

EBOOK

# Evolution of the GPO

Define and Evaluate Group Purchasing Organizations

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# What is a GPO?

A group purchasing organization (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.

## GPOs: The Current State

- ✔ Volume and spending related to operator GPOs has dramatically increased over the past several years and continues to escalate across the industry.
- ✔ The challenge is growing more complex with the creation of distributor-based GPOs and an entire cottage industry of “faux GPOs” seeking to collect allowances.
- ✔ Research indicates broad and deep issues with location-level integrity and compliance.
- ✔ Blacksmith Applications has confirmed that “growth” of GPO volume often sources from converted “street” business [it’s just recorded differently].
- ✔ There have been many industry-level discussions and share groups focused on this topic and a range of consulting projects are underway.

**A foodservice GPO focuses exclusively on the \$600 billion foodservice marketplace – including food purchasing, contract negotiation and supply chain services. These negotiations are made with supplier / manufacturing agreements and purchaser contracts.**

# The Previous Paradigm

Healthcare

Business &  
Industry

College &  
University

K-12

Hotel &  
Lodging

Vending &  
Office Coffee

## Actual "National Accounts"

ARA Services (Aramark)

Canteen / Morrison's (Compass Group)

Marriott Management Services (Sodexo)

Westin / Marriott / Sheraton / Hyatt

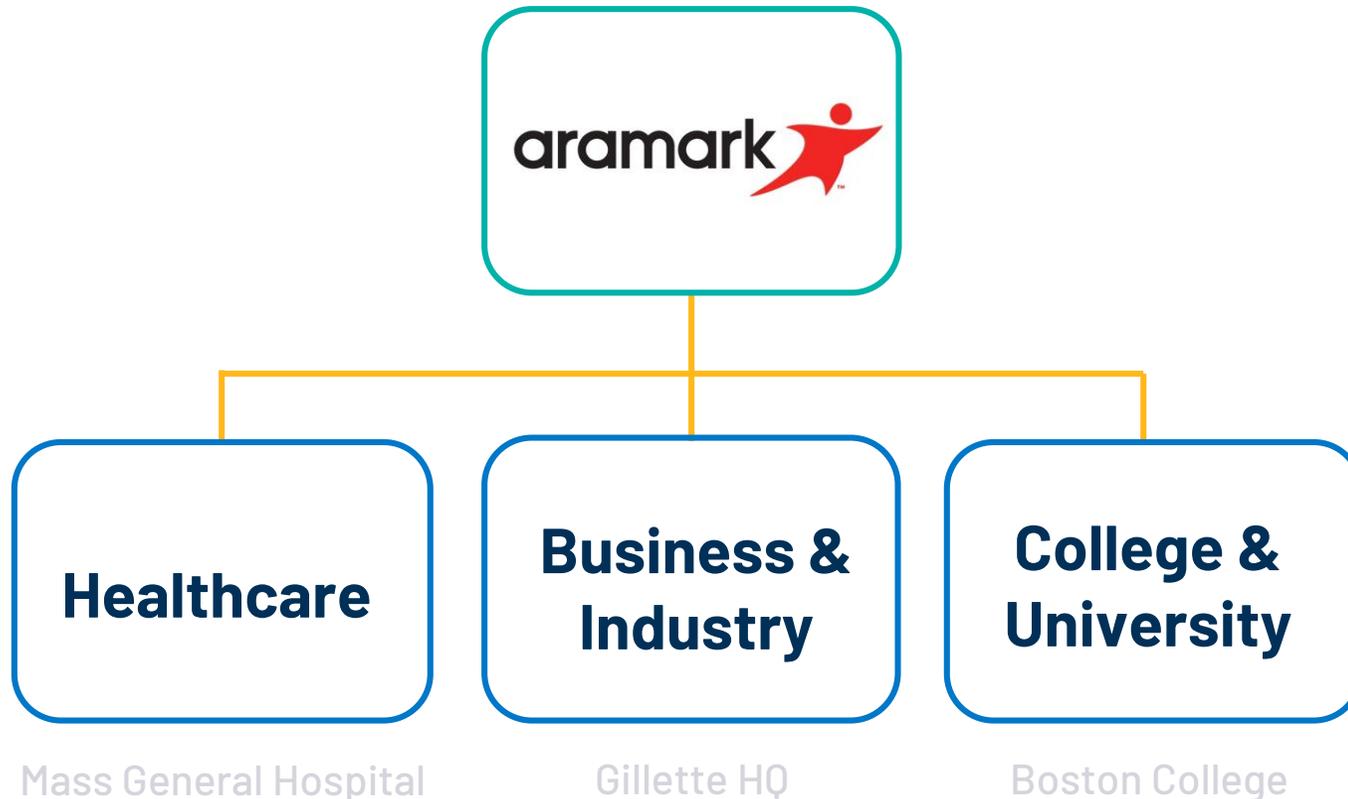
## Self-Operated & Independents

School bids

Individual rebates

Local programs

# The Previous Paradigm



**Purchasing agreements with volume commitments** – reasonable and demonstrable ability to “buy” on behalf of the locations



**Location** – level employees and buyers who are employed by the company



**“Contracts” with the facilities** to manage on-premise foodservice [e.g., “Contract Management” and/or “Foodservice Management”]



**Wide range of “evidence”** indicating membership



**Members are independent** relative to what they buy or do not buy



**Weak correlation** between GPO agreement and location purchase activity



# History: Healthcare

1970s

