

GROUP BUYING

One Way To Level The Playing Field

By Ian Burnstein



It is a commonly accepted principle that the bigger a business, the better the pricing it will receive for goods and services. Another oft-cited adage is, “The big and strong are getting bigger and stronger.”

Well, now is a good time to apply these principles to all self-storage owners and operators.

As self-storage operators, we are part of a highly fragmented industry. No single owner or group of owners controls the industry. With an estimated 50,000 self storage owners and operators nationwide, the industry is diverse and fragmented.

However, it is possible for individual companies, including owners and operators of just one facility, to gain purchasing power, allowing them to be more competitive with larger companies. The way to gain this competitive edge is to work together with other companies.

Storage companies working together on certain aspects of their operations can increase revenues, reduce expenses and improve bottom line profitability. An effective way for competitors to work together is to form buying co-ops or groups.

By joining forces with others in the industry with the purpose of enhancing joint buying power, even owners with significant portfolios can enjoy the buying power and savings that previously were reserved for only to the very largest companies in our industry.

What Are Buying Co-Ops?

Buying co-ops are by definition different from the national and state self storage associations your company may have already joined – and function entirely differently. While an association serving an industry is a critical and effective organization that promotes and protects the

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interests of its members, its main function is to monitor legislation and promote education. Industry associations are precluded from functioning as buying co-ops because of their missions to represent all members fairly and impartially.

Buying co-ops, by contrast, are formed expressly to lower expenses for their members. They can accomplish what individual companies cannot because of the time, energy and cost involved in using the power of group buying to negotiate the best price for every expense on their books.

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egories” says Michael Haugh of Absolute Storage Management, based in Memphis, Tennessee. “It makes all the sense in the world to let a buying group go out and do the work for you.”

While the buying group concept is ideal for owners of one or a small number of few facilities, it can be just as beneficial for larger owners. The smaller owners simply do not have the bargaining power to make a significant impact on price reduction. Even if they possess the most creative ideas or highest level of business savvy, vendors will not be willing to significantly move the needle to save the owner money. Similarly, even an owner of 45 facilities is not going to have the same type of leverage with a vendor as a group of 2,000 stores would. There is always going to be an advantage in pricing by joining a larger buying organization.

One example within our industry of a successful buyer’s co-op is the Storage Business

Owners Alliance LLC (“SBOA”). The SBOA is an example of how buying groups can be effective. In the one year since its launch, the SBOA has grown to more than 1,800 member-facilities and approximately 30 vendor partners. It has provided a forum for

could help us manage the expense side our business as effectively as the REITs. With our industry being as fragmented as it is, how does the smaller operator achieve those economies to scale? The SBOA extends these opportunities for smaller operators.

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members to share ideas on how to reduce expenses, improve services and improve revenues. “The SBOA is a great concept,” says Rick Yonis, president of Sentry Self Storage Management. “Being responsible for the management of more than 40 assets in seven states, we needed a platform which

They have a great roster of vendors. We have saved thousands of dollars per facility with our membership.”

Yonis points out that when he is soliciting third party management business, the SBOA membership allows him to offer his would-be clients the opportunity to

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tap into the enhanced buying power of a much larger organization.

The growth of market share for vendors is the key to their participation. According to Markus Hecker of SiteLink, being vendor partner of a co-op “has kept us more in touch with our customer base.” He adds “it is also clearly worthwhile to provide a discount for new users of our product in exchange for the group promoting us to a large and influential list of members and member-prospects.”

From a vendor’s perspective, the co-op concept is not without some initial concerns. For example, some vendors worry their profits will diminish if they provide discounts to a group. However, what is eventually realized is that the minor discounts offered quite often are more than offset by the lower expenses and increased profits that result from building market share and lowering the cost of customer acquisition. According to Dan

Pirigyi of The Communications Experts Group (TCEG), “buying groups simply allow us to work smarter. When we solicit new business, we need to hire sales guys to make cold calls and work lists. It is very common to talk to more than 100 people before we get a strong lead that we can sell to. With buying groups, we get warm leads and introductions.

The most effective buying groups promote their vendors and make the sale process more efficient for all parties involved. There is also a credibility factor when the buying group is promoting a vendor because a screening process is assumed to have occurred when a vendor is approved by a buying group. Members will have a higher level of confidence to work with vendors when they are supported by the group.

Companies consolidate and merge every day to improve pricing and to reduce expenses. The same rationale under-

lies the formation of co-ops or groups for self-storage facilities, no matter their size. Buying groups allow for economies of scale for both the vendors and the buyers—costs are distributed across the group and are not borne individually. Advantages accrue to all parties as costs are shared on the one hand, and vendors enjoy access to multiple clients through a single outlet. Fortunately for self storage owners, the competitive advantages once enjoyed only by industry giants are starting to become a part of our everyday business practices. As our participation in buying groups grows, members and vendors will both become more profitable.



Ian Burnstein is the President and co-founder of the Storage Business Owners Alliance LLC (SBOA) (www.thesboa.com), and Chief Operating Officer of Storage Pros Management LLC and its affiliated companies.



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