

# A Guide for the Development of Purchasing Cooperatives



Cooperative Information Report 64

## Abstract

This report gives an overview on the variety of purchasing cooperatives that are organized for the purpose of reducing costs and improving the quality of products and services available to members. There are often more benefits for rural communities from membership in purchasing cooperatives for products and services that are less readily available, in comparison to urban areas.

Some of the potential sources of cost reductions and marketing improvements are examined for purchasing cooperatives owned and controlled by independent retailers or farm supply cooperatives. The basic steps in organizing this type of purchasing cooperative and developing its operations on a sustainable basis are reviewed.

**Key words:** Purchasing cooperatives, buying clubs, rebates, vendors, negotiating.

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Bruce Reynolds  
James Wadsworth  
Agricultural Economists

Publications and information are also available on the Internet. The Cooperative Programs Web site is at: <http://www.rurdev.usda.gov/rbs/index.html>.

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*Cover photos courtesy (from top) Ace Hardware, Viroqua Food Cooperative, and Sacramento Natural Foods Co-op.*

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## Introduction

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Purchasing cooperatives<sup>1</sup> have become an essential tool for many small businesses and consumer organizations. Cooperative purchasing helps members reduce costs and obtain better quality products and services. In many rural communities with relatively small markets, businesses and consumers may have higher cost access to some products and services than their urban counterparts. In such cases there are even greater benefits from group purchasing in rural than in urban areas.

Numerous purchasing cooperatives have been organized to supply the operating needs of small businesses. These small businesses are either independent retailers or distributors. In rural areas there are many independent retailers and distributors, including farm supply cooperatives, who have an opportunity to benefit from banding together with others for joint purchasing.

Consumers are also actively engaged in collective purchasing with the organization of food-buying clubs. In fact, farm supply and consumer food cooperatives often start as buying clubs and, over time, develop into retail store merchandizing businesses. In turn, they, like other independent retailers, are banding together to establish large-scale purchasing and warehousing cooperatives for their stores.

The purchasing cooperative model is also being applied in several other sectors of the economy, including household consumers wanting to lower home heating bills or rural community hospitals or school systems seeking to lower their expenses for supplies, to name only a few examples. The purchasing of services, such as health care plans, is also an objective of many recently organized cooperatives.

These mostly have been organized to provide better health care plans for the employees of small businesses. They have recently been organized for farmers and could be more widely applied by other types of independently employed individuals.

Sectors of the general economy that have experienced relatively large increases in costs, such as energy and health care, have responded with substantial innovation and institutional development in collective purchasing. These sectors are rapidly building large networks of membership. For example, chambers of commerce are working together to provide leadership and communications to support the organization of purchasing cooperatives of local or regional businesses for negotiating contracts with power and natural gas utilities. In the public sector, primarily in community, municipal, or county school systems, large-scale purchasing cooperatives have been established. Significant institutional developments may occur with the organization of health care purchasing cooperatives.

Depending on the future direction of national policy, opportunities may emerge for insurance purchasing cooperatives to reduce medical care costs by pooling potential Government subsidies or tax credits received by individual members.<sup>2</sup>

This report describes the basic structure and operation of the purchasing cooperative model and its specific application to independent retail store owners or farm supply cooperative stores. A purchasing model for retail stores is to a large extent applicable to

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<sup>1</sup> In this report the terms “purchasing cooperatives” and “purchasing associations” are used interchangeably.

<sup>2</sup> Rick Curtis and Ned Neuschler, *Insurance Market: What Health Insurance Pools Can and Can't Do* (Oakland, CA: California HealthCare Foundation, Issue Brief, November 2005) pp. 1-12.

organizing any relatively small group of members, whether they are consumers or small businesses.<sup>3</sup>

The growth of large, multi-product purchasing cooperatives and network systems will not replace, but may to some extent reduce, the need for organizing local or smaller regional associations. The large systems offer potential members an easy way to benefit from collective purchasing while avoiding the organizational cost in starting new cooperatives. Yet, as the size and scope of these large associations expand, it becomes more complicated to satisfy all the variations in consumer interests and in serving niche markets. Opportunities for new types of purchasing cooperatives in communities and regions with relatively small populations will continue to emerge along with expansion of large-scale associations and networks.

### **Purchasing Cooperatives Create Savings**

There are several sources of savings from the use of a purchasing cooperative by farmers, small businesses, or community residents. Once purchasing associations are organized for a specific product or service, they often discover that the same operating process can be applied to other items that members frequently purchase. Often they apply their collective purchasing capability to entirely different economic sectors from which they began, extending from, for instance, a material goods sector to negotiating group insurance, energy rates, or credit terms.