## Explosion of popularity

due to Medicare and Medicaid

96% of acute-care hospitals

98% of community hospitals

Formation of **Volunteer**

**Hospitals of America**

**[VHA]** in 1977

1980s

Over time, concerns were raised as **GPOs began collecting more than the targeted 3% administration fee** and, in some instances, resulted in **costs increases of more than 30%**

1990s

Formation of **Premier** in 1996 [Sun Health, American Health and Premier] and **Novation** in 1998 [joint venture between VHA and University Health]

2000s

In 2002, the Senate Judiciary Committee's Antitrust Subcommittee imposed **stricter standards** and began **requiring adoption of a Code of Conduct**



# History: Segmentation of Foodservice Non-Commercial Customers



The **non-commercial segments of foodservice** [hospitals, schools, C&U, hotels] were traditionally the domain of “contract feeders” and “foodservice management companies” such as Aramark, Marriott, Morrison’s and Canteen

**Those accounts were treated similarly to commercial national accounts** given their ability to purchase on behalf of the locations they managed and control an authorized distribution network

In 1989, **Kraft Foodservice and Baxter aligned**, forming a dedicated business unit known as ‘Dietary Products’

Over time, **Kraft divested the distribution business** and it evolved to what has become **US Food Service**

The **agreement with Baxter was the catalyst** for the distribution agreement US Food Service continued to leverage with both Premier and Novation

# Foodservice Beyond Healthcare

The **breakup of Marriott Corporation** led to what we know today as Sodexo and Avendra [through a partnership between Marriott and Hyatt Hotels].

The Compass Group of the UK consolidated its purchases of Canteen, Morrison's, Levy Restaurants and Bon Appetit **to form Foodbuy** [Foodbuy remains a subsidiary of Compass today].

Over time, lines began to blur. 'GPO' became a **standard label** for **any organization operating in non-commercial segments** – and began offering the **same aggressive discounts** to loosely formed memberships as they offered Sodexo or Aramark.

