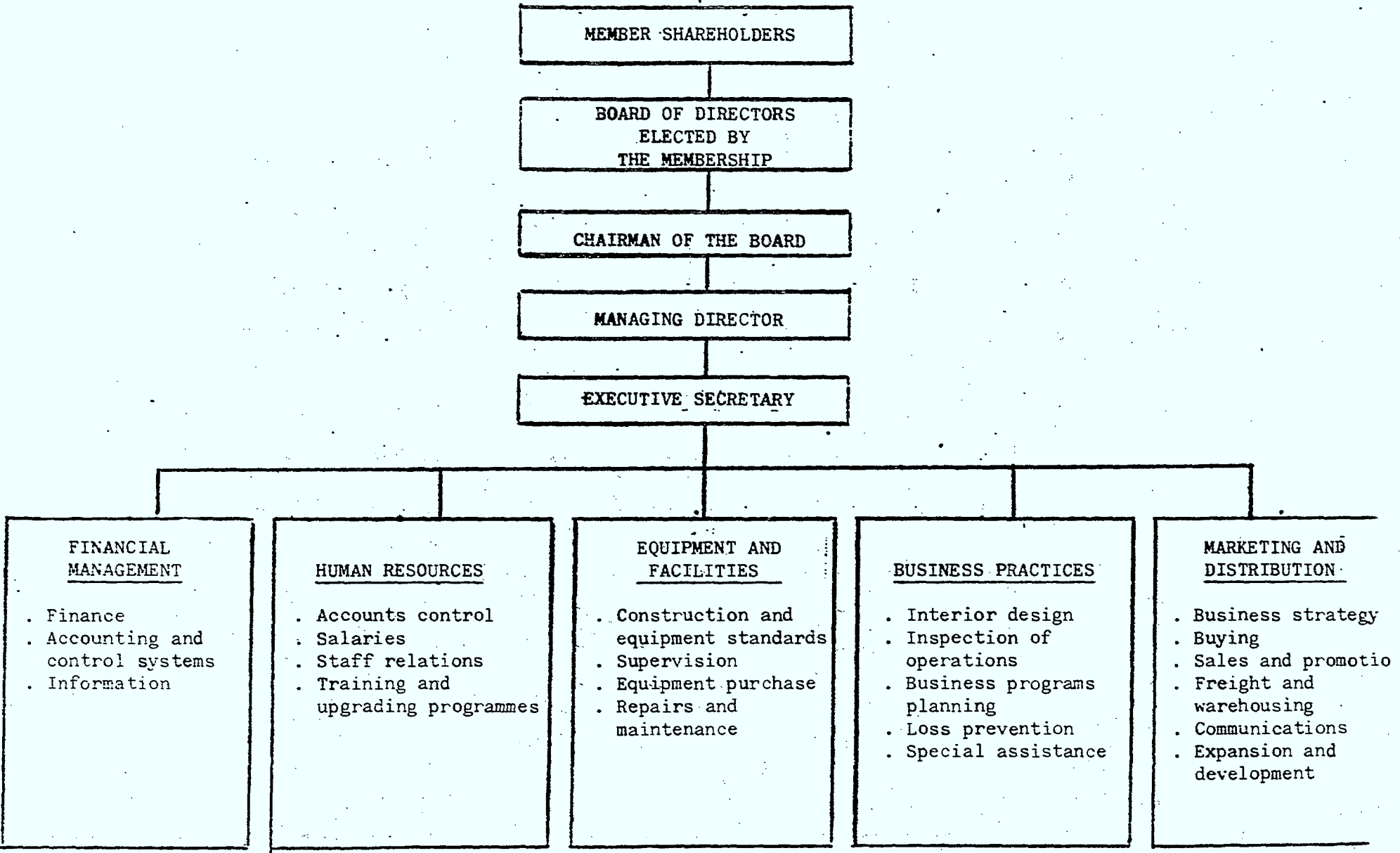
5.1 The operating and efficiency of general structures

A group must evolve with a sound structure capable of ensuring healthy internal administration. This organisation must be sufficiently efficient to provide members with a range of services in terms of planned objectives and manifest needs.

This double requirement does not necessarily mean that two distinct teams have to be set up. Most specialists will assume responsibility for their area of expertise where it affects the central organisation or the membership. Descriptions of functions which are given below reflect this dual responsibility of the directors in the areas of internal organisation and of services provided to members.

The structure proposed here corresponds to one which would be used by a large operation offering a wide range of services. Depending on the number of members, financial resources and the requirements, several administrative positions can be combined, for example, financial and personnel services. The ideal structure is one that meets the demands of efficiency and sound management of resources.

5.2 A DRAFT ORGANISATIONAL CHART



### 5.3 Functions

In the sections which follow, parallels are described between internal administrative activities and those involving the membership.

#### 5.3.1 Financial management

##### a) Finances

- The advice of financial consultants is indispensable when a financial enterprise is started up. Following the advice of these specialists, the group can be assured of having long and short term funding available to achieve objectives.
- When members require financial backing, financial consultants prove to be valuable assets. Their opinions are useful also when expansion is to be implemented. Management specialists can meet these needs.

##### b) Accounting and control systems

- Development of accounting and planning systems;
- Adaptation and distribution of accounting systems for members;
- application and updating of accounting systems and operation of the group.  
(These can be either manual or mechanical systems.)
- when the central office uses data processing, often various services can be offered to members:

- . general accounts;
- . sales analysis;
- . salary & wages;
- . inventory control;
- . purchases analysis;
- . etc.

c) Data processing

- Development of a method of electronic data processing.
- Adaptation of mechanical procedures as required by members;
- standardisation of equipment;
- staff training or courses in conjunction with equipment suppliers.

5.3.2 Human resources

a) Files

- Updating of personnel files of management team.
- suggestion of models for personnel management systems for members.

## b) Remuneration

- Salary policy for group employees.
- Advice and assistance to members to draw up and apply policies.

## c) Staff relations

- Contract negotiations for group employees;
- grievance procedures.  
(Note that most businesses do not have to deal with these problems at the union level).
- Assistance and expert advice enabling members to improve staff relations and to assist them to negotiate collective agreements (where necessary).

## d) Training programmes

- Planning and updating of training programmes for employees and management personnel of management team.
- Implementation of training programmes and holding of seminars for employees engaged in marketing, personnel management, communication, etc.

### 5.3.3 Facilities and equipment

#### a) Architectural, construction and equipment standards

- Updating of architectural standards and store construction standards according to a model;
- preparation of plans and model estimates;
- preparation of standardised lists of equipment and installation specifications;
- updating supervisory standards for construction and equipment installation required for each group member.

- Application of standards to facilities of each member.

#### b) Supervision during construction

- Supervision during construction or renovation;
- Supervision during equipment installation.

- Assistance to members for installation of fixtures, renovation or equipment installation.



## c) Purchase of equipment

- Centralisation of equipment purchasing for the group. (It is to be remembered that the fact of belonging to a group brings considerable reductions to all purchases.)

- Reduction in cost of individual purchases by members thus allowing considerable saving.

## d) Maintenance and repairs

- Updating of maintenance and repair standards required by properties and equipment belonging to group members.

- Group negotiation of maintenance and repair contracts;
- establishment of a special group capable of providing immediate assistance in emergencies.

#### 5.3.4 Business operations

##### a) Interior fittings

- Preparation of model plans for fittings;

- drawing-up of space utilisation criteria to ensure maximum viability.

- Adaptation of members' stores to model plans for fittings;

- assistance in applying criteria for space utilisation and arrangement.

##### b) Supervision of operations

- Drawing-up of operational standards in the affiliated members establishments.

- Supervision of implementation of established standards.

##### c) Business techniques

- Systematic study of the development of retail trade in the area affected.

- Information and facilities supplied to members to enable them to be in the forefront of development;

- advice to members on various aspects of management, operations, presentation, etc.

## d) Loss prevention

- Drawing-up of anti-theft, anti-fraud and other loss techniques;
- implementation of these techniques by the management team.
- Information distributed to members on recommended techniques and training of members to enable them to implement techniques;
- assistance and enquiry in cases of theft and fraud.

## e) Special assistance

- Assistance to members in special circumstances: store opening, renovations, fire, etc.

5.3.5 Marketing and Distribution

## a) Business strategy

- Detailed studies of market conditions;
- definition of objectives;
- drawing-up of strategies designed to ensure implementation of objectives;
- Implementation of plan by members.

- preparation of a marketing plan;
- organisation of distribution network.

b) Purchase of merchandise

- Selection of products and suppliers;
  - negotiation of prices;
  - preparations for marketing;
  - planning of an annual marketing programme;
  - etc.
- Implementation of systems allowing members to stock up easily:
    - . order books;
    - . retail price lists;
    - . promotional literature;
    - . stock rotation studies;
    - . etc.

c) Sales and promotion

- Technical aid for members to enable them to maximize sales increases;
  - analysis and research of special cases (product categories, geographic areas, population groups, etc.);
- Implementation of promotional campaigns;
  - implementation of sales techniques.

- preparation of promotional campaign.
  - courses on sales techniques;
  - technical assistance for promotion available to members.
- d) Freight and warehousing
- establishment of preferential tariffs for freight and merchandise purchased;
  - Information supplied to members on transportation and warehousing procedures;
  - implementation of freight services ensuring reliable and rapid supply services to members;
  - assistance to solve problems related to transportation.
  - settlement of all questions related to insurance claims related to transportation;
  - administration of activities related to transportation and warehousing of merchandise for the group.

## e) Communications

- Definition of objectives and identification of clientele to establish a visible, coherent and personalised identity;
- selection and manufacture of various elements to publicise the group image among clients;
- establishment of publicity campaigns and delivery procedures;
- preparation of group contracts for the implementation of advertising methods selected and advertising placement. (Example: printing of circulars and catalogues, leasing of newspaper space, reservation of air-time on radio and television, manufacture of uniforms, etc.);
- Implementation of advertising programmes drawn up for members;
- operation of visual identity standards of the group (stationery, uniforms, vehicles, etc.);
- distribution of information of use to the group as a whole;
- advice given to members concerning relevant procedures to retain customer interest and to improve the group image.

- definition of criteria for use of elements of visual identification or publicity material;
- establishment of liaison procedures with members (newsletters, electronic message centre, etc.);
- analysis of results of advertising operations;
- distribution of information on the development of markets related to group activity;
- interpretation of data gathered.