An improved capacity to negotiate lower prices is often recognized as the major advantage of collective purchasing; however, establishing this potential advantage as its sole purpose may inhibit an organization from developing other sources of efficiency and shared savings with their suppliers. Mutual savings can often be developed in the service component of delivering products to consumers. For example, a purchasing cooperative can improve market information for its suppliers, consolidate transactions to reduce cost, reduce inventories, and coordinate shipping, to name only a few sources of savings for all parties concerned.

A purchasing association may help manufacturers and vendors reduce some of their operating costs. Some of these costs can be eliminated when a purchasing cooperative consolidates the marketing activities that were previously involved when dealing with numerous independent retailers or distributors. For example, purchasing associations may help manufac-

turers and vendors reduce spending on advertising, communications, sales staff, and commissions. In markets for energy or unbranded staple products, a consumer purchasing cooperative can offer a secure market outlet and consolidated information about market demand that improves the long-range planning for the manufacturer or vendor.

Branded products offer the most opportunities for seller and buyer to coordinate efforts. When members of a purchasing cooperative are independent retailers/distributors, they can work with a manufacturer or vendor to expand the market. When independent retailers/distributors are interested in streamlining their product lines or service offerings and believe that certain manufacturers provide the quality their customers want, effective marketing programs can be developed. Such marketing initiatives are more readily carried out by retailers who deal directly with “final” consumers, in contrast to distributors who are higher up the supply chain and deal with retailers or other types of businesses. Nevertheless, by coordinating their purchases with a cooperative, retailers or distributors can more readily carry out uniform marketing campaigns. A purchasing cooperative has a member network of independent retailers/distributors that offers manufacturers or vendors a low-cost means to coordinate and implement a marketing plan.

In sum, individual businesses or consumers can benefit from group purchasing in several dimensions in addition to price, such as convenience, assurance of supply availability, and quality attributes. Improving non-price dimensions often involves a purchasing cooperative and a supplier working together and sharing in the benefits that, in turn, form a basis to receive more favorable terms of trade for members.

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## **Developing a Purchasing Cooperative**

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### **Start-Up Strategies**

Creating a new business of any kind usually involves an extraordinary commitment of time and energy during the start-up phase. Effective communications among independent parties with an interest in group purchasing is an essential element in getting started and moving through the organizational steps. Cooperatives are democratically owned and controlled businesses, and significant outreach for input and feedback on organizational plans is needed to help build a large, or at least sufficient, base of membership to get started.

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<sup>3</sup> See Appendix for some brief examples of purchasing cooperatives and some aggregate data on purchasing cooperatives.

Communities in some cases can connect many individuals to organize purchasing through membership in churches or participation in schools. The Internet has become an important tool in the development of group purchasing. In a community or neighborhood context, families frequently subscribe to a list-serve for news and information that provides a means of coordinating efforts to start a simple buying club or moving further to incorporate a purchasing cooperative.

Food-buying clubs sometimes evolve into grocery store cooperatives. In such an evolution, food cooperatives are generally classified as a different type of cooperative from a purchasing association.<sup>4</sup> Another distinction is the difference between consumer-operated buying clubs and retail businesses that sell club memberships to consumers in return for merchandise discounts. The former are a type of collective purchasing that involves democratic ownership and control, thereby meeting the criteria of cooperative incorporation statutes, while the latter do not.

Depending on the size and scope of activities, consumer buying clubs may not need to incorporate as cooperatives. A simple club membership agreement may provide adequate protection in the event of lawsuits brought by members against club officers. As size or scope of operations increase, such as when members are themselves distributing food products to the public, incorporation is often a prudent step from a legal standpoint. While operating costs are relatively low for most buying clubs, a longer term horizon for negotiating additional and sustainable benefits often depends on formally organizing and incorporating as a cooperative.

Retailer/distributor purchasing cooperatives often have joint communications through their membership in trade or industry associations. Often retailers/distributors belong to a specific industry with common purchasing needs, as is the case with various agricultural industries. An industry association may actively carry out the organizational costs of a purchasing cooperative as an added benefit for its dues-paying members. This type of support is similar to the coordination role played by chambers of commerce in organizing energy purchasing cooperatives for local businesses.