Traditionally, GPO 'programs' offered a **rebate** payable to the GPO on a monthly or quarterly basis. More recently, manufacturers have begun to offer **deviated pricing** as an element of GPO contracts

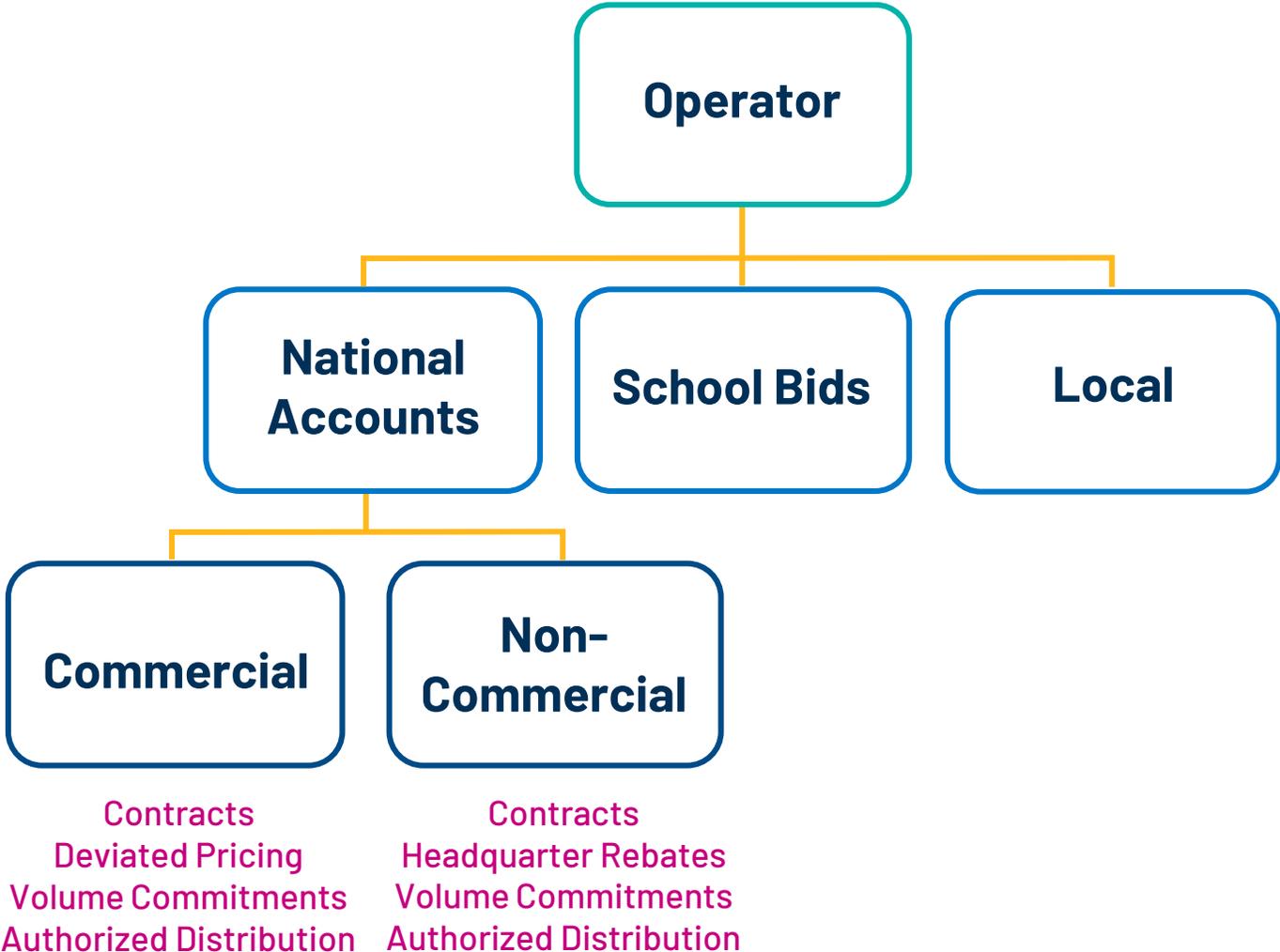
**Aggressive rates, deviated pricing and a policy of 'extendibility' have driven a great amount of friction across the channel.**