## f) Expansion and development

- Detailed studies carried out to open up new avenues for trade and to expand the market to facilitate the establishment of new sales outlets. (These studies will take into account expansion guidelines as decided by the management team.)
- Assistance given to members who wish to expand by making advance market studies.



### CONCLUSION

Since the post-war period, it appears that the business grouping format has been proved in a large number of cases. A glance at the styles of groups like Métro-Richelieu, RO-NA, Sports Experts, Uniprix, Provigo and others is sufficient to convince us of the efficiency of a combined effort. Many other examples of prosperous business groups may be cited.

The success obtained by all these groups demonstrates that collective effort is an excellent way to offset competition by large companies whose structures are solidly established. All merchants who have agreed to unite their efforts and form groups recognise that this decision has been a vital one for the prosperity of their businesses.

This paper has set out an analysis of many of the difficulties which merchants are faced with. It suggests that the modern businessman can solve his problems through use of the business grouping format. It is true that members of this kind of organisation must sacrifice a little of their personal independence. However, their participation in such a group brings many advantages and enables their businesses to reach full potential.

ANNEXGROUP FINANCING

Financing groups is difficult to achieve especially during the start-up period.

1 The initial phase of the project.

The level of funding required at this stage is not high. The few hundred dollars needed are contributed by the founding members. The most significant cost is time devoted to the organisation. It is common for each person to take responsibility for one area and to use his own secretarial services, printing, telephone, etc.

2 Preliminary development phase

Expenses related to research, printing, recruitment, communications, etc. can be considerable. The phase preceding the collection of membership fees can occasion costs between fifteen and twenty-five thousand dollars, depending on the number of members to be recruited.

It is essential that expenditures be recorded in detail, so that the group can make repayments after its establishment.

Financing this phase can be done in several ways. In any case, founding members must assume responsibility in the following ways:

- proportional membership fees to pay start-up costs. These can be between \$2000 and \$3000 per member;
- members' endorsement of bank loans;
- payment to the group of a percentage of discounts obtained through centralisation of purchases;

### 3 Establishment of the group and initial operations

This phase involves considerable expense: equipment purchase, hiring of staff, rental of space, etc.

It is desirable that the majority of these costs be paid by membership fees. These can be set at \$1000 or higher, giving available funds of \$100,000 or more.

In all situations, it is extremely important that an assessment be made of the start-up costs and the expenses incurred in initial operations (a few months). It is necessary to establish the mechanics of paying such costs through the membership fee collection procedure.

#### 4 Financing regular operations

Regular operations of the group are financed in several ways:

##### a) General marketing, purchases and distribution

These expenses are financed from a percentage calculated on members' purchases set aside for this purpose. The percentage will vary according to the nature of the services.

If it is a question of a complete warehousing and delivery service, costs will be between 5% and 12%, depending on inventory turnover and the volume of purchases.

When members are located in a densely represented area, members can make their own arrangements for freight and can take delivery of merchandise at the depot. This cost lies between 4% and 6%.

In certain situations, the depot is operated on a 'cash and carry' basis. Thus the member is responsible for preparing his order and for taking delivery. Costs can be as low as 2% to 3%.

##### b) Promotion and advertising campaigns

Annual general expenses can be shared between members depending on the value of their total purchases or the number of their

stores. Advertising costs are collected through a monthly fee to which costs related to special advertising or promotional drives are added.

c) General administration and services  
offered to the membership as a whole

Several formats can be used. For example these costs can be added to marketing expenses and assess them to members pro-rated to purchases. Administration costs are assessed as a percentage and added to sales where they are calculated in the product price.

d) Special services related to renovation, architecture,  
market studies, etc.

New members using these services are billed directly and assessment of these services is established according to a pre-set tariff scale.

e) Warehousing and distribution

If the organisation wishes to establish a distribution service capable of offering all possible benefits, financial resources which can be invested long term must be identified.

These activities are usually financed as follows:

- special fees levied on members;
- long term share financing;
- collective endorsement by members;
- shorter credit terms offered to members;
- current charges added to bills.

Operations are organised from a rented depot and centralisation of purchases proceeds as it becomes viable. Financing can be provided from a fund established by contributions based on a percentage of purchase volume.

The most widely-used format is the one in which a percentage to cover current administrative and marketing costs is included in the selling price. This procedure avoids the necessity of establishing a separate account and avoids the necessity of constantly reminding members that administrative funds are required. Criticisms are thus avoided.

5 Financing for expansion and development programmes for the group and its members

The absence of financial backing and support services for members' expansion is a major weakness in many groups.

It is possible for the group to create a financing reserve.

The capital of this reserve can be established in several ways:

- a fixed percentage of members' purchases is placed in this reserve and constitutes an investment for which each member receives an interest-bearing negotiable certificate;
- each member supplies a loan endorsement which will facilitate a collective loan;
- specialised financial institutions (trust companies, etc.) are approached to provide part of the capital, either by the purchase of certificates or by directly financing a project.

The financing reserve can begin study of expansion projects submitted by members. It can also plan the financing of these projects and participate in them in various ways, for example:

- lending funds at a preferred rate;
- guaranteeing members' loans;
- approaching lending institutions.

The financing reserve can also guarantee members' leases so that they can have access to locations for which certain financial guarantees are required from tenants.

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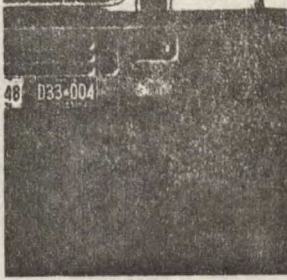
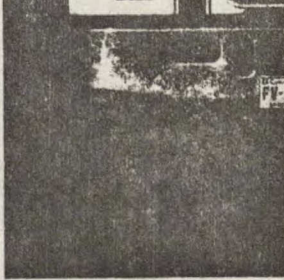
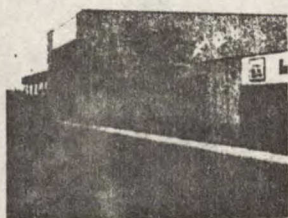
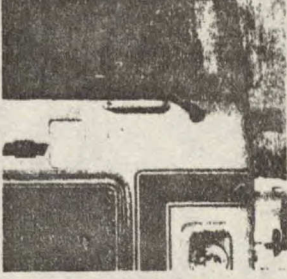
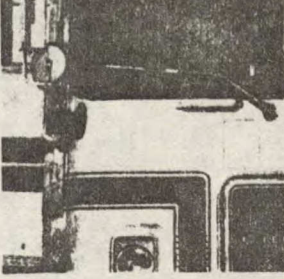
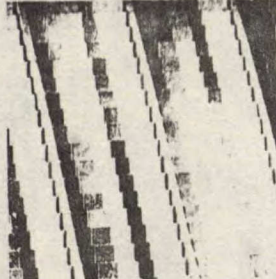
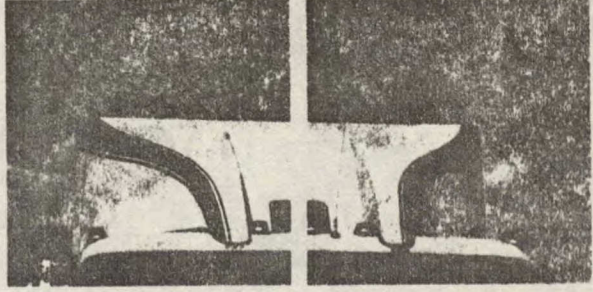
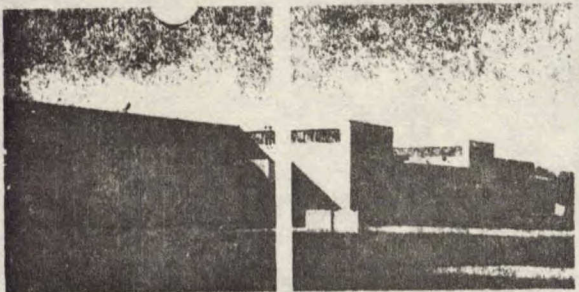
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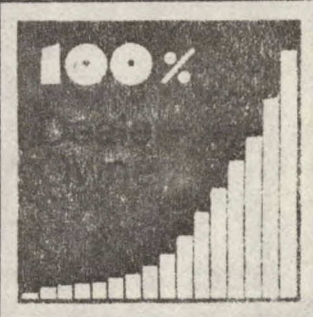


**HOME ALL**  
BUILDING CENTRE



**h** **homeland**  
furniture

**Serving**  
**Canada** 



# The sign of the times

... across Canada





Walter Hachborn, President and General Manager

#### **Home Hardware—100% Dealer-Owned**

Home Hardware Stores Limited is a completely dealer-owned mutual company, owned and operated by independent hardware, building supply and furniture dealers across Canada.

The company was founded in 1964 by a small group of independents who found that they could not compete profitably by following the traditional methods of distribution. Their objectives were to eliminate the middleman's profit, purchase their products for less, and at the same time develop an equity in relationship to their purchases, building a strong base which would allow them the resources, facilities and staff to compete with any form of competition.

By the end of 1980 the company had a membership of more than 650 stores in eastern Canada, and sales of \$200,000,000. On January 1, 1981 a merger between Home Hardware Stores Limited and Link Hardware Company Ltd., a similar dealer-owned company headquartered in Edmonton, Alberta, brought the membership to more than 1000 stores, in every province from Newfoundland to British Columbia, from Labrador to the North West Territories.

Home Hardware operates as a co-operative, serving only those who own the company. There is only one program—one of equality where all dealer-owners share and participate as equals. The company is non-profit and operates on a "cost plus" basis.

## Financing for continuation

Home Hardware's "cost plus" program starts with a basic merchandise cost that is among the lowest in the industry because of the enormous volumes purchased by the company. Surcharges, or add-ons, are added to the merchandise costs to finance the company's expenses and growth. The company is non-profit and budgets only to break even.

## Warehouse and handling surcharges

Surcharges ranging from 0 to 6% depending on the type of shipment are added to the invoice. These surcharges are funds required to cover the company's operating expenses. The surcharge percent varies with the degree of company involvement. Warehouse shipments, requiring receiving, holding and handling, carry the highest surcharge. Direct shipments involving the company only in the invoicing function, carry the lowest surcharge.