## **Retailer Purchasing Cooperative**

The purchasing cooperative model has been developed over several years by large associations of independent retailers and distributors. Many of these purchasing cooperatives have developed sophisticated purchasing programs over time that involve many elements that are not necessary for most fledgling groups to start operations. Organizing a purchasing cooperative of independent retailers that begins with a small membership base can start out with the simple model of a buying club (i.e., members can achieve discounts by arranging bulk purchases with suppliers). As they gain experience and expand their membership, more sophisticated systems of rebates, invoicing, and coordinated planning with manufacturers and vendors can be developed.

The steps in organizing a purchasing cooperative for retailers are described below and diagrammed in Figure 1. This model includes the basic steps for any type of collective buying organization but also encompasses some strategic actions that can help a purchasing cooperative develop further into a long-term sustainable business.

### **Selecting a Brand/Product Line**

Purchasing cooperatives for independent retailers, whether they specialize in farm supplies, groceries, pharmacy, or hardware, often start out with a single product or a narrow selection of products. A steering committee should be formed that will be responsible for planning the products and brands to pursue in developing purchase agreements with suppliers. This steering committee must be made up of individuals who will take the responsibility to ensure that communications are strong among the interested parties. They must also push forward with the project to fully determine its potential. Interested retailers can informally select or vote among themselves to form a committee of about four or five members. (Box 1 of Figure 1.)

For independent retailers carrying multiple brands in their stores, it is useful to conduct a survey of their sales by each branded product. Some retailers may not want to share their specific information with others who are considering membership in a potential purchasing cooperative. However, confidentiality of individual retailer information can be established by having a third party conduct a survey and report aggregated results to the potential members. (Box 2 of Figure 1.)

A survey helps identify the best brands and products to focus on as part of a start-up purchasing

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<sup>4</sup> Co-op Stores and Buying Clubs: Operations Manual. (Washington, DC: Office of Economic Opportunity, OEO Guidance 6148-20), 1972.

program. At a later stage, when the group has designated an agent or manager to develop purchasing agreements with suppliers, the survey information provides a basis for estimating the dollar volume of sales that the supplier could expect from dealing with the cooperative. (Box 3 of Figure 1.)

With crucial data and information from potential members, the steering committee then oversees the development of a business plan, preferably using an outside, objective party to write it (perhaps the same third party that conducted the survey). The business plan provides background information on the proposed purchasing association, detailed aggregate data on the products to be included, a marketing plan for scoping out vendors and manufacturers, operational limits and strategy, capital needs, and a capitalization strategy. If some sensitivity analysis/feasibility work is necessary for the project, then it could include that as well. The business plan is shared with and discussed among the prospective members, and a decision whether to proceed toward capitalization and incorporation is made. (Boxes 4 and 5 of Figure 1.)

Once an organization has been capitalized and legally incorporated, initial contacts with vendors can be made for the purpose of promoting the benefits to the vendors of this new business. A potential association may have to finance a “discovery phase,” where several manufacturers or vendors of different products are contacted but only a few may take an interest in working with the cooperative. A cooperative purchasing agent conducts the discovery phase in consultation with the board of directors. It is often advantageous to have one or two directors, who are retail or cooperative store managers, to participate with their agent in making “the pitch” to manufacturers about the business deals to be proposed.

In the process of contacting manufacturers or vendors, it is possible that some may agree to work with a purchasing cooperative in some limited ways. For instance they may offer some one-time deals for reduced prices. Such opportunities offer some immediate savings but they are not satisfactory as a method of long-term operation. However, some deals of this kind can be a way to start developing a long-term and more remunerative program.

## Generating Savings

The major benefits of purchasing associations are generated either through price discounts or from a system of rebates. Discounts are often the initial purpose of a newly organized buying group, but more substan-

tial and lasting opportunities for savings are established by having a system of rebates from manufacturers.

Invoicing and payment of rebates can operate in different ways. For example, members can receive invoices from participating vendors and make payments according to the terms negotiated by their purchasing association. This method discloses the value of rebates. Many vendors will not work with a purchasing association when there is a risk that the negotiated rebate amount might be revealed to their other customers. Confidentiality agreements with members about rebates, enforced by financial penalties, are essential in this method of operation.