**Foodservice GPOs started in the '60s and went through a period of rapid adoption. Today, there are an estimated 61,000 restaurant buying group members with more \$33 billion in purchasing power.**

# Present GPO Players



# Gaps on Classification and Qualification



# Implications and Pain Points

1

**Margin erosion** due to re-classification of 'down the street' accounts to group members

2

**Growth of spending** due to multiple memberships and 'double dipping'

3

**Discount integrity issues** given exposure of 'contract feeder' rates vis-à-vis GPO program rates

4

**Trade flow friction across distribution partners** due to inability to control extendibility

## Criteria to look at when considering a GPO:



Discounted pricing options



Suppliers/partners



Minimum order requirements

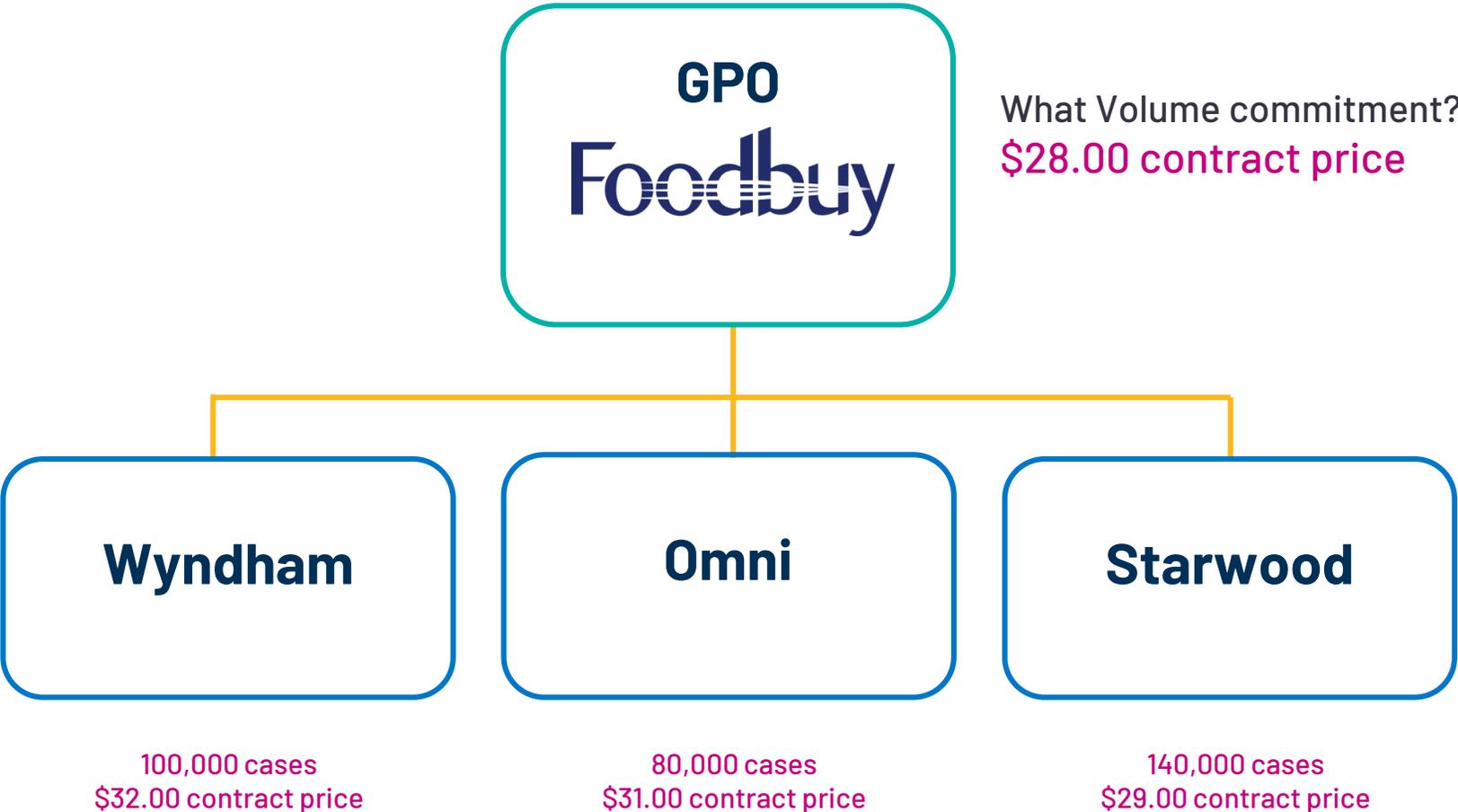


Online ordering & tracking options

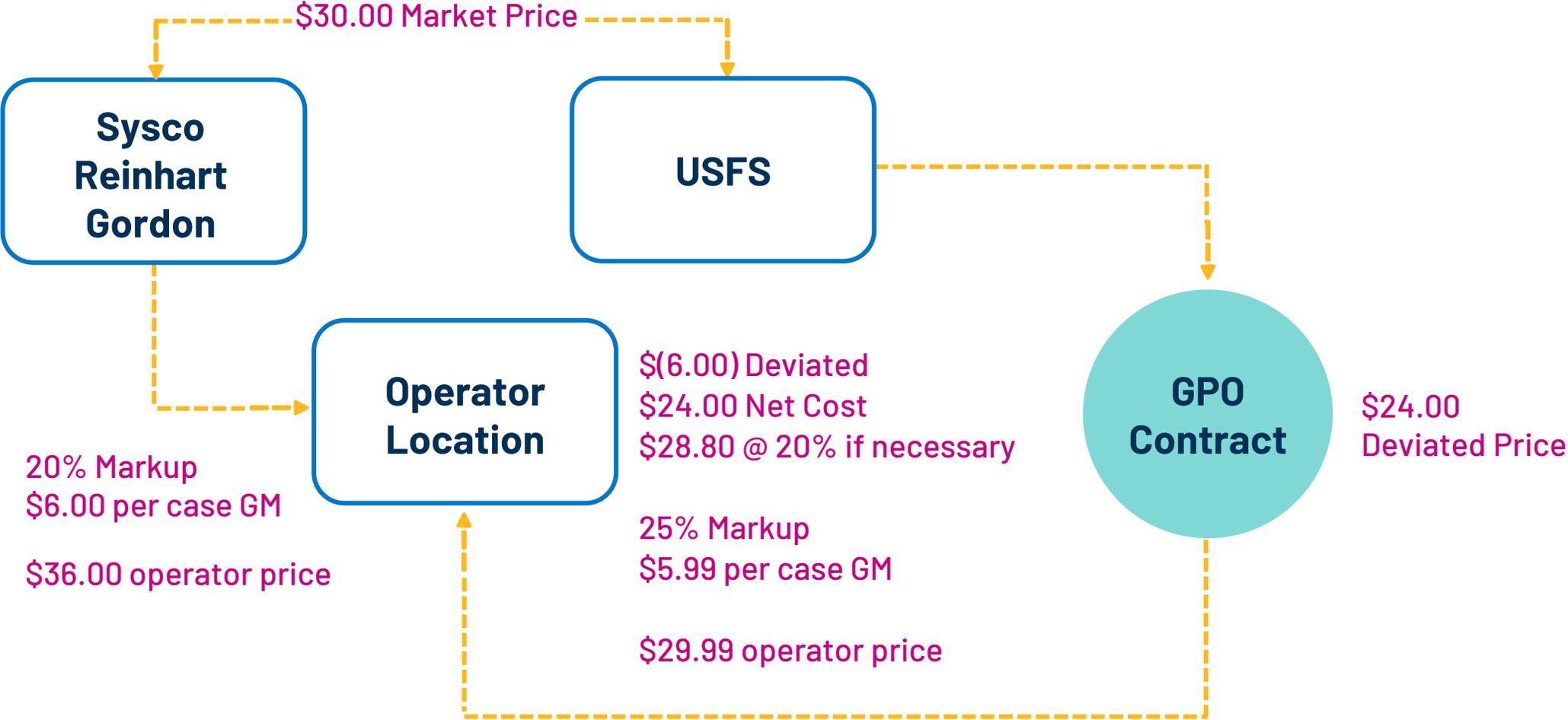


Shipping & tracking options

# Trade Flow Friction with "Real Chains"



# Trade Flow Friction Across Distribution



# How Did We Get Here?



**Pressures to 'grow the business'** and secure incremental volume led to a rationalization that GPOs were traditional foodservice management companies.



That **overwhelming pressure** to win new accounts led to a set of economic offers that provided the incentives for extendibility and new membership situations.



An **absence of definitions** to provide logical assessments of opportunities for classification and segmentation left decision-making processes inadequate for the task:

- Type of organization
- Ability to purchase, influence purchases or collect fees