## Share participation

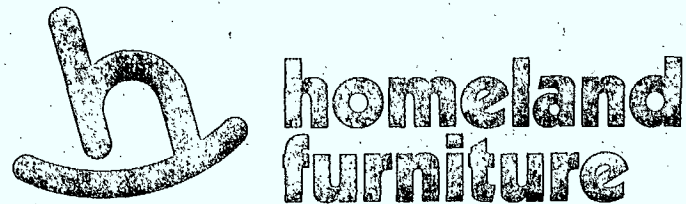
In every company it is necessary to build equity to properly finance for inventory, accounts receivable, etc. The directors of Home Hardware have determined a program whereby the dealer-owners assist in financing their company through the purchase of shares in direct proportion to their merchandise purchases. Dealers dedicate from 0 to 4% of purchases to shares in the company, and receive the face value of all accumulated shares in cash on retirement.

## Building loan notes

A small percentage is also assessed to assist with the continuing expansion and upgrading of the company's fixed assets. The building loan notes are invested in the company for a period of five years, bearing interest at 2% above bank prime. Dealers receive interest on the building loan notes each year until maturity, at which time the principal amount is repaid.

## Advertising

A surcharge is also added for advertising. A portion of this surcharge finances the company's national advertising program, and the balance is credited on a co-op basis against the dealer's local advertising.



**HOME  ALL  
BUILDING CENTRE**

## Homeland Furniture and HomeAll Building Centre Divisions

The HomeAll and Homeland divisions of the company were formed to offer to building supply and furniture dealers the same benefits and services that are available to hardware retailers, but under a separate and distinct identity to avoid consumer confusion. Both divisions are managed by knowledgeable professionals with wide experience in their field, but the divisions utilize the company's administrative staff, computers, and distribution and communications network to minimize overhead and achieve maximum efficiencies.

The building supply and furniture divisions have developed buying group programs with all major suppliers. A separate advertising program is in force. The Board of Directors includes representatives from both the HomeAll and Homeland divisions.

Within the HomeAll division a lumber service hotline is operated to provide up-to-the-minute quotations to dealers on lumber and plywood requirements. This allows the dealer to spend his time productively in the daily operation of his business, and eliminates the necessity of numerous telephone calls to various sources to determine competitive prices and current information on market levels.

Whether a business specializes in hardware only, building supplies, furniture or a combination of all three, Home Hardware Stores Limited and its divisions can provide all the goods and services an independent retailer requires to allow him to compete profitably with chain, department or discount stores.

## Home Hardware Board of Directors

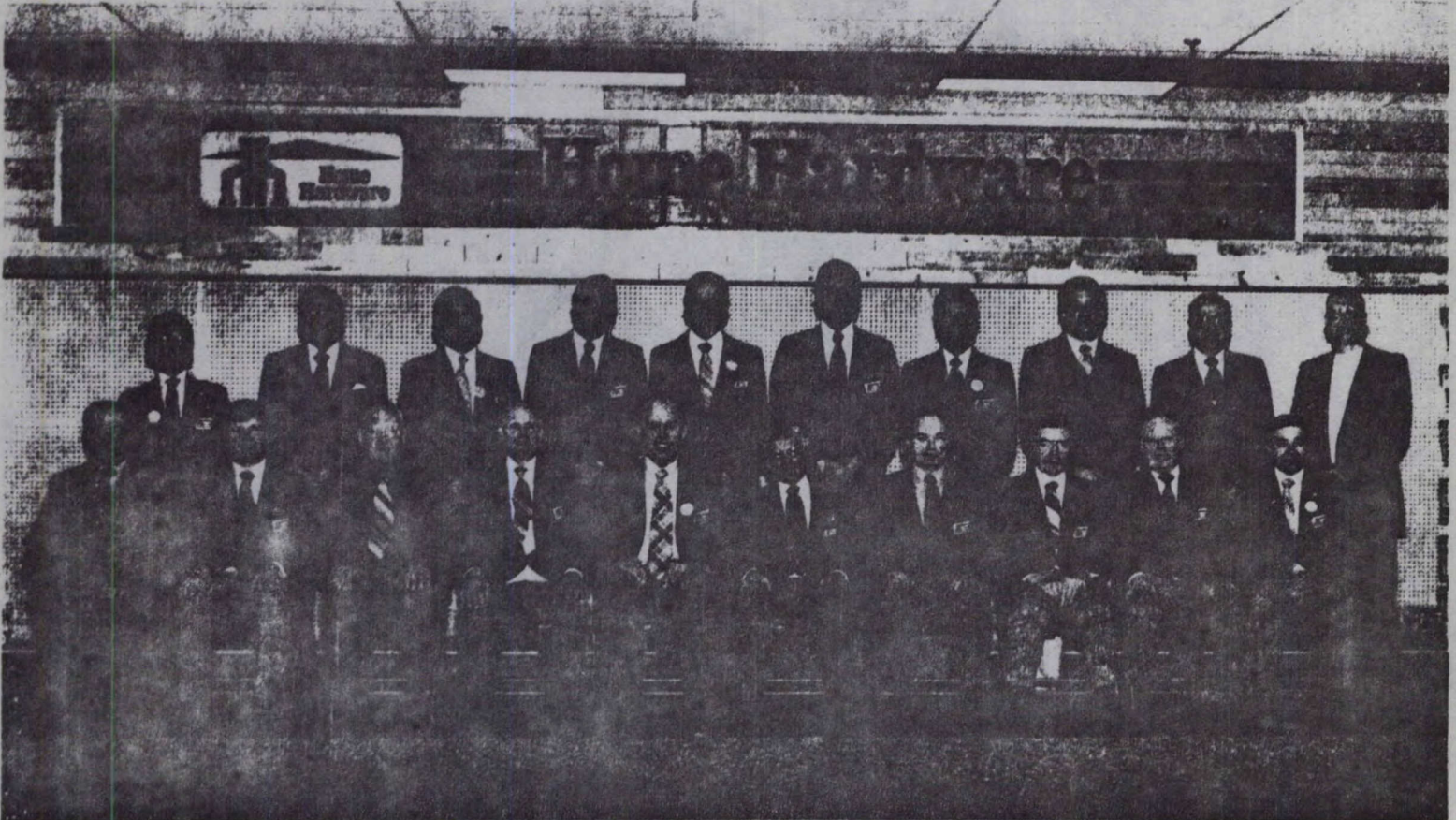
Elected annually by the dealer-owners, and representing hardware, building supply and furniture retailers across Canada.

(seated) **Gordon Mackay**, Mackay, Kirvan, Seitz, Barristers and Solicitors — Assistant Secretary;  
**Paul Straus**, Home Hardware Stores Limited;  
**Edwin Norman**, Allandale Home Hardware, Barrie, Ontario — Secretary;  
**John Kala**, Kala's Home Centre, St. Catharines, Ontario — Treasurer;  
**Allan Sinclair**, Sinclair's Home Hardware, Collingwood, Ontario — Chairman;

**Walter Hachborn**, Home Hardware Stores Limited;  
**Ray Gabel**, Home Hardware Stores Limited;  
**Glenn Young**, Leamington Home Hardware, Leamington, Ontario;  
**Fabian Aylward**, Aylward's Limited, St. Lawrence, Newfoundland;  
**John Wakulat**, Pollocks Home Hardware, Toronto, Ontario.

(standing) **Donald White**, G. S. White & Son Ltd., Oshawa, Ontario;  
**Robert Geggie**, Geggie's Hardware, Winchester, Ontario;  
**Donald Schott**, Simcoe, Ontario;  
**Howard Polk**, Dryden Home Hardware, Dryden, Ontario;  
**Frank Gow**, Gow Brothers Ltd., Bridgewater, Nova Scotia;  
**Murray McDermid**, Manitoulin Home Centre, Providence Bay, Ontario;

**Harry Lowther**, Southport Home Center, Charlottetown, Prince Edward Island;  
**John Blake**, High River Hardware Limited, High River, Alberta;  
**Harry Blight**, Pulham & Blight Ltd., Vancouver, British Columbia;  
**Charles Reid**, Reid's Hardware Ltd., Saskatoon, Saskatchewan.

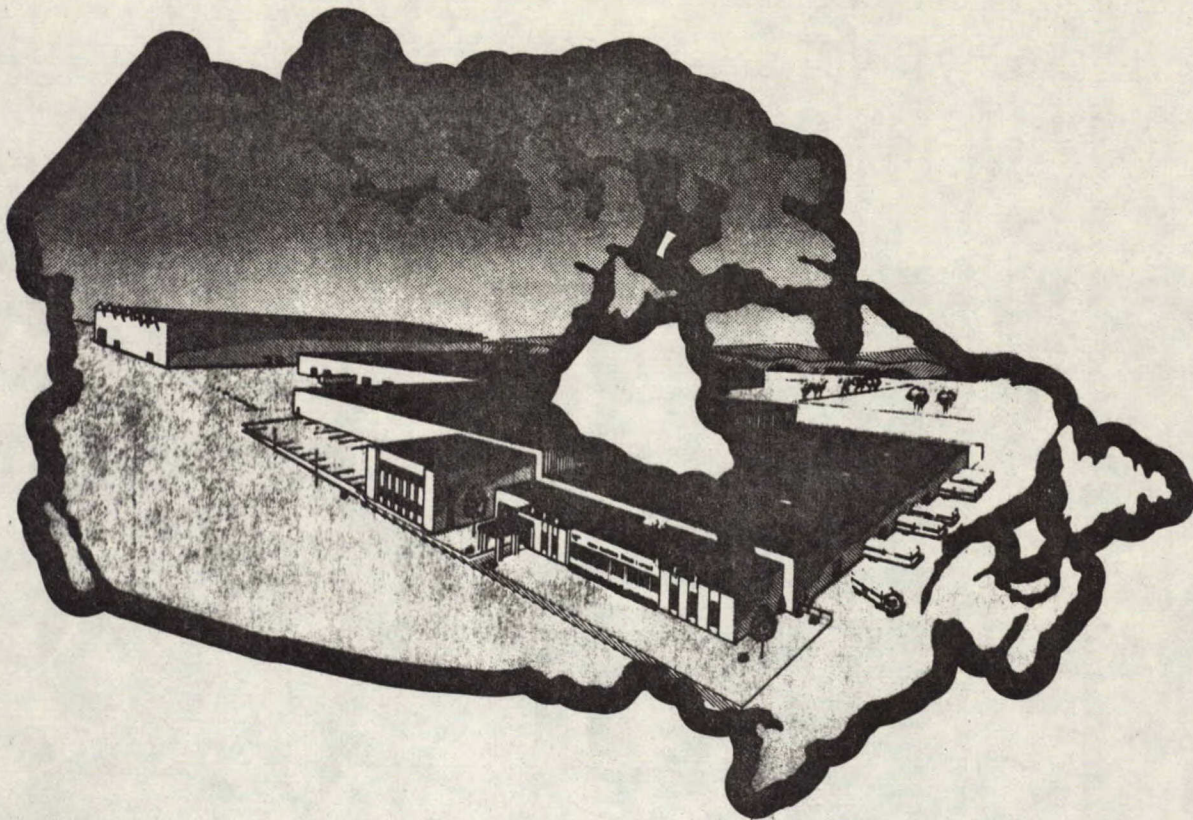


## Leadership and Direction

The company is governed by a dealer Board of Directors who are elected on a regional basis by their fellow dealer-owners. All decisions made by the Board directly and personally affect the Board members themselves, since one of the criteria for becoming a director is that the dealer-owner be actively involved in the ownership and management of a Home Hardware Store.

