

Group Purchasing Organizations

They come in all Shapes and Sizes



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What are the benefits of joining a **Group Purchasing Organization** or **GPO** from a purchasing standpoint?

There are all types of collective buying organizations and many companies belong to more than one. Let's explore the benefits to these types of organizations.

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Should you join a Group Purchasing Organization (GPO)? There are literally hundreds of Group Purchasing Organizations (GPO's) that support specific specialties, industries, and products. So, how should you choose one, or should you?

According to Wikipedia, a Group Purchasing Organization (or GPO) is an entity that is created to leverage the purchasing power of a group of businesses to obtain discounts from vendors based on the collective buying power of the GPO members.

When is a company a GPO and when are they something else? Many organizations take on procurement functionality based on the spend of their members or their private portfolios. They can be industry wholesalers by specific verticals like the grocery industry, share groups that cross industries in a particular specialty like Information Technology, consortiums, VARS, distributors, and even large Private Equity Firms like KKR, CD&R, or Berkshire Hathaway. GPOs may take on all procurement opportunities or just specific categories, like Information Technology, Energy, or Transportation to name just a few.

These business structures have been around for a long time. Many have evolved to use cutting edge e- procurement tools. They all have one thing in common: they consolidate purchasing volumes for a wide array of entities that may have very similar business structures, but for the savvy consortium can also be wildly different. Member companies may actually belong to several different buying groups, because their primary group does not offer expertise in a certain area.

To some extent, GPOs have had to evolve and also focus on a mixed market where it makes sense. In general, consortiums tend to be vertically focused, such as a drug industry consortium with the members generally representing the drug industry only. However, some consortiums are beginning to market themselves outside of the vertical to other companies who want to take advantage of expertise that the GPO possesses in the categories that are common across more than their own vertical and offer increased volumes. An example might be drug stores sourcing very similar products that health care organizations, like hospitals, source. Example: Durable Medical Equipment.

Today's advanced e-procurement tools make it much easier to accomplish collective buying and aggregating outside of a GPO or Consortiums initial area of expertise. Large and small retailers alike now have the capability of viewing a much broader universe of suppliers and other companies, while also coordinating and participating in collaborative events from hundreds, if not thousands, of miles away. Suppliers now have an opportunity to earn business they could never compete for in the past at much lower cost of sales.

GPOs can be vertically focused or horizontally focused. They can also be horizontally focused within an industry vertical. An example might be a wholesale grocer that is focused on a retail industry vertical, like supermarkets.



The question is should you join one or many? Maybe you shouldn't join any.

The only way to answer the question is to understand your own organization in terms of its strengths and weaknesses relative to the products or services categories you hope to source. As an example, if you are just buying from a wholesaler's price book, it's a good bet you are not getting the best price. It's also a good bet that other members of the same wholesaler are getting a better price and they may be smaller than you. However, you may also have a huge energy spend and this is something that your product wholesaler can't help you with. As such, there may be a specific GPO for energy that can offer some expertise.

This author believes that your best bet is to focus on a procurement company that is horizontally focused with specific expertise in a number of verticals, such as health care, retail, distribution, financial services, etc. I have often seen these companies significantly outperform GPOs by a substantial amount, as the overall overlap of expertise across multiple industries suggests a level of creativity that GPOs may not have.

Ultimately understanding what your company's limitations are, as well as the opportunities that are available to you, is a first and important step. After that, it's who can do the most for you with the least disruption across the broadest area of spend. Retailers should ask their collective buyers how they plan to make use of these tools available to them and what they have to offer in terms of introductions to other companies for increased volume.

In this white paper, we are going to explore three different types of Group Purchasing Organizations within the retail vertical and focus on some of the similarities and differences between them, as well as some of the unique things that each is doing to provide greater purchasing power for its members. Although there are some obvious differences between these GPO's that coincide with how each industry's vertical works, there are some similarities they all share. We will start today by looking at some of those common advantages.

GPO Advantages

Economies of scale – One of the main reasons companies join a cooperative is to be part of an organization with the purchasing power of a large corporation, benefitting from the lower prices achieved by purchasing much higher quantities of goods than they could on their own.

Group Training/Education – In many cases, smaller companies must either forego much needed training and education opportunities because of the cost or they must settle for online or webinar courses. As a cooperative, the group can easily schedule and host multiple training and education sessions throughout the year that would normally be available only to the biggest companies in that industry.

