Midsize operators team up for purchasing power

Cooperative buying groups form to help smaller chains, indies cut commodity costs

By CATHERINE R. COBB

(Aug. 18, 2008) As the economy continues to wither and commodity costs remain sky high, operators looking to cut costs and avoid menu price hikes are seeking strength in numbers as it applies to purchasing.

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Across the country purchasing groups that harness the buying clout of smaller and midsize companies as well as independents are gaining favor as they help take some of the sting out of purchasing through buying efficiencies and reduced freight costs.

At Rock Bottom Restaurants in Louisville, Colo., the bulk of the purchasing department recently left the casual-dining company to start an independent purchasing group called SpenDifference LLC. Rock Bottom will outsource much of its purchasing to the company, with just a skeleton purchasing department remaining at headquarters.

SpenDifference, led by Rock Bottom purchasing veterans Maryanne Lewis and Susan Waldman, intends to save clients money by combining the clout of small and midsize chains. The Denver-based company, which has been in the works since November 2007, had three clients signed up when it opened its doors in early August, including Rock Bottom, Eateries Inc. and **Dream Dinners** Inc.

Rock Bottom operates 34 Rock Bottom Brew Pubs, four Chop Houses and approximately 97 Old Chicago restaurants, 33 of which are franchised. Its units are scattered throughout the country, often resulting in distribution challenges, said Gary Foreman, senior vice president for Rock Bottom. Despite having about 80 percent of products contracted for good prices, the company had hit a wall in terms of further reducing costs.

"It was as good as we were going to get at our size, but with the cost pressures we needed more, and we knew that we could not get much better until we grew to significantly higher scale or found a way to join hands with others," Foreman said. "Maryanne and her team proposed to us their new company as a way for us to save costs. We thought it was a great idea."

SpenDifference plans to work with casual-dining companies that spend between $10 million and $120 million on purchasing. The goal is to get customers the best costs and vendors as well as transparent contract fees, Lewis said.

"It's a new direction for small to midsized casual-dining chains," Lewis said. "We look at it as a way to combat inflation and move the model from competition to cooperation."

She noted that the model differs from regular group purchasing organizations by offering customized strategies to customers. SpenDifference is paid through administrative fees added to individual contracts, she said.

"We manage all aspects of a supply chain, and we help manage risks, understand market trends and give them business intelligence," she said.

Costs will be reduced through fewer SKUs, vendor synergies and freight consolidation, which should also result in greater product accessibility, especially for small chains with just a few units in markets spread out nationally, she said.

"When people go to chains, they expect the same products everywhere, so chains have to make that happen, oftentimes very expensively because of distribution issues," she said. "We aim to fix that."

Webster, N.Y.-based Dining Alliance has specialized in helping independent member restaurants leverage their purchasing power for close to a decade. John Davie, president and co-founder, said the company's membership, which has more than $450 million in purchasing power, has grown from 1,200 members a year ago to 1,700 today in seven major markets, including Pittsburgh, Rochester, N.Y., Miami, Boston and the New York cities of Saratoga, Albany, Syracuse and Buffalo.

The rollout this year to Boston has been the most successful so far, with 190 restaurants signed up for its programs.

Davie believes that in the past dining groups had not taken off because of the chefs' perception that they purchased junk that the group's administrators bought cheap and stuck in some warehouse. That perception is changing, and the tight economy is forcing everyone to look at how to reduce costs without sacrificing quality, he said.

"We don't warehouse anything," he said. "What we do is all about negotiating the best cost for the best product. We are actually able to go with the more expensive, higher-quality suppliers and save money because of our size and buying clout. This goes not just for food products but for disposables, credit card fees and with local vendors."

Davie added that vendors could benefit, too.

"What they sacrifice on margin, they make up on volume, so they love working with our large group as they care about how many locations they get to service," he said.

This year the company rolled out a second program, Consolidated Concepts, specializing in purchasing programs for smaller regional chains with more than $50 million in food purchases.

Davie noted that many smaller and midsize chains were struggling to get the best costs and looking to save money, particularly those with units spread out in multiple geographic regions. Consolidated Concepts thus far has roughly 100 members, though Davie said that is growing daily.

The Columbus, Ohio, chapter of **Dine Originals**, which disbanded as a national confederation last year after an audit by the Internal Revenue Service saddled disgruntled members with back taxes and penalties, recently unveiled a preferred provider program for its 39 members, said Diane Warren, the president of Dine Originals, Columbus, and owner of Katzinger's Delicatessen. The program currently involves just one supplier that offers discounts based on sales volume.

"For instance, if our group purchases, say, $275,000 in a quarter, we get a certain discount and a kickback to Dine Originals," Warren said. "If we purchase $250,000, the discount is less, and so on. If this works out, we'll move on to other suppliers, but we want to get it right."

The Sarasota Manatee Originals group on Florida's west coast also is testing group purchasing strategies. While the 50-plus-member group is too diverse in its offerings and volumes to group purchase most items through large vendors, the group's broad-liners and linen service companies give a percentage back to be used for marketing. The group also has negotiated with credit card and insurance companies, and recently began testing a group-purchasing program with a local fish purveyor.

Michael Klauber, owner of Best Foods and Michael's on East in Sarasota, Fla., said the bulk of members serve seafood like shrimp, mahi mahi and grouper, so the purveyor is working to negotiate a price for the group based on a six-month commitment. Next, the group will attempt to negotiate pricing on wine and spirits.