



# SAVING AMERICA'S MAIN STREET

BY M.P. TAYLOR AND ART JAEGER

**L**ynn Pettus figured he could avoid the big-box tsunami that was crashing down on independent businesses when he opened Pettus Office Products in Little Rock, Ark., 17 years ago.

"I saw the start of Office Depot, but back then, they were only going into major markets," he said.

Two months later, Little Rock's first Office Depot opened just down the street.

In response, Pettus did what an increasing number of independent business operators are doing: he joined a purchasing cooperative.

Purchasing co-ops members are small businesses, not individuals. They band together to enhance their purchasing power and lower costs. By combining orders from many members, they can negotiate discounts from suppliers that allow their members to compete with giants like Target, Staples, and Home Depot.

In addition to bulk ordering, purchasing co-ops provide services including education, marketing and a brand name.

Purchasing co-ops are found in virtually every field—from food wholesaling to funeral services. Two of the best known are Illinois-based Ace Hardware, with 4,600 member stores, and St. Louis-based Carpet One, with 1,000 independent floor covering retailers as members.

The founders of Carpet One, Howard Brodsky and Alan Greenberg, believe so strongly in the purchasing co-op model they have applied it to a variety of business categories, including mortgage banking and bike retailing. In all, they now operate 15 companies across five industries, most of them based on the purchasing co-op model.

Among others prominent purchasing co-ops:

- The National Cable Television Cooperative, located in Lenexa, Kans., and made up of more than 1,100 independent cable operators.
- Educational & Institutional Cooperative Service, Inc., located in Hauppauge, N.Y., and made up of more than 1,500 tax-exempt colleges, universities, prep schools, hospitals, medical institutions.
- VHA Inc., in Irving, Tex., and made up of 2,400 community hospitals and other health care organizations.

### 300 Nationwide

The National Cooperative Business Association estimates that the number of purchasing co-ops has doubled in the last decade, to more than 300 nationwide. Together, these co-ops have an estimated 50,000 small business members.

Barry Silver, managing director of the National Cooperative Bank in Washington, said there is no question purchasing co-ops are keeping small independent businesses from folding in an increasingly consolidated marketplace.

"When you think of how many (purchasing co-ops) have started in the last 10

years and who they are competing with...absolutely" they have kept independent businesses afloat, Silver said.

Rosemary K. Mahoney, a consultant who helps form purchasing co-ops through Mainstreet Cooperative Group near Charlottesville, Va., agreed.

"The independents are more and more under threat," she said. "And the more they are under threat, the more they turn to the purchasing co-op model."

Mahoney said purchasing co-ops are also good for consumers. "If you let the independents go away, are the chains really going to serve all of America?" she asked.

An active subgroup of purchasing co-op serves wholesale distributors of supplies and equipment to the construction industry. Their customers are builders, contractors and repair companies that might otherwise be buying from Home Depot.

Examples include AMAROK, a Phoenix-based co-op of independent drywall distributors; IMARK, a Maryland-based co-op of electric equipment distributors; and NEMEON, also based on Phoenix and made up of roofing and siding distributors.

Lance Rantala has worked for both AMAROK and NEMEON and recently took over as head of a purchasing co-op of heating and air conditioning equipment distributors. Called Blue Hawk Distribution Cooperative, it also is based in Phoenix.

Rantala said independent distributors are seeing consolidation on all sides—manufacturers, builders and other distributing companies. "I think a lot of the independents have seen, if we don't band together, we're going to lose our voice and our strength," he said.