Enterprise product/service opportunities – As mentioned above, purchasing as part of a larger group can reduce the cost of things you are already buying. As a cooperative, companies also have the opportunity to purchase enterprise products and services, such as enterprise software that they could never possibly have afforded on their own. With so many



software companies offering Software as a Service (SaaS) models, this is becoming a more important benefit of cooperatives every year.

These are just a few of the basic advantages for becoming part of a Group Purchasing Organization. As we delve in further, we will be taking a closer look at some of the different retail industry vertical cooperatives and what they are doing in order to help their members with purchasing different products and services.



One large retail industry vertical using group purchasing organizations is the hospitality industry and we will take a closer look at this industry by focusing on the Hospitality Services Group (HSG). This group, formed in 1989, provides small chain and independent hotels, restaurants, and retirement communities the purchasing power of a large company and is one of the most successful cooperatives in the United States.

The HSG is a fee based system that focuses on hospitality businesses in the northeast and touts some very useful benefits to its members that are 100% focused on the procurement process.

Benefits of HSG

Industry focused expertise and planning – The HSG offers several tools, whitepapers and articles geared toward helping hospitality businesses plan for their most efficient and cost-effective operations. From menu planning and pricing, to managing vendor agreements, to a database full of product specific facts, the HSG is more than just a Buying Group.

High powered software – The HSG offers all of its member's high powered software that allows them to track their costs, create recipes that allow for easier improvements in managed costs, and manage purchase orders from beginning to end.

Delivery & invoicing – By working with the HSG, companies have much less to worry about, as product is delivered straight to their building and the vendors invoice them directly. The HSG handles the relationships for their customers so that their customers can focus on running their business.

Research – Part of what the HSG offers its members in the way of purchasing is by researching new products, standards and technologies for producing the items they are purchasing to continually look for ways to reduce their customers cost-of-goods. This frees up the owners to be able to focus on their restaurants and hotels providing better service to their customers without worrying about staying current on everything in their industry from a procurement standpoint.



The next, retail vertical GPO we are going to take a look at is the Retail Drug Industry and a group called The Chain Drug Consortium. The CDC is a collective group that represents 1150 retail Drug Stores with over \$8 billion in annual revenue. Its 18 members span the United States and service hundreds of thousands of customers. While the CDC offers other services as part of its cooperative, it is also an example of a well-managed Group Purchasing Organization.

Each day the CDC provides its retail members “an innovative savings approach through key purchasing programs and services, which help maximize market opportunities.” Some of the specialized programs the CDC provides its members are detailed below.

Benefits of CDC

Product Lines – The CDC offers two corporate product lines to its members; Premier Value and Premier Traditions. With over 1,800 products that span over the counter medicine, HBC and general merchandise, the Premier Value brand provides its members a huge value in alternatives to National brands at a low cost to them. The Premier Traditions line includes Christmas seasonal items such as lighting and tree products.

Conferences – The larger the cooperative/consortium, the more opportunities it can provide members with. Valuable activities such as National Planning Conferences become for the entire group. The CDC provides its members an annual planning conference which allows all of the member presidents an opportunity to present their business strategy and receive high level executive collaboration to build more successful programs. This is a valuable benefit the CDC and other cooperatives can bring their members.

Member Chirp – Through the member portal the CDC provides its members a forum for members to access import program information ranging from seasonal program offerings to latest updates of activity within the organization. This is also a place for the pharmacy members to be able to access national and private brand label pharmaceutical information.

The CDC is just another great example of how a GPO/Cooperative/Consortium can provide great value to members who belong to it and how they can continue to grow with the clients with new and innovative programs, to services and offerings such as aggregated purchases or both product and services.



One of the most successful retail purchasing cooperatives that offer GPO functionality to its members is ACE Hardware. ACE Hardware, which also includes True Value and Do it Best, represents the purchasing power of over 13,000 independent stores. Founded in 1924, by a small group of Chicago hardware store owners, the organization has become one of the most successful cooperatives in U.S. Retail history, allowing smaller stores to compete even in landscapes with larger competitors. Some of the things that have made ACE so successful are the capability to convert your business to an ACE location, the capability of International opportunities, and a huge support system for advertising and marketing needs.

Benefits of Ace Hardware

Conversion – One of the unique benefits this group offers to companies is the capability to convert your existing business to an ACE, True Value or Do It Best format. With this benefit come a slew of professional services that help owners with the transition into the ACE family. With every conversion a customized plan is developed to ensure the easiest and most efficient transition occurs.

