



# GROUP THINK

BY JOAN ADAMS

There's a lot of discussion going on these days about buying groups or Group Purchasing

Organizations (GPOs), unfortunately, much of it self-promotional. Like all things, GPOs have their good points and some not so good ones. The old saw, "If it looks too good to be true – it probably isn't," should be in the forefront of your brain when you start looking at these groups.

What are GPOs? Group Purchasing Groups have been around for a long time. The theory behind them is as follows. Smaller entities band together to purchase like a large entity in order to get better prices, better terms, better service, better . . . well you get the idea.

There are many different flavors of GPOs and there isn't any way I could possibly describe all the variations. The above claim is mostly right. Big purchasers do get

## THE GOOD, THE BAD AND THE UGLY ABOUT GROUP PURCHASING ORGANIZATIONS

improved service, price and terms. Sometimes, big purchasers even get better product, unique products and hard-to-find products.

So far so good – but you have to be careful – it isn't all upside. In joining a GPO you will lose some

flexibility. Groups may require a minimum monthly dollar amount be spent. Others "make" you accept the brands they purchase – often groups frown on you going outside the group to buy. In short, once you jump on the volume buying bandwagon, you are going to find yourself buying in volume. Yes it might be cheaper, but do you really need all that extra inventory on your shelf? Think Sam's Club, where you can only buy 60 rolls of paper towels or 10 pounds of hamburger at a time. Yes, the per roll or per pound cost is lower, but it does require an upfront outlay of cash for inventory you will be carrying for a while.

The best way to think about GPOs and whether they might be a good idea for you is to take a hard look at your

buying patterns. Do you typically buy largish quantities of the same 10–20 products month in month out? Finding a GPO that buys those products might be ideal for you; it could cut your purchasing bill by 10% or more.

On the other hand, if you are more of a specialist – a supplier who prides him/herself on carrying or finding unique products and offering custom distribution services for your specialty customers – then GPOs are probably not for you.

Healthcare facilities have long used GPOs for their purchases. They are a perfect fit because they are a predictable business. Hospital consumption of rubbing alcohol, syringes, bandages, sutures, etc., is pretty constant.

There are national GPOs and regional GPOs. National buying groups are bigger and thus buy in greater volume, such that they can negotiate bigger discounts from vendors, but there are things to worry about with these large groups.

- 1) Many have gotten greedy
- 2) Often they do not offer a money back guarantee on savings
- 3) There's a loss of flexibility / autonomy as these GPOs oblige members to use their vendors exclusively

Most other GPOs are local. Basically, a group of non-competing businesses in a given industry form a GPO. They don't get the huge discounts the larger GPOs get.

- 1) Members have a choice in selecting the vendors
- 2) Often these groups have no membership fee
- 3) Typically, members must all use the same vendors in order to get any kind of volume discount, resulting once again in a loss of flexibility /autonomy

Some GPOs do much more than volume buying. They have Web sites with the members and the members' product lines on it. They help promote the industry and the members. They negotiate for more than price; they get better terms, better service (earlier and/or free delivery). They may even find vendors you would've never found.

Here are some things to think about when selecting a GPO. Everyone wants lower prices. You do, your customers certainly do and GPOs are one way to lower prices. Each supply house needs to weigh the benefits with the loss of flexibility. Look at the management structure of the GPO. Frequently, GPOs are democratically run. Every member has an equally weighted vote and participate in all decisions

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such as which vendors to use, which products to buy, which new members to allow in, etc. This all sounds good, until you see how bogged down every decision can get. Others are run more along the lines of a benevolent oligarchy. One to a few people, typically the founders, make all the decisions, which means decisions get made fast. You, as a new member, won't get any say but in theory, you will benefit from the oligarchs' decisions.

Many GPOs are run as non-profits. Their goal is to help save the members money – not to make it themselves. I would stay far away from a GPO with a profit motive. Frequently, GPOs use the manufacturers' rebates to fund operating expenses. Many also charge both a membership fee and some kind of annual dues.

Once you decide to "go for it," it is very important to do your homework. As in any business, there are good, not so good and downright thieving GPOs. What kinds of discounts are being promised? What are the requirements on your side (dollars spent, volume of product purchased, vendor exclusivity)? What benefits beyond discounts do they offer? Will these extras actually be of benefit to you?

Talk to current members, find out what they like/dislike about the group.

And here's an idea to contemplate. You like the idea of a GPO and you want to join one. You've researched the regional options and you aren't in love with any of the groups near you. Then, start your own! There are plenty of readers of this journal who could be interested by a new GPO in their area. It is up to you to find your regional GPO soul mates. As the founder, you will get to decide on the structure – democracy or oligarchy. You will get to select the vendors, products, new members and the mission of the group. You can tailor-make your own GPO, with exactly the right fit. **IS**

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