The company is professionally managed and staffed by dedicated personnel with a broad background and wide experience in the industry. There is a close personal relationship between the distribution centre staff and the dealer-owners. The staff is never farther away than a telephone call, and throughout the year at various meetings and functions the dealer-owners have many opportunities to deal with the staff members face-to-face.

The company's district managers call personally on each store several times a year, and are on call at all times to assist the dealer-owners with problems and special situations.



## Distribution Centres across Canada

The company's head office and original distribution centre is in St. Jacobs, Ontario. This is the nerve centre of the operation, reaching across Canada through its satellite centres in Debert, Nova Scotia and Edmonton, Alberta.

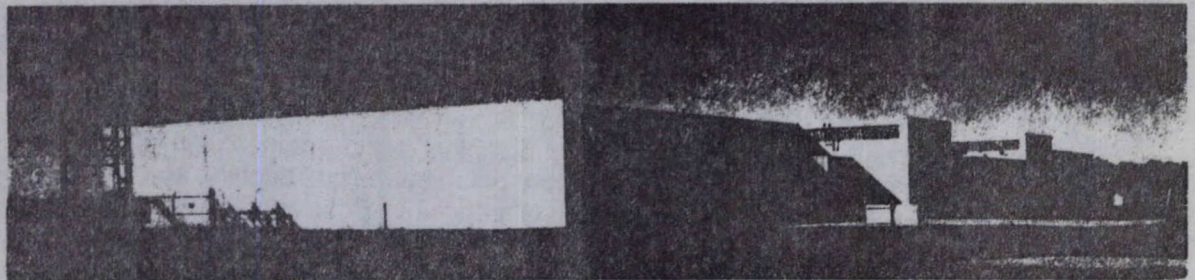
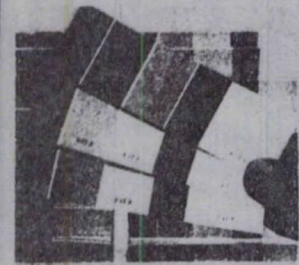
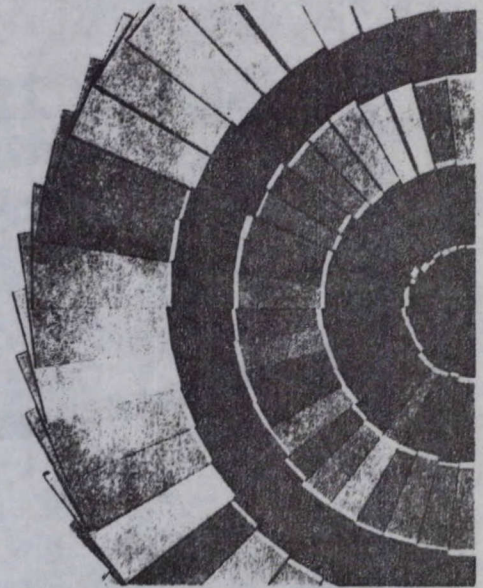
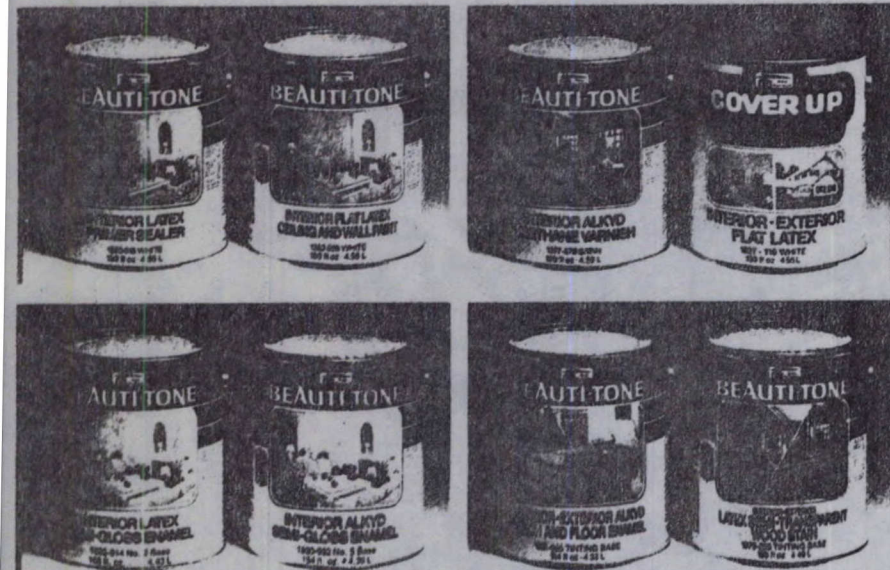
The central distribution centre in St. Jacobs covers more than half a million square feet and operates on a 24-hour-a-day basis. It was one of the first hardware distribution centres in Canada to employ an automated picking system to make the most efficient use of building cube. Dealer-owners in Ontario, Quebec and Manitoba are served from this centre.

The warehouse functions at the Debert distribution centre are completely computerized, and are the most modern in the hardware industry today. The facilities incorporate several different picking systems integrated by a conveyor system of more than 1700 feet which takes the merchandise from various areas of the centre directly into waiting trailers. This 270,000 square foot distribution centre serves the dealers in Atlantic Canada.

Plans are well under way to replace the present 200,000 square foot warehouse in Edmonton with a larger, more efficient centre. Merchandise destined for stores in Alberta, Saskatchewan, British Columbia and the North West Territories is shipped from this centre.

The company's distribution centres are among the most modern and automated in North America, designed to handle large volumes of merchandise quickly and efficiently. Constant studies take place to determine the facilities' maximum levels and to provide for future expansions as they are required.

# Beauti-Tone . . . more than just a pretty paint



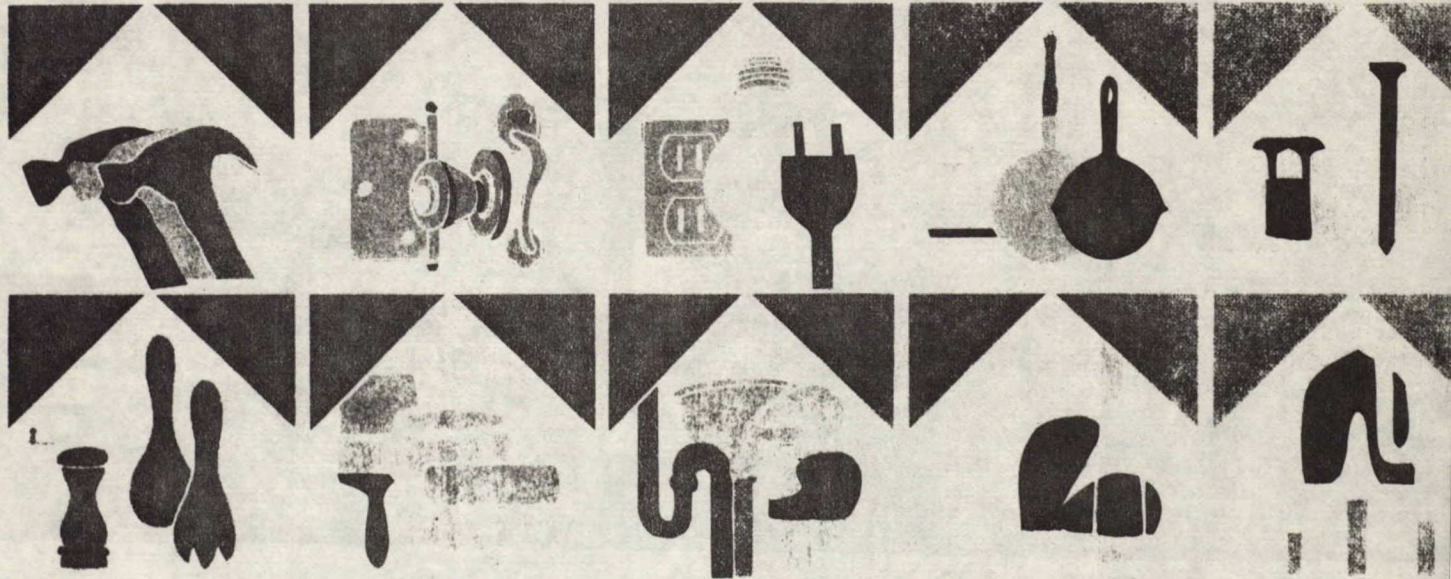
In today's highly competitive paint market, it became prudent for the company to be able to control the quality and cost of its private label paint, and to be able to offer to the consumer all the benefits of the popular brand name paints at very competitive prices, thus increasing Home Hardware's share of the growing do-it-yourself paint market. Home Hardware dealers are assured of realistic gross margins, even with frequent national paint promotions.

The modern paint factory in Burford, Ontario is highly automated and designed to meet sales projections for many years to come. It is staffed by an experienced, professional team with a broad background in the paint industry.

Home Hardware's ultra-modern colour system has enormous consumer appeal, and has been designed to meet the demands of the changing paint market by being flexible enough to be able to introduce new colours as preferences change.



