

Group Purchasing Organisations (GPOs)



A purchasing group usually provides additional power to the members of the group in their negotiations with suppliers (Nollet and Beaulieu)



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Introduction

The contemporary environment put pressures on many organisations to re-examine their procurement strategies in order to generate additional savings. Membership in GPOs is one of such strategies. It involves a transfer of some central activities (e.g. bidding, supplier evaluation, negotiation and contract management) to an independent entity (Nollet and Beaulieu, 2005). GPOs usually provide additional power to group members in their negotiations, thus allowing them to achieve more favourable conditions than they would have obtained individually (Rozemeijer, 2000). GPOs also help to reduce administrative costs since the negotiation process is performed by only one organisation instead of many (Essig, 2000). There are two main types of GPOs structures. One is the co-operative structure, where purchases are performed by the group and distributed among members. The other is a third party structure which is a distinct organisation negotiating and writing contracts according to a mandate set by its members (Hendrick, 1997).

Some of the benefits of GPOs include achieving lower prices and price protection, improved quality control programmes, reduced contracting cost and monitoring market conditions (Schneller, 2000). At the same time there are a number of issues and implications organisations need to remember when considering purchasing groups services, such as the extent of benefits, the size of the group, the possibility of potential conflicts between members and the group, or compliance with anti-trust legislation (Hendrick, 1997). Another important consideration is related to the level of autonomy that the purchasing group wants to retain (Nollet and Beaulieu, 2005). All these issues require a thorough managerial consideration and in-depth analysis.

GPOs are often associated with the public sector but are becoming more popular in the private sector (Nollet and Beaulieu, 2005). GPOs are popular and widely used in the US healthcare sector. For example QUEST, a GPO comprised of more than 270 hospitals across 38 states, is the most comprehensive hospital collaboration. Hospitals gain by achieving care cost reduction, reliable deliveries, effective care, and improved patient experience through better coordination across units and enhancement through higher performance of each unit (Premier).

Definition

Group purchasing is a principal strategy by which companies in many sectors (e.g. healthcare, food and groceries, industrial manufacturing) achieve cost containment, improve the quality of goods purchased and allow staff to focus their efforts on other activities (Schneller, 2000). A group purchasing organisation (GPO) is a purchasing group that has either a formal or virtual structure that facilitates the consolidation of purchases for many organisations. The most representative industry and the primary area of GPOs at the moment is that of healthcare (Nollet and Beaulieu, 2005).

Successful application

Smaller companies can have better access to suppliers when their spend is part of a GPO contract. Joining a GPO doesn't necessarily mean losing control over purchasing processes: some GPOs establish a steering committee consisting of member procurement specialists to identify and qualify suppliers and vote on the selected supplier (Dominick, 2007).

Steps to successful application

- Clarify the objectives pursued by the purchasing department to identify clearly what benefits are aimed for.
- Perform product portfolio analysis to determine if a purchasing group seems to be the best approach to meet objectives.
- Determine the characteristics of a purchasing group: does it focus only on certain activities (e.g. negotiations) or incorporate a range of services? Does it monitor market activities to alleviate the unexpected impact of market developments (mergers/acquisitions among suppliers, entry barriers)?
- Regularly re-examine whether to remain in a group: it is important to determine on time if a purchasing group still suits the organisation's purchasing strategy.

Nollet and Beaulieu (2005)

Hints and tips

- An organisation considering joining a purchasing group should analyse the membership option strategically to carefully assess potential long-term benefits (Nollet and Beaulieu, 2005).
- An investment in a GPO should produce a satisfactory return on that investment (Dominick, 2007).
- The actual savings from GPO membership depend on how well-managed the categories are currently (Dominick, 2007).
- If the savings from GPO membership exceed the investment, the purchasing department can count the net savings towards its goals for the year. If the category wasn't going to be addressed (for example, due to the full workload), using a GPO can increase the purchasing department's success (Dominick, 2007).

