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Buying into group power

Several small and mid-sized restaurants band together to access the same purchasing power enjoyed by big businesses

By **Samantha Maziarz Christmann**

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The drought that has socked farmers this summer isn't expected to start affecting food prices until December. Unfortunately, that's exactly the time of year local restaurateurs begin to face their leanest months.

Usually, small-restaurant owners face one of two choices: eat the cost increase and lose profits or raise menu prices and risk losing customers.

But members of restaurant buying groups have a third option: enjoy stable prices locked in ahead of time.

Buying groups bring together small to mid-sized independent restaurants and pool their resources to give them the purchasing power enjoyed by the large chains. The buying group acts as a third-party negotiator, working out contracts with suppliers and working to set fixed prices on everything from meat and produce to linens, takeout containers and credit card processing.

So instead of paying a higher price for the two cases of ketchup a pizzeria might need, it can get large-quantity case pricing based on the hundreds of cases of ketchup the buying collective will purchase.

"Basically they pool all of us small guys together so we become one big guy," said Joe Salvatore, owner of Salvatore's Italian Gardens in Lancaster.

Salvatore is one of about 350 local members of the Dining Alliance, a purchasing group headquartered near Boston, Mass. He also sits on the group's advisory board, which gets together to review proposals from local and national suppliers. The board decides which suppliers offer the best value, service and quality, and it votes on which companies to do business with.

From there, the buying group works out fixed pricing or "cost plus" pricing, where suppliers agree to sell to the group at a fixed percentage or dollar markup above what they themselves paid for a product or service. Restaurant members can then buy through that vendor or do business with suppliers outside the buying group.

Restaurant members in the Buffalo area include Pizza Plant, Hoagie Brothers and Embers Dining Room.

"Everyone tries to support the member suppliers, but they don't always," Salvatore said. "Sometimes there is a specific need you have, or there's something you want a certain way, and you can't get it through the group."

Salvatore's, for example, switched its paper supplies vendor to a buying group member and now sources all of its paper products through that company. But it still buys certain cuts of meat from an outside supplier.

Still, buying group members don't all have to buy the same ingredients and the same brands of products from the same suppliers within a buying group. There are several different brands and items encompassed within the supplier list.

John Davie, co-founder and CEO of the Dining Alliance, said the benefit to members is not just in dollars saved (members average about a 10 percent savings, he said), but in the consistency and transparency of pricing offered by the contracts.

"[Vendors] have salesmen working on full commission, and they can wheel and deal on prices. There's no standard price book. One restaurant can pay a totally different price than another," Davie said. "We put together a strong legal contract so you get the same prices a Cheesecake Factory or an Olive Garden will get with their rigid contracts."

That price consistency can make or break some small, local operations.

According to a study by Deloitte & Touche, independent restaurant owners make an average net profit of just 5 percent.

The Dining Alliance works on a "pay for performance" basis.

Some price savings come to restaurants in the form of an upfront price savings, while others come from rebates paid later by vendors.

Dining Alliance tracks those rebates, taking a portion for itself and giving a portion to the restaurant owner.

"There's a portion of the savings that's built in and that's where we get our revenue from," Davie said.

email schristmann@buffnews.com







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