**Poor benchmarks** of the existing base business for insights into current contracts and programs left decision-makers susceptible to costly mistakes [e.g., offering a GPO lower pricing than contract management companies].



# GPO Model Morphing

At the end of 2016, UniPro created **the first foodservice distributor GPO**, Unity Advantage Group (UAG), which enables its distributor members to compete with other distributors aligned with GPOs. If properly executed, this concept has the potential to rapidly gain momentum and shift marketplace leverage. UAG has now **reached an agreement with Foodbuy**, creating a direct Access GPO relationship between the two organizations. The magnitude of this development ensures more complexity and puts pressure on other trading partners and competitors to identify and update strategies to account for new challenges.

## WHY IS THIS BIG NEWS?



It's a new platform for independent distributors to compete with broadline and specialty distributors.



It may be the first time a distributor-related entity could have joint access to both distribution trade deals and GPO incentives.



It alters the traditional trading partner landscape and competition between distributors and GPOs.



The Foodbuy-UAG alliance provides access to a broader and more robust book of discounts and allowances.

## What does this mean for manufacturers?

It's time to develop operating guidelines for this hybrid distributor-GPO model. As with other Access GPOs, decisions will need to be made on a deal extendibility and how to manage deals with local leverage operators.

[Continue Reading >](#)



# Taking Action

Discussion Questions/Assessment Outline

# What Can We Do?

## Hypothesis #1

Most manufacturers do not support decision-makers with a consistent classification model that differentiates GPOs from Foodservice Management along with a logical assessment of the organizational rigor and ability to purchase.