International – With the ACE brand being one of the top 100 most recognized brands in the world, the opportunity for international cooperative services and purchasing power opens doors in a way that would traditionally never be accessible to most retailers.

Advertising/Marketing – As with some other cooperatives, one of the big benefits ACE, True Value and Do It Best bring to its members is a cost effective marketing program that can drive sales and traffic at a level on pace with the larger national chain hardware stores.



The final GPO we are going to discuss in in the Retail Grocery Vertical. It is a cooperative that can trace its roots back to the early 20th century. Unified Grocers is now the combination of three successful west coast Retail Grocery Cooperatives: United Grocers, Certified Grocers, and Associated Grocers. Unified Grocers is the largest retailer-owned wholesale grocery cooperative in the western United States. In an industry where major companies compete fiercely for very small margins, this is a savior for small grocers and some of the things they offer provide tremendous value to its members.

Benefits of Unified Grocers

Store Resources – From schematics & merchandising software and services, to retail pricing consulting, to in-store development, Unified offers a host of valuable services and products to its members. From a technology standpoint, Unified Grocer members have access to Interactive Ordering which is a technology that allows instant access to ordering information from a handheld unit right on the floor. Some of Unified's members may not have even had an opportunity to have this type of technology without their ties to the cooperative.



Consumer events – Unified is a huge supporter of public events including 6 major marathons; an Air Show and Women’s Show and the annual Seattle Seafair bringing hundreds of thousands of consumers to a month long celebration. Through these events the Unified members can get directly involved and benefit from the exposure at a level most members could only dream of on their own.

Professional Services – Being a smaller retailer can make some professional services difficult, if not impossible procure. Unified has the capability with its size to offer significant savings on professional services to its members. Logistics, Real Estate and Insurance services are key to the Unified members, but one of the key services are the financing services where Grocers Capital, a subsidiary of Unified Grocers has provided over \$125 million in financing to its members to help grow.

As we have detailed, there are many great cooperatives out there helping retailers compete in industries that are getting tougher and tougher to compete in. Many cooperatives offer tools and services to their members in order to help leverage the power of the group to procure products and services, with some offering specialized benefits and opportunities as we have described.

So, should you join a GPO or should you join several? Ultimately the answer for the C- Suite is, are you sure that you are getting the best possible pricing and services from you suppliers for all Capital, Cost of Goods and Expense related spending? Are you comfortable that your team is structured in such a way and possess the detailed category expertise in order to insure that you get the best price and best service from your vendors all of the time? If not perhaps a GPO is for you. Or perhaps you should be looking for an eProcurement company that can augment your team with personnel, tools, services and strategies that will deliver those types of results. Only the CEO, CFO and Board of Directors can answer that question.



About The Author



Ron is the founder and CEO of SafeSourcing Inc. with more than 40 years of experience working in a number of industries. Ron was formerly the President and CEO of Intesource, an internet based Spend Management Company. In prior roles, Ron served as the Executive Vice President at Trax Retail Solutions. After leaving the U.S. Air Force as an inventory management specialist, Ron began his career at NCR Corporation where he eventually served as the Vice President and General Manager of an NCR Global Software business unit.

Ron holds a Bachelor of Arts degree and Bachelor of Science degree from Bridgewater State University in History and Psychology, respectively, and has also completed certificate programs at the American School of International Management. Ron is also a U.S. Air Force certified inventory management specialist AFSC 645XO.

A well-known industry speaker and writer on a variety of subjects including technology, operations, risk management, the supply chain, and Sarbanes Oxley; Ron is a US Air Force Veteran, and is listed in the VIP section of Madison's Who's Who.

Ron was a featured guest on "World News Review" CNBC, Sky Radio and has been honored on multiple occasions including 2016 as one of the industry's "Pro's to Know" by Supply & Demand Chain Executive Magazine. He is an author of over 1,000 posts at The SafeSourcing Blog on a wide range of subjects regarding Spend Management, Cost Reduction and Optimization and eProcurement including the entire Procure to Pay process. Ron has published a number of white papers, including "Reimagining Procurement", "4 Tips and 3 Pitfalls to Avoid when Sourcing Professional Services", "Safety in the Supply Chain, An Irony", and "Construction Sourcing with eProcurement Tools" amongst others.

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