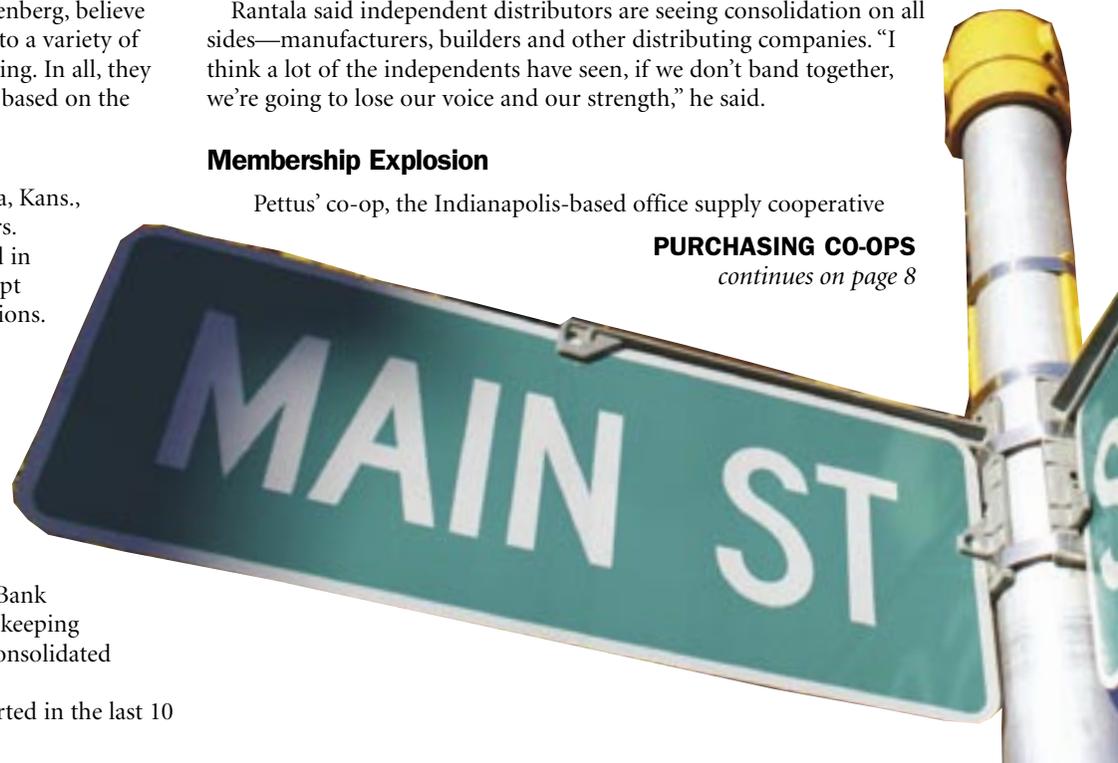
### Membership Explosion

Pettus' co-op, the Indianapolis-based office supply cooperative

**PURCHASING CO-OPS**  
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**I DON'T THINK AN INDEPENDENT DEALER COULD SURVIVE TODAY WITHOUT BELONGING TO A CO-OP.**

**LYNN PETTUS  
PETTUS OFFICE PRODUCTS**





**THE BIGGEST REASON TO BE PART OF ANY COOPERATIVE IS TO LEARN FROM THE OTHER MEMBERS.**

**BETH ANNON-LOVERING  
B&L BIKE SHOP**

Independent Stationers, Inc., or is.group, experienced a membership explosion in the 1990s, as megastores like Office Depot and Staples advanced from one town to the next. Today, it has 500 members nationwide who together can flex buying muscle that none would have on their own.

“Everyone has predicted the demise of these (independent) stores for 20 years, but they’ve continued to grow,” said is.group President and Chief Executive Michael Gentile. “I don’t think an independent dealer could survive today without belonging to a co-op.”

Added Pettus: “Anyone looking to be competitive and aggressive in a commodity-based business needs to get the best cost of

goods, and the best way to achieve that is through a cooperative. It’s a fact of business life that the more clout you can bring to the table, the better you’ll do.”

is.group produces catalogs that can be customized by individual member-dealers and also gives its members a way to conduct e-commerce that’s far beyond what any member could afford alone.

Hummel’s Office Supply, a fourth generation family-owned business in Mohawk, N.Y., joined is.group 12 years ago. “We had to align ourselves strategically or sell out,” said current owner Harrison Hummel IV.