## Shopping World Markets for a Merchandise Assortment



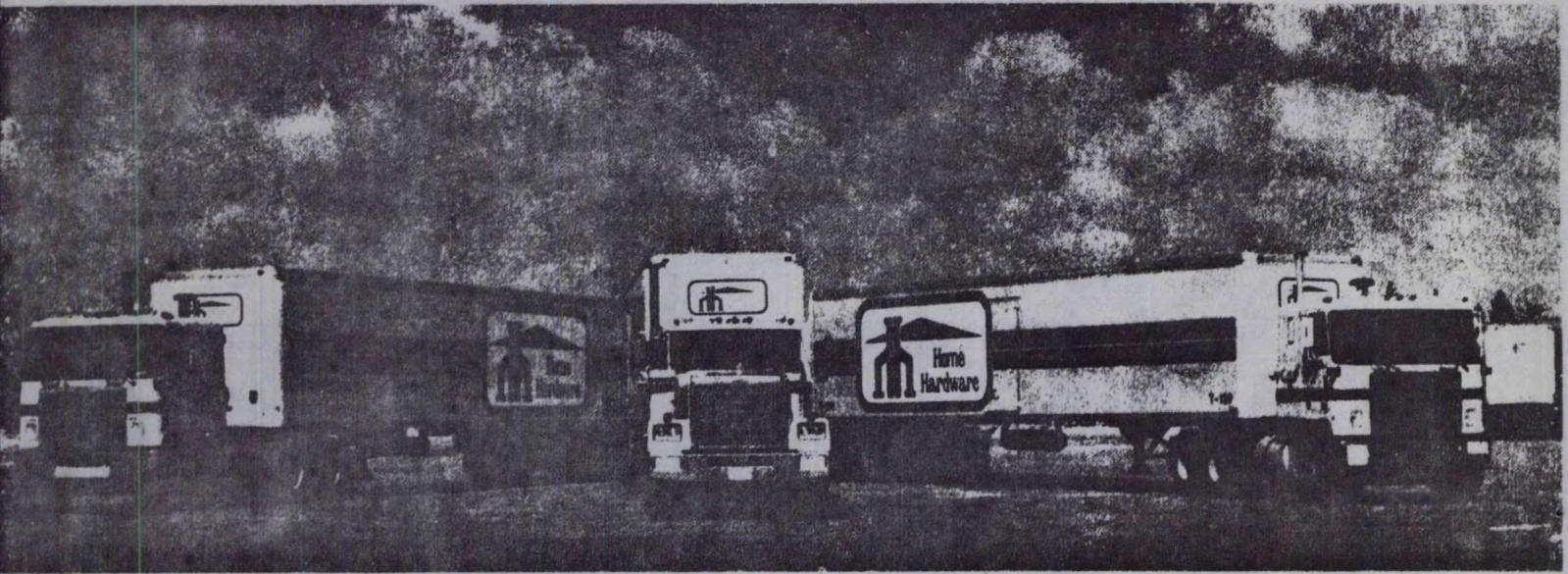
Home Hardware is a one-stop source of supply. More than 24,000 items are carried in warehouse inventory at all times, making a full line of hardware and building supply products readily available to all dealers.

The product selection includes popular national brand names as well as quality private label merchandise. Warehoused lines include hand and power tools, paint and decorating supplies, adhesives, fasteners, plumbing, electrical, home entertainment, traffic and major appliances, cookware, housewares, cleaning supplies, garden tools and supplies, farm hardware, winterizing and heating products, sporting goods, toys, automotive accessories, and builders hardware.

Home Hardware also makes available to the dealer-owners, through a relay program, thousands of items that are not carried in inventory. Virtually 100% of an average store's needs can be purchased through the company at the best prices available.

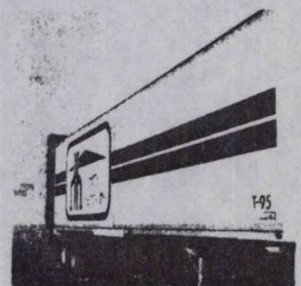
Dealer-owners with the capability of making direct purchases also benefit from Home's established cost structures with the various manufacturers.

Only the dealer-owners of the company can purchase through the company. On warehouse and relay shipments, every dealer pays exactly the same base cost. No matter how much or how little is purchased, all goods are sold at the same low cost.

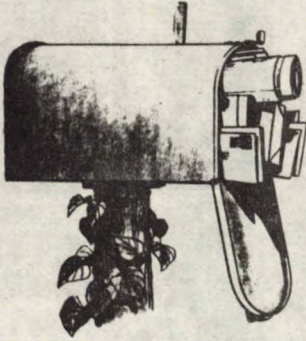


## Cross-Country Delivery Network

Home Hardware's own fleet of trailers make regularly scheduled weekly deliveries to all dealer-owners. There are no minimum order requirements to guarantee this weekly delivery. On the return trip the vehicles pick up and haul back product from the suppliers to the various distribution centres, to keep the cost of merchandise as low as possible.



## Total Advertising Coverage



### Direct Mail

Catalogues and flyers distributed by dealers in all trading areas.

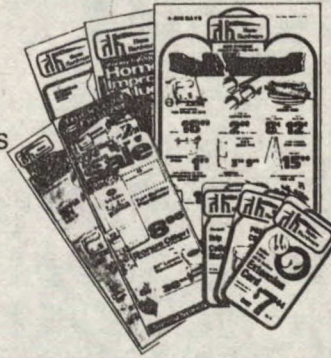


### Television

Complete saturation on special promotion items.

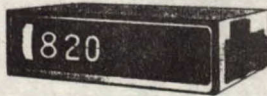
### Radio

Advertising placed regularly by dealers on local radio stations, using Home Hardware jingles for consistency.



### Newspaper

Flyers inserted nationally in all major newspapers across Canada. Newspaper advertising placed locally by dealers.



## Powerful Advertising

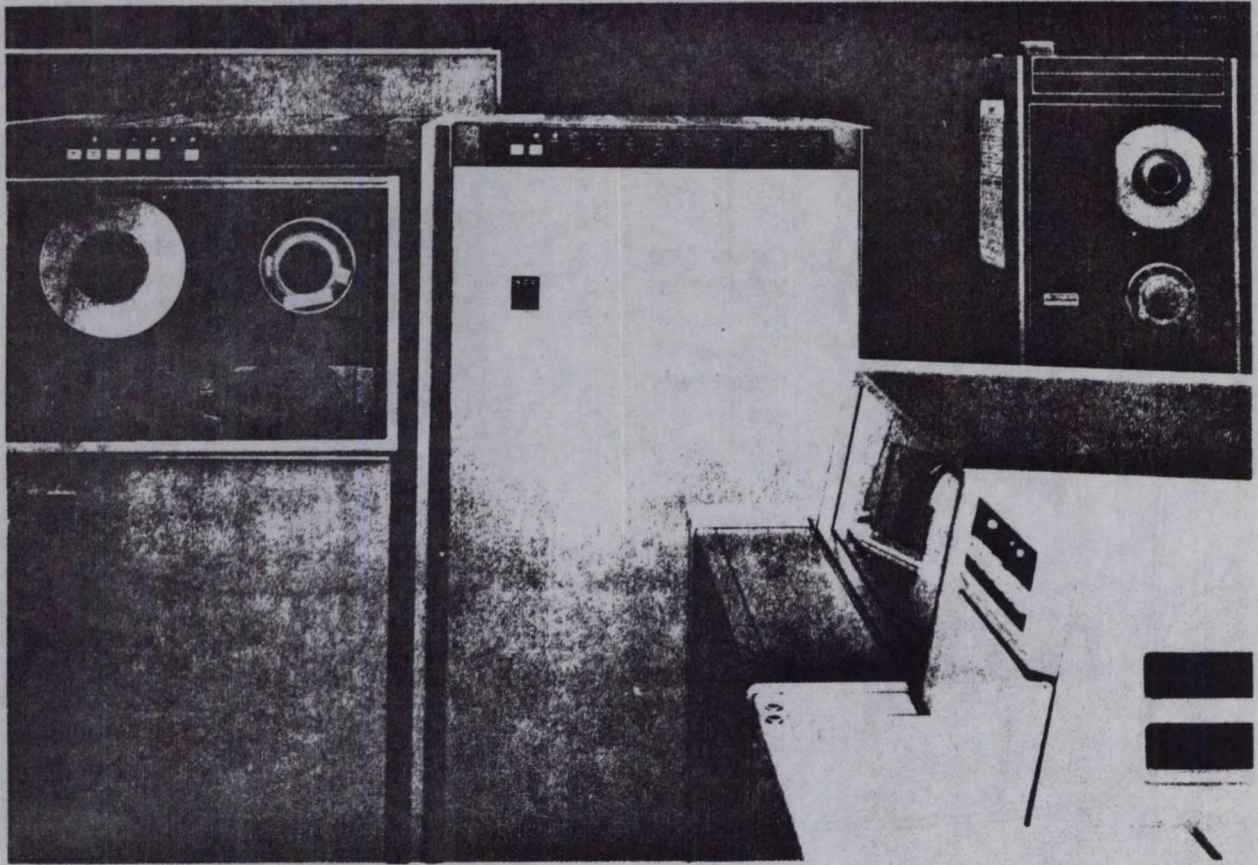
The company's dynamic, traffic-building advertising program is planned each year by a rotating committee of dealer-owners. The program includes flyers inserted in national newspapers across Canada, powerful full-size catalogues twice a year, a Christmas gift book, optional flyers, a consistent television campaign, radio in certain trading areas, plus the in-store tools such as banners, price cards and other display material to support these promotions. The entire program is available in either English or French to suit the needs of dealers in all parts of Canada.

HomeAll Building Centre and Homeland Furniture dealers also enjoy a complete advertising program of flyers and catalogues.

The national program of newspaper inserts, television and radio is supported by the portion of the advertising surcharge retained by the company for this purpose. Each dealer contributes the same proportion of his advertising surcharge towards this program. Optional portions of the program are paid by the dealer, offset by co-op credits from his individual advertising surcharge account.

## Audio-Visual Aids

Today's consumer is preconditioned and susceptible to the sight/sound approach of electronic communication. Home Hardware's program offers information on the most effective use of audio-visual equipment, both as a product information and training tool. Each dealer on the program is charged a monthly service charge and is automatically sent a selection of product films. Educational and staff training films are also available.