## Hypothesis #2

As each manufacturer deals with the industry on GPO-related issues, the absence of consistent expectations from across the range of suppliers focuses the entire negotiation on the size of the discount without parameters.

**Reader Activity:** Provide a set of definitions and expectations that will drive more effective qualification and classification of opportunities within your organization.

- Support decision-makers with consistent assessments of each opportunity, along with benchmarks vis-à-vis existing programs and offers.



# Definitions – Organization

What differentiates 'real' organizations that actually negotiate and purchase from loosely-knit confederacies that collect rebate dollars?

What would you like to know in order to differentiate 'Purchasing Group X' from Sodexo?

## Thought-starters:

- ✓ Membership policy [enrollment, exclusivity, awareness and disbursement of economic benefits from the GPO to the members]
- ✓ Availability of membership list to vendors and suppliers
- ✓ Authorization to audit distribution partners relative to membership compliance
- ✓ Control over extension of contract offers beyond the members



# Definitions – Purchasing

What behaviors or practices differentiate customers who actually purchase from those that merely collect rebate dollars?

## Thought-starters:

-  Processes and actions to influence location purchases
-  Ability to comply with expectations for detailed claim information [e.g., supporting backup of claims for reimbursement]
-  Agreement to location-level audits of membership and pass-through value realization



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