Potential advantages

- A purchasing group can increase volume consolidation, making it possible to have only one negotiation. This increases the power of the purchasing group members vis-à-vis that of its suppliers (Nollet and Beaulieu, 2005).
- A benefit of joining GPOs is related to the improved quality control programmes that result in reduced contracting cost monitoring market conditions (Schneller, 2000).
- Three potential financial benefits in relation to cost reductions may arise from participation in GPOs: price, administrative costs, utilisation costs as well as supply chain costs (Katz, 1998).

Potential disadvantages

- A purchasing group is an additional link in the supply chain (Nollet and Beaulieu, 2005).
- Purchasing group objectives could be different to those of some of its members (Nollet and Beaulieu, 2005).
- Dependency on GPOs and the emergent issue of autonomy levels of members is a risk of GPO membership (Nollet and Beaulieu, 2005).

Performance monitoring

- Benchmarking: a group purchasing outcome performance measure Schneller (2000).

- Return on investment: base-lining the current spend and comparing it to the prices available through the GPO (Dominick, 2007)

Case studies

- Membership in Prime Advantage, a GPO for manufacturers, offers its 700 members the benefits of Cost Benchmarking Service, thus enabling member companies to compare the total cost of a product and/or manufactured good against costs incurred in similar and different industries. Thus, members gain visibility to broader pricing and identified world class pricing and supply chain options which provide a competitive advantage. The service is based on cross-industry market research, quantitative research and surveys to update supplier databases (Supply Chain Demand and Supply Executive, 2011).
- Novation is one of the largest USA GPOs with US\$40bln in annual purchasing volume. It has the broadest contract portfolio and agreements with more than 600 suppliers and distributors. These agreements encompass nearly 90% of the products that health care organisations purchase. By taking data-driven decisions Novation defines, monitors and enforces pricing on the behalf of its members using price management strategies focusing on supplier performance. Members receive access to market-leading pricing and suppliers receive commitment towards their collaborative efforts (Novation).
- In the food and grocery industry, Foodbuy is one of the USA's largest GPOs with exclusive focus on the US\$400bln food service marketplace. The company, which manages more than US\$5bln in food and food-related purchasing, offers multi-unit food service operators a comprehensive suite of procurement and supply chain services ranging from contract negotiation to fully outsourced purchasing through to competitive member development, member services, finance, technology, and operations processes for its members (Foodbuy, 2009).

Further Resources/Reading

Web

- Article on GPOs : [://spendmatters.com/2011/9/13/New-Research-Group-Purchasing-Organizations-GPOs-and-Consortia--What-You-Need-to-Know/](http://spendmatters.com/2011/9/13/New-Research-Group-Purchasing-Organizations-GPOs-and-Consortia--What-You-Need-to-Know/)
- Blogspot on GPOs : [://blog.purchasingcourses.com/2006/09/gpo-group-purchasing-organization.](http://blog.purchasingcourses.com/2006/09/gpo-group-purchasing-organization.)
- Demystifying Group Purchasing Organizations : [://www.nextlevelpurchasing.com/articles/gpo.](http://www.nextlevelpurchasing.com/articles/gpo.)
- Group purchasing organisations in healthcare : [://www.premierinc.com/advocacy/iss/GPO/Issue-Group-Purchasing-Organization.](http://www.premierinc.com/advocacy/iss/GPO/Issue-Group-Purchasing-Organization.)
- Purchasing groups: brief overview : [://www.business.com/operations/purchasing-organizations/](http://www.business.com/operations/purchasing-organizations/)

Books

- Influence Strategies in Health Care GPO's, Xavier Bruce, ISBN 978-3847335719
- Competition Law, Richard Whish, ISBN 978-0199289387
- Guide to Supply Chain Management, David Jacoby, ISBN 974-1846681745
- Group Purchasing Organisations, S. Prakash Sethi, ISBN 978-023060765

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Video

Housing association procurement practice in the UK

[://www.youtube.com/watch?feature=player_embedded&v=](https://www.youtube.com/watch?feature=player_embedded&v=)

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