## Electronic Ordering

The weekly order is entered on an electronic order entry system and transmitted via toll-free lines to the head office computer. Orders are shipped in as little as 36 hours from the dealer's order deadline.

## Up-to-date Pricing

The most complete and up-to-date microfiche catalogue service in the hardware industry is available to all dealer-owners at a very low cost. Each month dealers receive a complete set of illustrated fiche showing each of the 24,000 items regularly carried in inventory. A weekly price update fiche is also issued, listing updated prices and stock on hand in the various distribution centres at the time of printing. Manufacturers' illustrated catalogues and price lists are also issued on microfiche.

## Automatic Funds Transfer

Invoices are due and payable in full within two weeks of invoice date. Liberal dating terms are often offered on merchandise shipped in advance of the season. Payment is made by automatic bank transfer direct from the dealers' accounts to the company's account, guaranteeing equality among all dealers, and improving the company's cash flow to keep bank lending at a minimum.

## Store Planning

A professional planning department assists with modern store lay-outs and designs. This service is available for new stores or for the renovation or modernization of existing stores. A store set-up department, staffed by a hard-working, experienced merchandising crew, travels from area to area setting up new stores, modernizing, renovating or remerchandising on a continuous basis. They have the resourcefulness to set up a complete store quickly and professionally, saving hours of time and money. These services are charged at a reasonable hourly rate which covers all transportation and accommodation expenses as well.

## Financial Services

Financial counselling and business forecasts are vital services offered by people who know the business and the value of these projections when planning major business changes. A dealer need only ask for this important assistance.

The company has also developed a special bank loan package with its bankers, the Royal Bank of Canada, to assist dealers with building loans, inventory and fixture loans, and operating loans in amounts that would not be available to the individual businessman. These loans are also available to existing dealers who wish to expand or relocate.

Home Hardware Stores Limited, however, cannot offer to one dealer-owner what it is not prepared to offer to every other dealer, so each one must be solely responsible for his own initial investment and continuing financial health.

## Computerized Accounting Services

Today's businessman must know at all times where his business stands on a current basis. Historical methods of accounting no longer give him the information he requires to react to changing conditions. The computerized accounting package provides to the dealer such benefits as timely information, inventory control, time savings, financing assistance, fewer tax problems and comparative data.

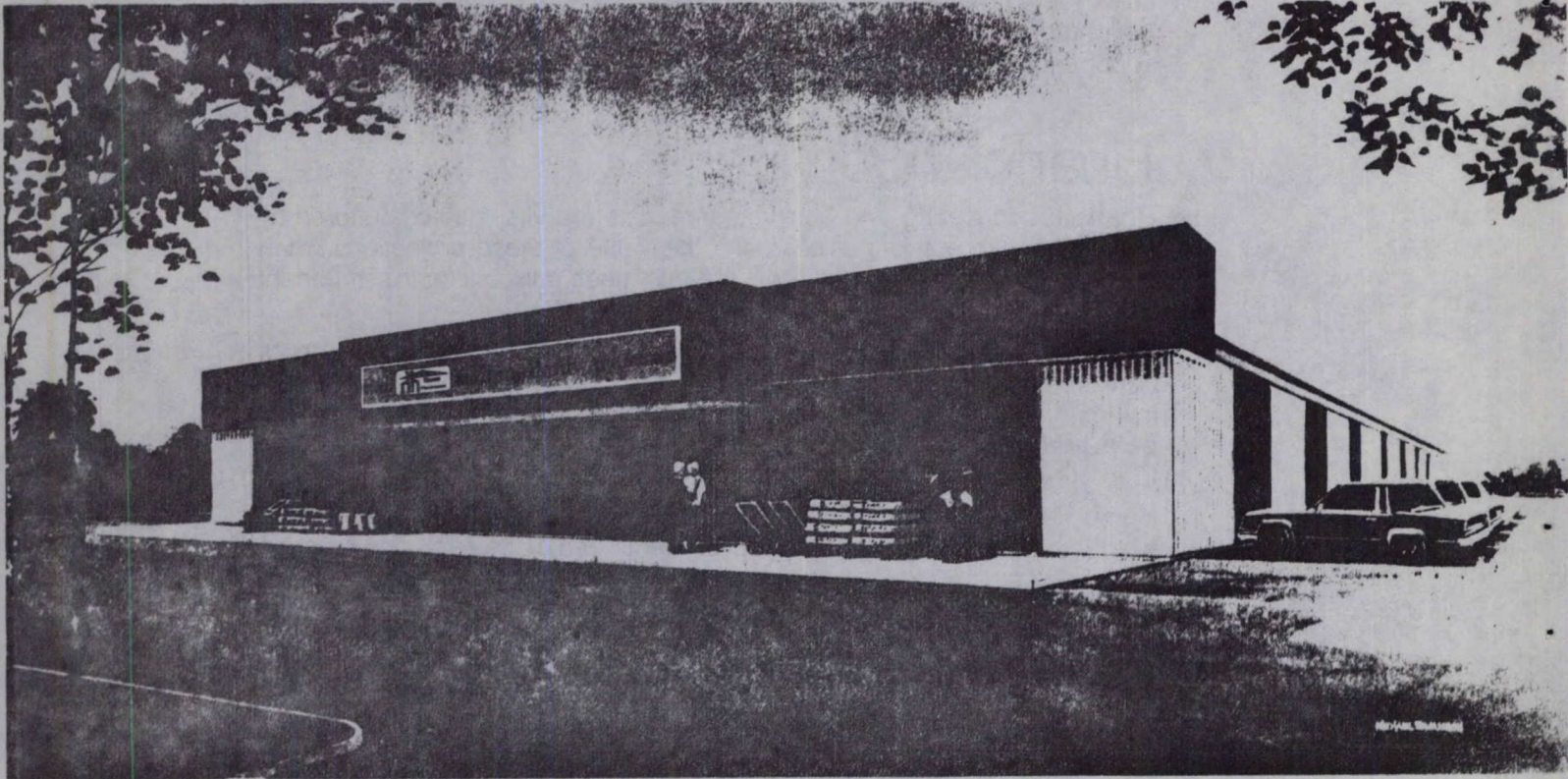
## In-store Credit Control System

This program provides a fast, accurate, up-to-date facility to write and process credit orders at the point of sale, and limit credit privileges to qualified customers.

## Computer Reports

Each dealer has available individual item purchase reports, gross margin reports, inventory reports, price stickers and location tickets, price update stickers, and a comparative financial analysis based on statement information.

## A recognized, respected identity



The day a Home Hardware, HomeAll or Homeland dealer opens his doors he begins to take advantage of the years of advertising and promotion that have gone into the development of the company's image. These store signs are very popular and well respected in the communities they serve, and unify all dealers into a single, powerful consumer-accepted source of supply.

The yellow Home Hardware truck is seen and recognized on highways all across Canada and functions as a moving billboard, proudly displaying the Home Hardware name.

## Protected Trading Areas

New store locations and existing businesses wishing to become Home Hardware, HomeAll or Homeland dealers are studied carefully to avoid competition between dealer-owners. Each location must be a separate and distinct trading area.

## Markets, Meetings, Workshops and Seminars

Twice each year the company stages seasonal Markets in the convention facilities at the St. Jacobs distribution centre, where the dealers view and purchase pre-season merchandise. The Markets also feature special meetings, product knowledge workshops and displays to assist the dealer with ideas and knowledge in the operation of his store.

Two district meetings are convened each year in more than thirty locations across Canada. The meetings deal with company information, special programs, product information and special presentations to assist the dealers.

Workshops and seminars are conducted each year on management skills and product knowledge.

## New Dealer Training Seminar

Each new dealer-owner is required to attend a week-long seminar at the head office in St. Jacobs to familiarize himself with the company's personnel and systems. An introduction to basic finance and accounting, expense management, inventory control, effective merchandising techniques and interpersonal relations are also offered at this seminar.

## Insurance Programs

A collective insurance program is available to all Home Hardware dealer-owners to provide the best possible rates on all facets of insurance coverage. Premiums are paid monthly with regular remittances.

## Preferred Visa and Master Card Rates

Because of the volumes achieved, Home Hardware dealer-owners obtain these services at the lowest discount rates available. Drafts can be deposited daily at many local bank branch offices, or remitted weekly to Home Hardware head office and credited against the dealer's account.

## N.C.R. Cash Registers

Today's cash registers do much more than record sales and cash receipts. They are a complete point of sale terminal, capturing departmental sales and assisting with inventory control. The registers that have been selected by Home Hardware can be expanded to tally individual product sales, and provide automated ticket scanning, automated ordering and other capabilities as they are required.

SURVIVAL INSURANCE

THE CAROLINA CLOTHIERS  
MERCHANDISING PROGRAM

A merchandising  
program designed  
to help you beat  
your chain-discount  
store competition  
at their own game . . .  
AT A PROFIT FOR YOU.



Members of Carolina Clothiers and other independent menswear retailers are being squeezed to the point of becoming an endangered species by new forms of competition based on business practices that have not been available to the typical smaller store merchant.

#### Background

- o In recent months Carolina Clothiers members have found Department Store competition raiding our lines, taking on and cutting established prices of brands of resources we have historically bought from and relied on. This competition appears to be engaged in a deliberate policy of "Brand Busting."
- o Discount stores are springing up in major cities of the Carolinas featuring brands in new, seasonable merchandise at discounts of 20% and more. These minimum-service stores represent a major threat to service-oriented smaller independents.
- o Increased evidence of "Brand Bootlegging" by outlets unable to obtain desired lines through normal channels, represents another drain on smaller store survival capability. Like it or not, this type of new competition, whatever the business ethics involved, operates with the full protection and the encouragement of federal business regulations.

#### WHAT CAN WE DO ABOUT IT?

If we cannot stop this competition from stealing and destroying the national brands we have long relied on, WE CAN DEVELOP AND PROMOTE OUR OWN EXCLUSIVE BRANDS, SUCH AS "CAROLINA TAILORS" and our alternate brands, "GENTLEMEN CLOTHIERS AND CAROLINA GENTLEMEN."

After considerable work in New York and consulting calls to Menswear Retailers of America, Carolina Clothiers has come up with a new brand name merchandising program that can help you compete with the Brand Busters, Brand Bootleggers and Discounters on equal terms . . . and at a profit to you.

