

Benefits of a Group Purchasing Organization



While the enduring myth of the rugged individualist captures the imaginations of both the business world and the general public, successful partnerships and mutually beneficial relationships are the true backbone of success for many businesses.

Teaming up with others, whether at the individual level or across industries, can reduce stress and workloads while boosting profit, productivity, and performance.

For businesses of all sizes and specializations, taking advantage of group purchasing organizations, or GPOs, is one such avenue to cost savings and greater return on investment (ROI).

What is a Group Purchasing Organization?

Wouldn't it be wonderful if you could identify the best products for your business, then establish purchasing contracts with the best vendors in your supply chain to buy your essential goods and services with optimal purchasing power?

In the United States and, increasingly, around the globe, group purchasing organizations exist to meet this need, leveraging the collective purchasing power of a multiple partners to reduce costs and obtain the best value from vendors via discounts and other concessions.

Also known as co-ops, collectives, consortia, leveraged buying or procurement groups, and purchasing alliances, GPOs are designed to provide shared benefit along with reduced risk, better contract terms, and lasting value via improved ROI and/or reduced Total Cost of Ownership (TCO) for purchased goods and services.

Typically, these organizations are funded by administrative fees. These fees can be charged to GPO members, the vendors within the supply chain, or both.

For very large GPOs, percentage-based fees may favor larger members, who may see a better ROI than smaller businesses, due to their larger purchasing volume.

Participation levels vary by organization, and a given member might buy the bulk of their goods and services through a single GPO (which is quite rare) or only one or two items from several GPOs based on their specific needs and the deals on offer.

Who Uses GPOs?

Taking advantage of shared buying power is a common tool used by businesses in many industries to obtain goods and services, including:

- Healthcare providers
- Industrial manufacturers
- Agricultural interests
- Grocery and retail enterprises
- Nonprofits

While they touch on nearly every segment of the business marketplace, American GPOs have their origins in the healthcare and human services industries, beginning in 1910 with the Hospital Bureau of New York.

Today, GPOs are a key part of the healthcare supply chain for roughly 97% of hospital systems, including not-for-profit hospitals and surgery centers.

Healthcare organizations in particular benefit from this type of collective thanks to “safe harbor” laws.

Anti-fraud laws passed in the 1970s to protect patients from price gouging and other deceptive practices imperiled the ability of GPOs to reduce healthcare costs while preserving standards of patient care.

Consequently, legal accommodations—in the form of statutory exemptions and designations detailing permitted payment methods and acceptable business practices—were put into place by Congress and the Department of Health and Human Services (HHS) to protect the benefits GPOs provide to the healthcare industry.

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Types of GPOs

Based on the members and the purpose of the group, group purchasing organizations can be split into three types: Horizontal Market, Vertical Market, and Master Buyer. Each has its merits and associated risks.

▪ Horizontal Market

These organizations reach across and serve members from a broad cross-section of different industries.

One common example is what’s known as an indirect spend GPO, which focuses on non-strategic goods and services used by all the varied members of the organization, e.g. packaging materials, office supplies, pest control, uniform management, and temporary labor.

The collective demand for these shared items and services creates an opportunity to negotiate GPO contracts for the best products with optimal

terms, pricing, and service agreements.

For members (especially small-to-mid-sized businesses), shared procurement can mean lower staff costs and office overhead, since those roles are fulfilled by the GPO for some or even all of the products and services purchased.

▪ **Vertical Market**

This type of consortium is designed to benefit GPO members within a particular target vertical or industry.

Examples include:

- **Healthcare Group Purchasing Organizations:** Contracted discounts on medical supplies, labor, laboratory services, etc.; may also include non-medical goods and services, such as office supplies or administration services.
- **Manufacturing or Industrial GPOs:** Contracted discounts, rebates, and incentives for raw materials, labor, and services; focused on improving global competitiveness.
- **Non-Profit GPOs:** Contracted discounts on shared resources for related or disparate non-profit agencies and organizations.

▪ **Master Buyer**

These GPOs work by granting the purchasing power of (for example) major multinational corporations to their customers.

The corporations, acting as the eponymous “master buyer,” profits by adding a percentage-based fee for the privilege of buying at their prices.

How Using a GPO Can Benefit Your Business

Whatever your industry, the biggest reason your business might consider becoming part of a collective procurement organization is cost savings—up to

25%, in some cases. But like all suppliers, GPOs require careful evaluation and thorough vetting to meet your specific needs and provide a solid ROI.

It's critically important to consider factors such as the size of the discount, the integration abilities (if any) of the GPO with regard to information sharing via procurement software, and the terms and conditions you'll receive as a member as compared to a single buyer.

That said, it's hard to deny the powerful benefits offered by collective buying power.

▪ **Even Small Companies Can Carry a Big Stick**

If you're a small-to-mid-sized business, getting premier pricing from the biggest suppliers may seem like an exercise in futility.

GPO contracts can give you the inside track to better pricing and top-tier service that more than compensates for any administrative fees—and provide access to additional contracts and resources you might not otherwise be offered.

▪ **You Can Cut Costs Internally**

The purchasing power your GPO offers means you receive improved pricing and service on the relevant goods and services.

But you also cut costs associated with vendor evaluation, contract negotiation, and account management.

Depending on the nature of the consortium, administrative fees may be paid by the suppliers themselves as part of an incentive package, which means your membership, even with purchase minimums, can produce substantial savings from day one.

This cost is reduced even further if you've already integrated an automated eProcurement solution, which can easily integrate the data provided by your GPO and treat it as one of many vendors in the supply chain, complete with associated roles, authorization levels, and limits.

Many Partners, One Powerful Tool

No one GPO provides a universal solution to your company's needs, but with a little care and some thorough evaluation, they can provide your business with unique opportunities to save money on a wide variety of goods and services.

You can also cut overhead and build valuable relationships with key vendors, as well as other businesses inside and outside your industry.

Embrace the potential of GPOs, and discover how your business can support its individual goals with the purchasing power of the collective.

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