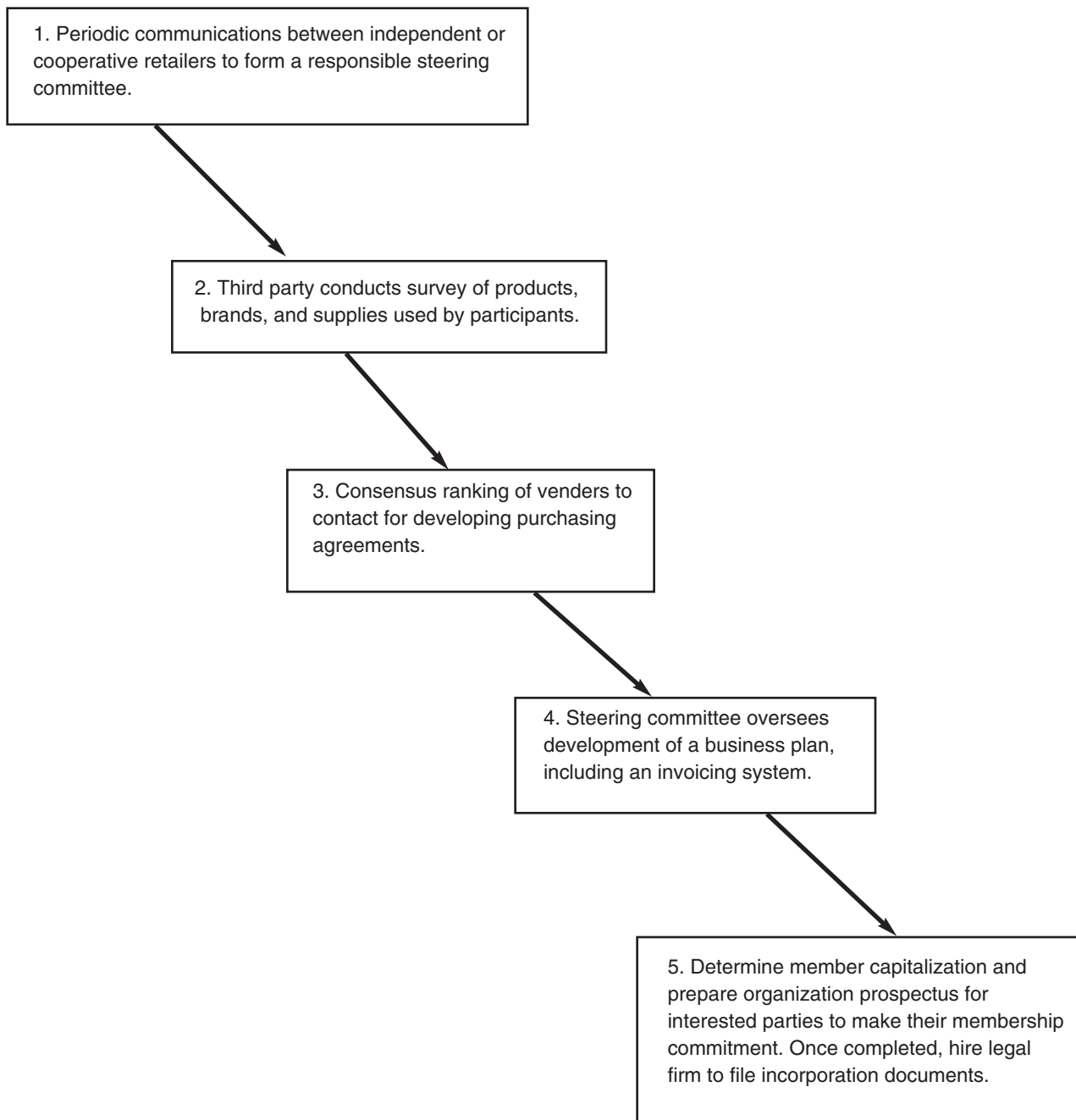
Alternative methods of invoicing and rebating offer more assurance of confidentiality by having the purchasing association pay vendors and collect rebates for each member's account. The member has its various rebates from different product purchases combined into one sum, so that information about rebates for particular products is not revealed. A lump sum rebate can be operated with members receiving invoices from vendors and forwarding them to the purchasing association for payment to vendors and rebate collection.

Another option would be for the system to be designed to have vendors send invoices to the purchasing association for member purchases. Although lump-sum payments of rebates to members will not disclose the various rates of discount, a purchasing association could report this information to members. In that case, strict confidentiality agreements would need to be enforced.

To illustrate such alternate methods of invoicing and rebating, Table 1 provides a hypothetical example. Columns [1] and [4] show the amount of wholesale products that three members are purchasing from two vendors. The cooperative had negotiated rebate terms as shown in columns [2] and [5]. If the vendor bills the member, the member would pay the vendor column [1] less column [3]; so member 1 would pay vendor 1 \$24,750 for product 1. With this method, the member would know the rebate terms and would have signed a confidentiality agreement. On the other hand, if the cooperative handles the invoicing, the cooperative would collect \$30,000 from member 1 for product 1 and pay vendor 1 the \$24,750. The cooperative would then hold the \$5,250 rebate for member 1 to combine it with other rebates the member earns. The cooperative would return the combined rebates shown in column [7] to the members, less any operational fees, as explained next.