While Hummel’s joined for the prices,

Harrison Hummel said his favorite thing about the cooperative is the camaraderie, a frequent list-topper of purchasing co-op members. “I would even call it a brotherhood or fraternity,” Hummel said.

Purchasing co-op members say the information they share with others gives them a competitive advantage that transcends cost.

“The biggest reason to be part of any cooperative is to learn from the other members,” said Beth Annon-Lovering, owner of B&L Bike Shop in Davis, Calif. B&L is a member of Ya Ya! Bike, a co-op of more than 280 independent bicycle shops. “You could offer me the best prices in the world, and it wouldn’t be as important as what we learn from each other.”

Annon-Lovering also belongs to the National Bike Dealers Association but finds it less useful than the cooperative’s free flow of information among members. “A cooperative opens doors to people who hadn’t been willing to walk through them until they got to the co-op,” she said.

Ya Ya! was formed five years ago to give independent dealers a way to rebuff aggressive suppliers who were trying to force the dealers to carry their brand exclusively. Trak and other manufacturers simply refused to sell to dealers who wanted to sell brands other than theirs.

YaYa! members also get face time with manufacturers through the cooperative. “We’re an anomaly in the bike industry because we have committees and groups where manufacturers meet with our members on the issues they are experiencing,” said President Sara Kittelson.

**Competitive Pharmacies**

Wisconsin-based Independent Pharmacy Cooperative, or IPC, is helping 4,000 independent pharmacies nationwide compete with an unusual number of competitors. In addition to Rite Aide, Walgreen’s and CVS, big-name grocery stores and big box retailers like Wal-Mart and Costco all now operate pharmacies.

IPC negotiates more than \$2 billion dollars in contracted services for its members annually.

If not for IPC, “I would be falling farther and farther behind,” said Jerry Roberts, pharmacist and owner of the independent Standard Drug in Charles, Mo.

The 75-year old business now has four stores, but the operation would still not qualify for price breaks on its own. “With its mass of buying volume, the cooperative is basically the size of a Walgreen or CVS,”

said Roberts. “You can be right up there with those stores (in bargaining power) even though we’re independents.”

This allows Roberts to compete with his behemoth competitors on service. “We give service with a smile and we treat our customers like family,” he said. It’s not unusual for customers to invite Roberts to birthday parties and weddings.

“The independents are aggressive in taking care of their customers,” said IPC President and Chief Executive Steve Niebauer. The cooperative lets them do that by getting the best prices on products.

Gene Albrecht, proprietor of Albrecht’s Pharmacy in tiny Clifton, Tex., said his customers could easily travel to nearby Waco or Hillsboro, but IPC allows him to continue to give them friendly service at home.

Albrecht has belonged to other purchasing cooperatives but found IPC’s service super and its fees less. IPC is so good, in fact, that a pharmacist from the local Target told Albrecht, “Man, you need to raise your prices.”

Also pooling resources to reduce prescription drug costs is Wisconsin Rx, a purchasing co-op formed in the fall of 2003 and made up of Wisconsin businesses and the state’s largest teachers union. The co-op includes organizations representing more than 250,000 people.

In addition to negotiating volume discounts, Wisconsin Rx works with physicians and pharmacists to maintain a list of preferred drugs and functions as a watchdog over the business practices of the pharmaceutical industry.

Another large purchasing co-op got started when a handful of small grocers in Pasadena, Calif., pooled their money to purchase a railroad carload of soap in 1922. Today Unified Western Grocers claims 570 members representing 2,500 stores from Seattle to the Mexican border.

Members range from Mom ‘n Pop groceries to one of the largest stores in the Pacific Northwest, Superior Warehouse Stores.

C&K Markets started with one store in Brookings, Ore., and today has \$400 million in sales and stores all across Oregon and California. It joined United Western Grocers when it opened its doors 50 years ago.

“As a small independent, you need to join to get the buying synergies,” said Chief Financial Officer Rex Scoggins. “But you also need to join forces for the expertise. A single store operator doesn’t know how to advertise or how to handle the equipment. All he knows is how to sell to his customers.”

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