The PROGRAM is simple, covering 30 to 35 of the most important basic items most of us would normally stock and promote, made possible through ACEG Program of key merchandise under ACEG owned private labels.

The Group Buying Program Would:

1. Provide participants with a price break on quality merchandise bought in quantity by the group.
2. Enable stores to meet lower price competition without sacrificing profit margins.
3. Insure that your feature Atlantic Coast owned brands would not show up on the shelves or racks of your department store or discount competition.

#### WHAT WILL IT COST?

The program will be offered to member stores of Carolina Clothiers and other selected stores for \$250.00 per year.

#### HOW WILL IT DEVELOP?

The program will be developed through our own PRIVATE LABELS and placement of ads in key newspapers. These ads will list the stores where the CAROLINA TAILORS or alternate-label merchandise will be available. Through these promotional efforts, plus a store's own personal promotion, these labels will fast become established as YOUR major brand.

#### WHAT WILL WE OFFER?

Under our group purchasing plan, we will be able to offer substantial savings to our participants. Initially we plan to offer:

- o We will have three or four lines and price ranges in suits, sport coats and pants. There will not be a complete clothing line but basic ideas from each line at different price points. They can be bought under the brand name or with a private label.

- o We will have rainwear, cloth and leather outerwear, caps and cloth hats with private label.
- o We will have all categories of furnishings and sportswear in both branded and private label.
- o All thru the season we will advise members of special buys so members should KEEP EXTRA OPEN-TO-BUY money available for these profit-making purchases.

In the future we plan to shop for store supplies as suit bags, other type bags, boxes and office supplies. All these bought in large amounts will save money and increase profits.

To use our buying group and to make a profit you MUST SHOP THE BUYING GROUP'S lines before you purchase from your regular lines each season.

For the ATLANTIC COAST BUYING GROUP to be STRONG you must commit each each season and advise ACEG your store's merchandise needs before each season by filling out a questionnaire that will go to all members.

#### HOW ABOUT QUALITY?

All items will be equal to or better than most of the regular brands you now stock. Actually, some of these lines may be brands that you are currently carrying, but through our purchasing program we will be able to offer it to you cheaper under our label. Firms that are selling to this program will be revealed only to members who join the buying group.

#### HOW WILL IT BE PURCHASED:

The basic merchandise and resources will be selected by ATLANTIC COAST BUYING GROUP and offered to subscribers in a showing at all MAC apparel shows. The line will be shown in Charlotte FOUR TIMES a year and at the Carolina Clothiers Convention. You will not work with a salesman but by looking at merchandise that will be on display and presented by ATLANTIC COAST BUYING GROUP. Buying in this manner should be simplified from the way we now do it.

We are not attempting to damage established brands and the label-store relationship by this program. However, once you see the program laid out, it should form 10-15 per cent of your open-to-buy, giving you additional leverage that will help you to absorb markdowns on brand names being prostituted and footballed by department stores.

TO YOUR ADVANTAGE is the private label. You will not have to put these goods on sale at the end of the season at tremendous markdowns, if they have to be put on sale at all . . . because they will be YOUR LABEL goods.

#### HOW TO GET IT GOING?

Getting in will be your own decision, but a decision must be made quickly. If you attend a showing and do not think the merchandise is for your store, we will refund your check of \$125. Otherwise the contract you sign will be binding for one year.

#### IS IT WORTH IT?

Each store will make up its own mind, weighing the competitive factors, long-range implications and annual volume . . . BUT simple arithmetic shows the plan can pay for itself, as previously noted. For example, one purchase in a certain line of pants could take care of your dues for half a year.

ATLANTIC COAST BUYING GROUP  
MERCHANDISE PROGRAM

We agree to join the Atlantic Coast Buying Group, P. O. Box 428, Gastonia, N. C., that represents the Carolina Clothiers Merchandise Program.

The items will be selected by ATLANTIC COAST BUYING GROUP'S BUYERS and presented to the group for purchase.

The cost of this program for members is \$250 per year, paid semi-annually, due November 1 and July. For this year, 1980, dues are due immediately. First store \$250.00, additional stores \$10 per store.

All billings will be payable to Atlantic Coast Buying Group.

The first semi-annual payment is due now and is to accompany this signed contract. Please enclose \$125.00 with your application.

Name \_\_\_\_\_

Store Name \_\_\_\_\_

Street or Box No. \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Date \_\_\_\_\_

Signature \_\_\_\_\_

If person other than signee does buying, please indicate name:

\_\_\_\_\_

Return to:

ATLANTIC COAST BUYING GROUP, Box 428, Gastonia, N. C. 28052

## WORLD CONGRESS OF MENSWEAR

## ACBG Keeps Independents Competitive

BY BRENDA LLOYD

GASTONIA, N.C. — The small independent men's wear retailers in the Carolinas are putting that adage about strength in numbers to good use as they compete with the major department stores. They're joining the Atlantic Coast Buying Group (ACBG), an exclusive group for independents only.

The independents complain that the major stores have been usurping their basic identity, brand name clothing. And worse, the majors are marking down these brand names in the middle of the season, which the independents can't afford to do. To compete, the ACBG was established about a year and a half ago by Warren (Dusty) Gardner, Jr., owner of Warren Gardner's men's store in Gastonia and executive secretary and treasurer of Carolina Clothiers, a post he's held for about 30 years, and by his son, George, who is president of the ACBG. The group is reestablishing the independent retailer's identity by creating new quality brand name clothing available to members only.

Gardner said that for years the major chains primarily carried their own private labels, whereas the independents were "very brand conscious." Then, over the past five or so years, the major chains began dealing more and more in brand names, and marked them down in the middle of the season. The independent, said Gardner, "can't cut into the middle of the season. He's got to have his two sales a year, and that's it. They (major chains) have things that can offset their markdowns, but we can't. We just can't cut the prices, because we give better service than the department stores."

These special services include better tailors, full service from the sales staff, better boxes and gift wraps, suit bags and hangers.

Besides establishing new brand names that are patented and available only to ACBG members, the group also enables members to buy merchandise in large quantities at lower prices. A tie that might cost a retailer \$7.50 in small quantities might cost only \$5 if bought in bulk, and the retailer can still mark up that tie to \$15 and make a larger profit on it. And occasionally a manufacturer will make special price arrangements, an "early bird price," with the ACBG.

Though this is a definite advantage, Gardner stressed that the main purpose of the ACBG is to fight the major chains to maintain the brand name identity. "Longer terms to pay your bill and the exclusive label are really more important than price alone," Gardner said. "These stores have never been price-operated, that's what they're trying to get out of. We want to keep our identity and stay in business with quality merchandise, be recognized and build a new brand name."

The ACBG was originally formed through the Carolina



George Gardner



Warren Gardner



The ACBG pitch

Clothiers, but to be exclusive it was later incorporated. "If we're an association," Gardner explained, "we'd have to sell anybody." Although a store doesn't have to be a member of Carolina Clothiers to join, Gardner said that about 99 per cent of ACBG members are also members of Carolina Clothiers.

Gardner said he got the idea for the group as a member of the New York buying group. "I wondered why we couldn't have a regional buying office. Why couldn't we get 100 or 125 stores in the Carolinas and go to the manufacturers and say we want to label — an outstanding label like Carolina Tailors and Carolina Gentlemen (two of the ACBG labels). I started the word of mouth talking about this and I had so many of the different retailers complain to me that how could they compete with the department stores when they put these sales on."

So by word of mouth, Gardner attracted 64 members at the beginning, a number that has now reached about 125. He expects to attract another 12 to 15 this month. Members are charged an annual fee of \$250, which is

used to pay all expenses of the group, including a showroom at the Men's Apparel Club shows at the Charlotte Merchandise Mart and trips to New York shows where Gardner looks for good lines to private label and manufacturers who are willing to work with the ACBG. The biggest expense the group has, Gardner said, is the Charlotte MAC show. The fee also pays for mailers that Gardner sends to members. These show a recent advertisement of markdowns by a major store that has been copied by Gardner, and elsewhere on the sheet of paper, Gardner writes comments, such as: "Does this hurt your business? Why not use our Carolina Tailors label?"

Member stores buy no certain quantities, except in ties, where there is a minimum of about three dozen. The stores call the Gardners when they need something, and the Gardners handle it from there. Gardner is not sure how much of a member's buying is through ACBG but said that the group sold more than \$500,000 worth of merchandise the first season.

Gardner said that the only problem the group has is that many of the stores don't know how to use it. "Now we've got about 125 members and we've got about 70 stores that are now really using the thing," Gardner lamented. "The others still need to be educated on how to use it." The mailers he sends out are the educational material he uses. "As we teach these stores how to use it, we will become more important."

Gardner has high ambitions for

the ACBG. In the future, perhaps a year or so off, he wants the group to start buying bags, janitorial supplies, envelopes and stationery in bulk so that member stores can further cut down on their overhead. Later, "if we become more and more important to the manufacturer," Gardner would like to see the manufacturer give the group quality advertising in key newspapers around the Carolinas. The idea is that the brand name clothing would be advertised and that stores carrying the merchandise would be mentioned. "When we start doing enough business with these manufacturers," Gardner muses, "they will give us cooperative advertising money to do things like that." The ACBG already has buying arrangements with 37 manufacturers.

And even further down the road, Gardner wants to see the group put out a Christmas booklet showing the ACBG lines.

The ACBG has already been successful, and Gardner is optimistic about its future. "I certainly didn't have to mark down anything until markdown time and I haven't heard of anybody else that had to take markdowns," he said. A major store neighbor of his at Eastridge Mall had marked down its Palm Beach line in the middle of the season, he pointed out. "And there's a lot of specialty stores that carry Palm Beach." But with that private label that only the specialty store can carry as a member of the ACBG, the independent wouldn't have to worry about competing with that markdown.