**Figure 1—Steps to organize a purchasing cooperative for retailers**



**Table 1—Example of a purchasing cooperative’s purchase, rebate terms and rebates**

	[1] Product 1 wholesale purchases	[2] Product 1 rebate negotiated terms	[3] Rebate for Product 1 from Vender 1	[4] Product 2 wholesale purchases	[5] Product 2 rebate negotiated terms	[6] Rebate for Product 2 from Vender 2	[7] Combined rebate
Member 1	\$30,000	\$175/\$1,000	\$5,250	\$15,000	\$50/\$1000	\$750	\$6,000
Member 2	\$70,000	\$185/\$1,000	\$12,950	\$30,000	\$55/\$1000	\$1,650	\$14,600
Member 3	\$12,000	\$125/\$1,000	\$1,500	\$8,000	\$45/\$1000	\$360	\$1,860

\*Purchasing cooperative negotiates rebate amounts on behalf of its members. If the cooperative does the invoicing and handles rebates, the member would only see the combined rebate amount of all purchases from all vendors, which would provide rebate term confidentiality. If the vender invoices the member directly, or the cooperative discloses the negotiated rebate to the member, confidentiality agreements must be put in place and enforced by financial penalties.

Purchasing cooperatives usually operate with very low costs, which contribute to their capacity to generate savings for members. In fact, many have costs less than 1 percent of rebates returned to members. Depending on how their invoicing and rebate systems are designed, most purchasing associations can operate without credit.

When they can function without operating a warehousing business, they have few physical assets. Furthermore, coordinated purchasing does not require a large office staff; possibly two or three people. In addition, given an office of that size, many associations are able to use space from one of their member's retail business locations.

**Manufacturer/Vender Receptiveness**

Manufacturers and vendors operating in industries where they have a predominant market share are less likely to be receptive to purchasing associations than those in more competitive markets. In the extreme case of a monopolist, the producer would be selling to the same retailers whether or not they combined their purchasing in a cooperative. Even in a competitive industry, experienced purchasing agents report that a predominant market leader is often much less receptive to working with a cooperative than are the competing producers who are number two or three in market share and are devoted to increasing their market.

The opportunity to achieve savings with purchasing is less influenced by an association's volume of purchases than by the impact such volume has on a manufacturer/distributor's share of the market. In other words, if, prior to formation of a cooperative, members were predominantly buying from the same manufacturer, it makes little difference, other than in

consolidating transactions, that these same purchases would be handled by a single purchasing entity. To address this potential weakness, when meeting with vendors, an association must present itself as a significant base of new customers. It is important for a cooperative manager to have market data, a good idea of how much the association members purchase from each vender, and how much of a gain is available to a vender that will establish a trading relationship. A survey of members' retail sales by products and brands (as previously described in the development steps) provides essential information for explaining the potential increase in dollar volume for the manufacturer or vender who will work with the cooperative.

Many types of branded consumer goods not only compete with similar or substitute products, but are also competing for a larger share of the consumer's discretionary budget. Manufacturers or vendors want to deal with retailers who help them be more competitive by contributing to their marketing programs. A purchasing cooperative can help coordinate an effective marketing program among its independent retailer members. The quality of a relationship that can be developed between a manufacturer and the cooperative's membership is a key element in a successful program to expand a market.

In sum, the selling points for vendors in working with a purchasing cooperative are: (1) potential to increase market share, (2) confidentiality of discounts or rebates, and (3) coordination of product promotion among independent retailers.

**Credible Commitment**

The success of any cooperative depends on member commitment. The potential benefits to vendors of working with a purchasing cooperative hinge on the

confidence they have in its sustainability and its prospects for growth. As with any cooperative, establishing a credible commitment to the business community of customers or partners is to a large extent based on the membership. Each member needs assurance that other members are also committed to support the long-term growth of the new business entity. Having a credible commitment also comes into play when trying to hire experienced purchasing managers to be the cooperative's agent. Talented managers will see potential to grow the business if members establish a commitment to its long-term growth.

Payment of either a membership fee or share of membership stock is a start for members to signal their commitment to one another in going forward. A steering or planning committee should develop a value for becoming a member that is large enough to affirm commitment, but not so high as to discourage potential members from signing up.

