



## **WHY BUYING GROUPS ARE STEALING YOUR SMALL MEMBERS AND CONSOLIDATORS ARE EATING UP THE OTHERS!**

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In many industries, the viable pool of potential association members has decreased dramatically. As the total pool of potential members goes down, the associations are faced with two choices. First, they can merge with another association and combine memberships. Alternatively, they can expand the definition of "member" and seek to service a broader range of companies.

Some associations have not recognized that their diminishing revenue stream and loss of membership has nothing to do with the quality of the services provided by the association. These associations look to improve the quality of their services. However, they are looking in the wrong direction. Their problem is not internal. It is external. The market served by these associations has changed dramatically. Their services are no longer relevant to the marketplace.

In the typical industry served by a trade association, there are substantially fewer competitors that would qualify as regular members. As a whole, industry sales may be up, but as a result of consolidation, the industry has become dominated by a smaller group of large companies. The regional companies have been bought out and the smaller Mom & Pop companies only exist on the outer fringe of the industry.

The large national companies look to the association to provide help in legislative and regulatory matters. They don't need and don't seek association help with regard to developing business practices, marketing, labor relations, or other types of programs that fall within the "how to do it" category.

The small Mom & Pop companies also do not need the association for "how to do it" information. These companies can use the Internet and find almost anything they need quickly and right on their desktop computer. There is no need to send people to out of town seminars. They can download a DVD and have that seminar, often on an interactive basis, right in the company lunchroom. These smaller companies are afraid of their mega-sized competitors. They want to learn how to compete against these competitors. They know that these much larger companies can purchase raw materials and other necessary services needed in the business at bulk rates. The smaller companies look for ways to level the playing field.

Into this gap charges the joint buying group. The joint buying group is essentially a cooperative of small companies. The group goes to various vendors and offers to purchase a large volume of goods provided that they get the discounted price. The group pools the buying needs of its

members. Buying groups usually save participating members significant amounts of money. In order to encourage the participation of more small companies, the buying groups may hold seminars designed to teach the Mom & Pop operator how to compete against the mega-corporation. The Mom & Pop operator feels comfortable going to these seminars knowing that in contrast with the national trade association, the buying group will only represent a segment of the market focused on small business needs.

I have talked to many small companies that were formerly active in national associations and who have now dropped out. These companies tell me that when they joined the national association they had to pay significant dues. They stopped going to national meetings because of the cost involved in sending people to meetings compared to the cost involved in having people attend interactive seminars at the company facility. They then joined a buying group and instead of sending the national association a large check for association dues, at the end of each year the buying group sends them a large check, which represents the savings that they have earned by purchasing through the buying group cooperative.

I asked them about legislative and regulatory representation. Their response is that the large national companies will support the trade association and engage in the necessary lobbying and regulatory affairs activities regardless of whether they have small company support.

Some national associations have a successful trade shows and obtain significant portions of the revenue from the trade shows. As consolidations increase, vendors are less likely to support trade shows. It is cheaper for a major vendor to invite the sales managers of national companies to spend three days at the vendors plant, learn all about its new products and actually watch the production process and playing a few rounds of golf - - all at the vendor's expense, than to participate at a major trade show. Many vendors have done an analysis that shows that the Mom & Pop operators rarely buy expensive equipment and it is not cost effective to spend significant amounts of time and effort to promote sales to these companies. It is much more efficient to concentrate on the largest competitors.

If this fact pattern applies to your association, you must develop a new business plan. Don't ask yourself "how can I improve on what I am now doing?" You must ask yourself "what new business plan is necessary to meet the needs of my industry?" You must consider merger. If you are a regional association, you must consider becoming international. You must consider expanding the scope of your membership to include other related industry groups. The restructuring and redefinition of your association will be a real challenge. However, there still is a great need for industry groups to act together to address common problems. Your task is to take your association out "what was" and put it in a position where it can address "what will be."