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20% off Levi's® Bandana® print of comfortable Dacron® polyester. Machine washable. Great spring colors. Sizes 8 to 18, average and petite lengths. D.109.  
sale 19.20 reg. \$24



25% off men's new-for-spring suits by Crickator and others. Solids, stripes, plaids and tick weaves. Sizes regular, short, long. D.18.\*  
sale 131.25 reg. \$175

25% off men's plaid sport shirts. Famous molar short sleeve shirts in new plaids. 1/2-in. 1 sl. D.39.  
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sale 11.20 reg. \$14



20% off selected styles of Easter dresses. Our prettiest pastels and floral prints. Girls sizes 4-14, toddler's 2-4 and infant's D.37/6/7/65.  
sale 12.50 to 41.60 reg. \$16 to \$52

20% off big boy's dress coordinates from Elegant Hair. Vests, pants and blazers of special Easter savings. Basic and new colors. Sizes 8-20. D.74.  
sale \$10 to 33.60 reg. 12.50 to \$42

20% off our entire stock of Health-Tex®. Tops, pants, shorts, 2 pc. sets, dresses and more. Sizes 3-6 and 7-14 months, toddler's 2-4, boy's 4-7 and girl's 4-6 and 7-14. D.37/51/61/65-142/72.  
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# NEED YOUR OWN PRIVATE LABEL? WE CAN SOLVE THAT PROBLEM

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In emphasizing the importance of private label merchandising to more than 100 other members of the buying office, Insley added that, "without private label merchandise you won't survive."

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Elizabeth, N.J., stressed the importance of having "quality" merchandise in private labels.

"Private label merchandise has to be a quality product, since you have your own name on it," Levis told the meeting.

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Another strong believer in private label programs is Richard Ginsburg, of Quicksilver's, five-store group in Lubbock, Texas.

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Jack May of May's, four-store group in Easton, Pa., said that his stores now have a 75 per cent branded and 25 per cent private label merchandise balance. "We were traditionally a branded merchandise store, but in the past few years we have moved more into private label merchandise, particularly clothing."

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Wednesday, July 23rd

# 7am SALE

men's famous maker suits and sportcoats

## 50% off

Suits, reg. \$105 to \$310. Assorted fabrications, some of which can be worn year 'round!

Sportcoats, reg. \$70 to \$230. Traditionally classic styles in various fabrics and colors.

Save 1/4 on Slacks, reg. \$20 to \$40. Our expertly tailored better slacks in spring and summer fabrics.

Wednesday at Eastridge Mall Only  
Use the 2nd level Men's Entrance

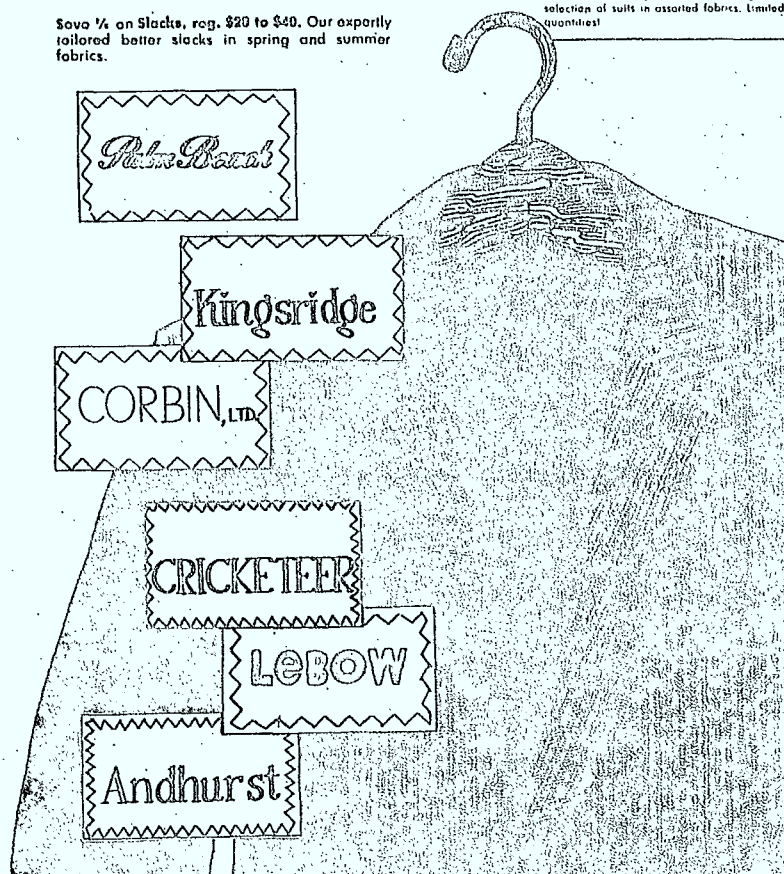
Donuts and coffee will be served from 7 a.m. to 10 a.m.

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# THEY DID NOT KNOW ABOUT OUR CAROLINA TAILORS LABEL!

## Small Independents Seem Tested This Decade

NEW YORK — The easy business conditions enjoyed by smaller independent retailers during the 1970s will end abruptly during the new decade, a retail consultant told a National Retail Merchants Association seminar on "Improving Gross Margin" Tuesday at the Roosevelt Hotel.

Howard Davidowitz, a principal of Ernst & Whinney, told a group of about 50 retailers, most of them independents, that small towns will increasingly be targeted for expansion by larger retail concerns during the 1980s, a trend which will coincide with a slowdown in shopping center development starting in or around 1983.

"Lots of smaller stores are doing well now, but the test comes when a mall or large store

arrives," he said. "Independents are going to be tested a lot during the next few years."

In addition to this new competition, independents will be hurt by tightening availability of credit, he noted.

One ironic advantage to this, though, is that closings and mergers will make independents fewer in number, and, as a result, more desirable to developers, landlords and even consumers.

Competition from department and discount operations in major cities is currently so steep, Davidowitz said, that "if I ran an independent in a major city, I'd sell right now."

New competition in minor markets, the continuing growth of the majors through acquisition and the tighter availability of

money have made a more sophisticated and systematic approach critical for smaller independents, he said.

To survive and grow, these retailers were urged to recognize:

o The need to "throw off real cash flow" will become paramount in the new decade as financial institutions look at cash flow per share as a more important measure in evaluating a store's eligibility for long-term financing.

o The increased desirability of talented management, including a strong board of directors, to help entrepreneurial chief executives direct activities and prevent "yes-man-ship".

o The importance of capital reinvestment in new technology, such as computers and other equip-

ment, in spite of the difficulties that such materials present at first.

o The growing role of a well-maintained physical plant as the visual aspects of retailing take on more meaning.

He cautioned those attending that, "there are no easy answers for the independent" but that attention to the areas covered would enhance the store's chances for survival.

"You can't survive unless you're unique today," he said.

"It's my belief that the bottom 20 per cent of companies are going to go by the wayside in the next few years."

He endorsed a "grow or perish" dictum for retailers and said that there are already signs that this philosophy is being adopted

by independents.

For example, he pointed to the recently announced agreement whereby Marshall Field and Co. would acquire J.B. Ivey & Co. for about \$28 million.

"The advantage for the buyer is that it is cheaper today to acquire than it is to build," he said. "Why did Ivey's sell out? They have a huge investment program and I don't know if they can service it."

He forecast a decrease of 15 to 20 per cent in retail net earnings for 1980, adding that, although a drop in inflation is expected, an increase in unemployment, probably to about 9 1/2 per cent, is also considered probable. "The outlook for the next two years, he concluded, is very tough.

"The companies most affected by this are those without access to capital for refurbishing, staff, systems and merchandise," he added.

In analyzing the strategies of the larger department stores, he pointed out that many, including Davton Hudson, Allied and Carter Hawley Hale, were investing heavily in specialty stores because of their superior return-on-investment potential.

He predicted an explosion in flea markets nationwide as discounters continue to upgrade and go after branded merchandise. Another area of sharp growth, he said, is the mail order business, which will be one of the saving graces for the general merchandise chains, such as Sears, which he characterized as being in the midst of a costly identity crisis.

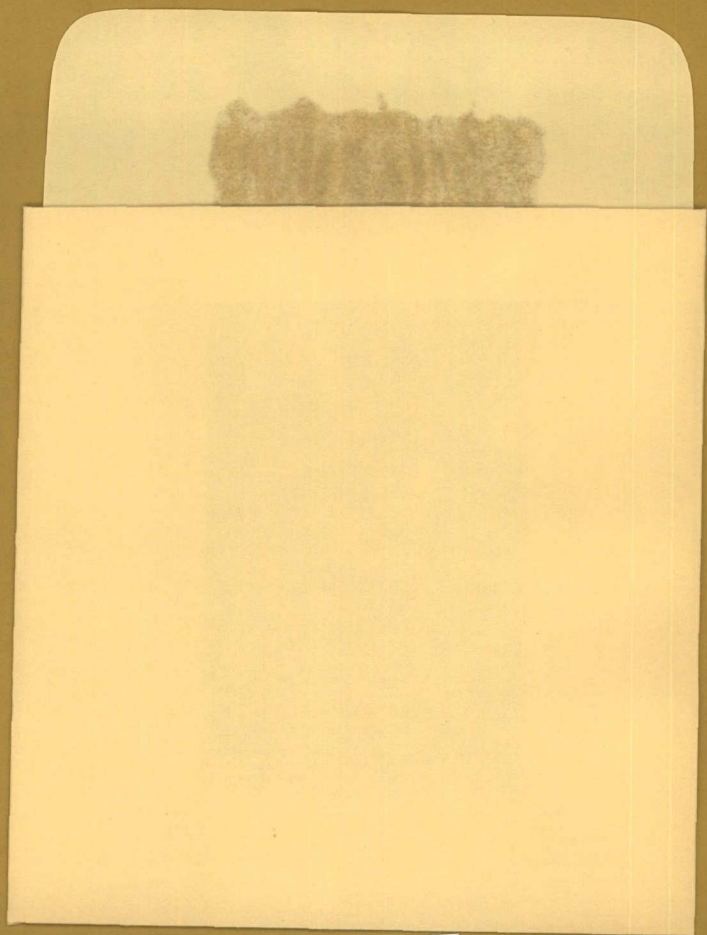
If Davidowitz is right, mail order shopping won't be the only method of home marketing at the decade's end. He said he expects technology to get in on the act as well, and cited new developments in cable television shopping, such as the Qube, as a sign that such consumer activities were imminent.

He said that specialty store groups have traditionally offset their high rents with low or non-existent ad budgets. "As mall counts (of customers) go down, the specialty stores may have to advertise, and this will hurt their economics," he said.

He also forecast the arrival of off-price retailers in malls during the '80s.

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