Start-up efforts will likely involve many unexpected twists and turns that test member commitment. When a new purchasing cooperative can work directly with a manufacturer, distributors who expect to lose sales may offer short-term bargains to non-member retailers and that may financially stress the membership. They may also offer separate deals to selected members to test their commitment to a purchasing cooperative. Furthermore, some members may "shop" the benefits of the association to alternative vendors in an effort to obtain better deals for their own stores.

To prevent such adverse actions, purchasing associations are advised to have membership agreements that include grounds for expulsion for: (1) not maintaining a substantial majority share of purchases through the cooperative's distribution channels, and (2) divulging any confidential information about the association's operations and terms of trade. Loyal members will not regard such rules as impinging on their freedom or flexibility, but rather as policies that protect their investment from the opportunistic behavior of others.

### **Financing Start-Up**

The amount needed to finance a purchasing association can only be approximated with the estimation of expenses for the start-up of operations. The membership fee or value of member stock, multiplied by the number of members, provides the start-up capitalization of a cooperative.

Although an expected large sign-up of members could justify a lower membership fee or price for a share of voting stock, a threshold cost of membership

should be high enough to signal commitment, as discussed in the previous section. Furthermore, the organizational prospectus should provide incentives for those who make a commitment to be founders of the business. Fees or stock prices for membership should be reported in the prospectus as increasing over time so as to discourage those who delay joining to avoid the uncertainty of starting a business.

Typical start-up expense items include legal expenses; office equipment such as computers, telephones and fax machines, Web page development, record-keeping software, and promotional brochures. These costs are common to any start-up. Since office space requirements are relatively small, it is often possible to operate from one of the locations of a member business-owner or cooperative. Such arrangements during a start-up phase make it possible to avoid an office lease.

A different category of start-up costs involves a search for manufacturers/vendors who will want to work with the association. Travel is a major expense in this category for associations that want to move beyond receiving discounts for bulk purchasing and establish a sustainable rebate system. Travel expense depends on the extent of search and discovery that will be required to develop purchasing agreements with vendors and manufacturers.

The hiring of a purchasing association manager is the major start-up cost component. A purchasing association must decide between having a lower capitalization that would require the delegation of a member to start the process of group purchasing, or a higher capitalization to hire a manager. Hiring a manager right away should result in a faster turnaround in generating discounts or rebate savings. However, member retailers may have flexibility to use staff from their own stores in a part-time assignment to start group purchasing before hiring a full-time manager.

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## **Summary**

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Independent retailers and farm supply cooperatives run a risk in the future of becoming uncompetitive with rivals who are franchisees of large chain stores or are non-voting members of purchasing businesses. A strategic response to these conditions is to develop a purchasing cooperative where members have ownership and control.

A purchasing cooperative, whether organized as a cooperative or limited liability company (LLC), is unlike the traditional federated regional cooperative. It

is only a coordinating entity and has very little overhead cost. The gains will not be immediate but positive returns are within reach after a few years of dedicated commitment. Would-be members must understand that benefits may take a couple of years to be developed.

Moving forward with a purchasing association takes members who understand that with some marketing services, the manufacturer or vender is their customer. In turn, with other terms of the business relationship, the manufacturer or vender will deal with them as a favored customer. Purchasing associations can develop successful programs if they convince a vender or manufacturer that they will be successful marketers of its branded products. The start-up phase, prior to purchasing operations, involves making a pitch to the venders to get them on board with a purchasing plan. To finance this development phase, membership will require the purchase of membership stock or fees.

Effective communications among the steering committee and prospective members are required to get a purchasing cooperative started. Potential members must take the initiative seriously and be forthcoming with data and information (at least to a confidential third party), so that a strong business plan can be developed.

Opportunities from a purchasing cooperative may develop differently than expected. Some venders may offer some short-term discounts on a few items and be unwilling to operate with a long-term rebate program. However, while some of these deals may help with short-term financing, the association must work with their venders to develop long-term business relationships and rebate programs. A purchasing cooperative with the credible commitment of its members is in the best position to successfully negotiate long-term business deals with venders.

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## Appendix

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### Examples of Purchasing Cooperatives

This section includes nine brief examples of purchasing cooperatives across a spectrum of industries. Some of the information was gleaned from the company Web sites. Web site addresses are provided as references for more information where applicable.

**Mississippi Valley Ag, LLC (MVA)**  
(<http://www.missvalleyag.com>). MVA started in 2000 with three members and, as of 2007, had 23 members

for purchasing crop protectants. It is an alliance of independent retailers covering markets in Kentucky, Indiana, Illinois, Tennessee, Southwestern Missouri, and Arkansas. It discloses to members its discounts/rebate deals. MVA charges members three-fourths of 1 percent during an operating year, but at the end of the year its adjusted charge is about 0.30 percent. MVA does not extend trade credit to members. MVA holds four membership meetings per year, and a four-person board of directors is elected that is more frequently involved in consultations with the manager.

**Mid-South Marketing Partners, Inc.** USDA Rural Development's staff worked with five independent farm supply cooperatives from Arkansas, Mississippi and Louisiana to organize a purchasing cooperative that came to fruition in the spring of 2007. Mid-South Marketing Partners began with a membership of 12 farm supply cooperatives that by mid-2008 had grown to 17 members. Its product focus is fencing, wire, minerals, and pasture seed. The cooperative operates with a part-time manager, and its main office is housed in one of its member's retail locations in Little Rock, Arkansas.

**Independent Pharmacy Cooperative (IPC)**  
(<https://www.ipcrx.com/public/Home.aspx>). Since 1984, IPC has evolved into the Nation's largest group purchasing organization for independent pharmacies. IPC represents 3,200 primary and 2,500 affiliate pharmacy members whose purchases exceed \$8 billion. Located in Sun Prairie, Wisconsin, and staffed by just 75 employees, IPC prides itself on providing the most progressive and effective programs and services to put profit back in the independent pharmacy.

IPC offers more than a membership. IPC members are also owners of the cooperative and share in the cooperative's annual operating profits. They directly influence the decisionmaking process by electing member peers to serve on the Board of Directors. These elected member representatives understand the changing dynamics of the marketplace. Members have access to the consolidated financial statements and audit report of independent certified public accounts for the cooperative annually.

IPC distinguishes itself among buying groups by instituting the principle of returning 100 percent of earned rebates back to the member pharmacies. IPC members can easily review rebate success by viewing annual and monthly rebate statements in member

login section of the cooperative Web site. In 2005, IPC member stores earned over \$90 million in rebate disbursements.

Through progressive business modeling, IPC provides participating pharmacies vital venues to maximize their stores' profitability. With a 75,000-square-foot, technologically sophisticated distribution facility, IPC has distinguished itself as a leader in the alternative source distribution market, reaching over \$500 million in annual sales.

Independent pharmacies nationwide access IPC's purchasing programs in order to thrive in today's competitive marketplace. IPC distribution purchasing opportunities include: Rx Advantage Program, OTC Advantage Program, General Merchandise Program, and Monthly Seasonal/Promotional Program. (Source: IPC Web site).

**Western Areas City and County Cooperative (WACCO) (<http://www.waccogov.org>).** WACCO is a government cooperative consisting of 27 city and 10 county governments in West Central Minnesota. It was formed in 1993 to share equipment as well as to cut costs through cooperative purchasing and regional training.

WACCO is headquartered in Fergus Falls, Minnesota, and serves the needs of the 7 counties and 18 cities that are its members. WACCO is designed to reduce the cost and improve the services of local governments in western Minnesota. This innovative collaborative effort achieves its goals by jointly purchasing supplies and services for its members at reduced prices, facilitating the sharing or leasing of equipment between member governments, being a clearinghouse of information on regulatory and other matters, providing a forum for networking by local government employees within a given department (law enforcement, public works, emergency medical services, etc.), and by providing local training opportunities for government employees. It is estimated that WACCO saved its members over \$500,000 on training costs alone during calendar year 1997. Key lessons learned from this case study were that local government collaboration can pay significant dividends, management's decision to include line staff in the early stages of the cooperative's development and her outstanding communications efforts were critical to its success, and that the evolution from a start-up, highly entrepreneurial cooperative to one that is more mature can be challenging.

(Source: "Western Area Cities and Counties Cooperative Case Study," by Beth Honadle, Gary

Goreham, Frayne Olson, Anne Reynolds, David Trechter, and Linda Jacobson, March 1998, Web site: <http://www.uwcc.wisc.edu/info/fra/west.html>.)

**IMARK Group (<http://www.imarkgroup.com>).**

IMARK Group, Inc. is a member-owned marketing group made up of 172 independently owned electrical distributors throughout the United States. Member companies serve their local customers at over 1,000 branch locations. With over \$8 billion in combined sales, IMARK Group members represent the second largest electrical distribution entity in the United States.

IMARK members are market leading companies serving the needs of electrical contractors, industrial and institutional maintenance and repair operations (MRO) customers, electric utilities, and other customer types throughout the country. At the heart of IMARK's success is its relationship with over 100 of the electrical industry's leading manufacturers and service providers. IMARK members work closely with these companies to satisfy end customers while members and suppliers maximize profitability, increase market share, and strengthen business relationships.

IMARK Group, Inc. is headquartered in Oxon Hill, Maryland, and was founded on February 1, 1996, as the result of a merger between The Independent Electrical Distributors Group (TIED) and Western Independent Electrical Distributors (WIED).

One of the largest independent marketing cooperatives in the United States, IMARK Group is an associate member of the National Association of Electrical Distributors and the National Cooperative Business Association.

**True Value**

(<http://truevaluecompany.com/home>). True Value Company, headquartered in Chicago, is one of the world's largest retailer-owned hardware cooperatives with approximately 5,800 independent retail locations worldwide. The company is focused on serving its retailers by providing them with the right products, knowledge, and expertise they need to successfully serve their customers and grow profitably.

The genesis of True Value is rooted in the histories of three entrepreneurial companies. The origins of the wholesale hardware business can be traced to 1910, when a group of hardware dealers met in Pittsburgh to establish American Hardware and Supply Company. Decades later, American Hardware would be named ServiStar. In the late 1920s, three brothers huddled around a kitchen table in Minnesota to sketch their

dream. By 1928, the first Coast to Coast store was opened. In 1948, John Cotter established Cotter & Company, a hardware co-op with 25 retail members. Having started his career at a neighborhood hardware store at age 12, he would build on strong industry roots. With the purchase of Hibbard, Spencer and Bartlett in 1963, Cotter not only acquired the company, but also the True Value trademark. The number of member stores expanded.

After the merger of Coast to Coast with ServiStar in 1996, the co-op's commitment to its members was further strengthened. In 1997, Cotter and Company and ServiStar Coast to Coast formed one of the industry's largest dealer-owned buying groups — TruServ Corporation.

Today, as True Value Company, the co-op has forged an exciting future with the launch of a new store format. Store by store, members are supported and empowered to hold a solid position in the hardware industry and the communities they serve.

True Value's presence is worldwide. The cooperative serves 54 countries with more than 5,000 stores, 12 regional distribution centers, and 3,000 associates.

**HESCO (<http://www.hesco-fl.com>).** HESCO is an operating supplies procurement and provision cooperative conducting business principally in the Southeastern United States. The administrative office and warehouse facility is strategically located in the heart of central Florida in Waverly.

As a supply cooperative serving prominent Florida citrus producers, packers, and processors, HESCO identifies critical operating supply requirements of its members, negotiates favorable purchasing arrangements, and then orders, receives, stores, and redistributes those supplies as needed. Other buyers in need of packaging and operating supplies also have access to these products. HESCO has a wholly owned subsidiary, HEPSCO, that also responds to the specific supply needs for fuels, lubricants, tires, batteries, and other accessories for citrus and agricultural business fleet operators.

**CCA Global Partners (<http://www.ccaglobal-partners.com>).** CCA Global Partners is a multi-organizational entity that provides a comprehensive range of services for 14 large businesses and purchasing cooperatives. It provides support for large-scale purchasing by its affiliates but also coordinates the acquisition of insurance, access to credit, marketing programs, and other services.

Originally operating as Carpet Co-op of America, a purchasing association, the organization changed its name to CCA Global Partners in 2001 with the goal of being a business-servicing entity for large purchasing cooperatives. Its affiliates include many of the largest purchasing cooperatives, such as Carpet One and The Bike Cooperative.

**Blue Hawk Cooperative (<http://www.bluehawk.coop>).** Blue Hawk is a purchasing cooperative for Heating, Ventilation, Air-Conditioning and Refrigeration (HVACR) wholesalers. Owned by 214 wholesale companies, with 939 locations and aggregate annual purchases of \$5.5 billion, it has grown rapidly since being organized in 2005.

### **Purchasing Cooperatives Aggregate Data**

The data in Appendix Table 1 provide proportions, by sector, of purchasing cooperatives in the United States. These data are being collected by the University of Wisconsin as part of an ongoing study begun in 2006: Research of the Economic Impact of Cooperatives.

**Appendix Table 1—Purchasing Cooperatives by Sector in the United States**

<b>Sector</b>	<b>Number</b>	<b>Percent</b>
Commercial sales and marketing	137	19
Social and public services	478	66
Financial services	29	4
Utilities	80	11
Total	724	100

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## USDA Rural Development

### Rural Business-Cooperative Programs

Stop 3250

Washington, D.C. 20250-3250

USDA Rural Development provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The cooperative segment of USDA Rural Development (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs. Rural Development also publishes research and educational materials and issues *Rural Cooperatives* magazine.

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